



# Aquila Churchill Tax-Free Fund of Kentucky

## PODCAST TRANSCRIPT

November 2022

**Interviewer:**

Hello, everyone. Welcome to another Aquila Group of Funds Podcast. I am your host, Matthew DiMaggio. Today, we are joined by Royden Durham, Portfolio Manager of Aquila Churchill Tax-Free Fund of Kentucky. Royden will be discussing the current municipal environment, both broadly and on a state level. Thanks for sitting with us today, Royden.

**Royden Durham:**

Hi, Matt. Glad to do this.

**Interviewer:**

So, I want to jump in with what has become the headline topic for fixed income, really in the last year, which is interest rates and inflation. Give us your thoughts on the Federal Reserve's current position.

**Royden Durham:**

In its latest move, the Federal Reserve ("the Fed") raised the short-term federal funds rate on November 2<sup>nd</sup> by 75 basis points to align with its target range of 3¾%-4%. With the Consumer Price Index coming in on November 10<sup>th</sup> slightly below estimates, pundits that thought the Fed might have to hike to 6%-6½% are backing up their estimates. We are looking for a hike of 50 basis points, maybe 75 basis points, at the December 14 Federal Open Market Committee meeting. The November Producer Price Index number, which is generally expected to come in at about 8.4%, will help determine the Fed hike amount, along with major announcements of layoffs, seemingly primarily in the technology industries.

**Interviewer:**

Good coverage, Royden. Thank you. So, it'd be great to shift to the Kentucky market, what can you say about the condition of credits within the State?

**Royden Durham:**

Well, municipals have performed reasonably well in a very volatile market. Municipals bonds are different. In adverse conditions, municipal bonds generally have had a low default rate, primarily due to each individual issue being tied to a specific revenue stream. So, as a result, municipal defaults are historically only a fraction of a percentage versus corporate bonds, which tend to default more often. Typically, muni defaults also tend to take place in one sector, and that would be in nursing homes. A nursing home defaulted in Pike County back in the late 1970s/early 1980s. A judge found against the bond holders, and to this day, Pike County schools trade 10 to 15 basis points cheaper than any other school district in the State.

Moving on the State of Kentucky right now, Kentucky general receipts rose 15.2% in October, are up 6.5% year-to-date. Most of the revenue is from individual income tax and sales and use taxes. John Hicks, the Budget Director, stated higher-than-budget tax receipts that reveal a recurring trend increased economic activity in Kentucky. Also, road revenues have grown 6.8% in October and are up 1.4% year-to-date. Netting out legal settlements that the State received in fiscal 2022, the first four months of fiscal year 2023, revenue is actually up 12.1%. Were it not for the legislative bill to do away with the state income tax over an extended period, I believe Kentucky would be on an upgrade list due to strong economic forces, which have fortified overall general tax revenues.

**Interviewer:**

Appreciate the thoughts, Royden. I really enjoyed that Pike County historical information as well. So, moving on just a bit, we've experienced the mid-term election just a short time ago. Were there any observations you've made that pertains to the local markets?

**Royden Durham:**

The mid-term election results were no real surprise. Both constitutional amendments were voted down. Winners like Morgan McGarvey taking the House seat over from John Yarmuth was expected. The Republicans increased their hold on the House legislature—basically, to 80 of the 100 participants—and picked up another Republican seat in the Senate, which increases their majority in the legislature.

**Interviewer:**

Royden, to close out today's podcast, can you cover the Kentucky Fund's strategy and outlook?

**Royden Durham:**

Sure, Matt. The focus for the Fund remains the same and consistent with our goals—investing in high-quality bonds and intermediate-term maturity.

**Interviewer:**

That is all for today's podcast. Thank you again for taking the time to discuss the municipal bond market with us.

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