



Aquila Tax-Free Fund For Utah

PODCAST TRANSCRIPT

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Interviewer:

Hello, everyone. Welcome to this installment of our Aquila Group of Funds podcast. I'm your host, Matthew DiMaggio. Today, we'll be discussing the municipal markets with JT Thompson, Portfolio Manager of Aquila Tax-Free Fund for Utah. Thanks for joining us today, JT.

JT Thompson:

Thanks, Matt. I always appreciate these opportunities.

Interviewer:

Fantastic. So, just to get started here, it's no secret that 2022 was a challenging period for the fixed income markets, but hopefully the worst is behind us. I wanted to zero in on municipals, though. So, in your view, how is 2023 shaping up so far?

JT Thompson:

Well, Matt, 2023 started out as your typical municipal market. January as always has a large amount of money coming due, and so rates drop, and that's exactly what happened. And February was low bond issuance, but fairly stable in February, and March started out okay. But the last couple of weeks, with bank failures and high volatility in the markets, both the equity and the Treasury markets, yeah, '23 started out nice for municipal bonds. Right now, there's high volatility, but the interesting thing is the muni market has stayed fairly stable. It just has not been as volatile as the Treasury market has been. And when you get some market volatility, that gives us a lot of opportunities to take advantage of the markets and offerings out in the market.

Interviewer:

Thanks, JT, and I'm really looking forward to seeing how the remainder of the year plays out, but thank you for the overview so far. As we look at the municipal bond market today, what would you say are the leading factors driving the market?

JT Thompson:

Well, supply, "flight to quality", and right now a lot of the volatility in the markets. As we talked about, munis have not been near as volatile as the Treasury market has been. We have the Federal Open Market Committee Meeting (on March 21-22). It seems like there is an economist out there that really has their finger on what is going to happen, but I expect the municipal market to, again, stay fairly stable until the path clears and we know exactly where the Federal Reserve (the "Fed") is going to be in terms of interest rates.

Interviewer:

Yes, and really just an interesting time in the Federal funds cycle here, as we watch the Fed closely. You did touch on interest rates and their effect on municipal bonds, although it was a little bit more limited. We, being the municipal bond market, are of course not immune to the changes in the rate environment, and so much has taken place on the yield curve. So, my question for you is, as you look at the yield curve currently, where do you see value, potential opportunities or anything attractive from a risk-adjusted return point of view?

JT Thompson:

Well, Matt, I've been in the municipal business for nearly 40 years. In my opinion, this is the most unusual-shaped municipal yield curve ever. It is bowl-shaped. So, basically the one-year and the 12-year have identical yields, but you have this bottoming bowl, and then you have the yield curve fairly flat from 12 years out to 30 years. It's interesting, this never happened in my experience. Most of the time, the municipal yield curve doesn't invert when it does, which I've seen a few times. It's usually from two to seven years, but it'll become very flat, but there's usually a curve to munis. This bowl-shape has got a lot of people that have been around in the muni business for decades talking.

There was nothing like this in the 1970s or 1980s, when we had high inflation. I feel that there was a flight quality in municipals. Silicon Valley Bank was a big buyer of munis, and that could be what has shaped the municipal yield curve. As a portfolio manager, all of a sudden, you have opportunities to "barbell" where, in 2021, rates were so low in the short- end that there were no opportunities to do that. And, again, when you have something unusual, it's best to be a little patient and be willing and able to strike at the market opportunities that come. And we've seen a few of those, even in the bottom of this bowl-shape, some real opportunities to pick up attractive risk adjusted returns.

Interviewer:

Thanks, JT. And your perspective on those historical markets is just so beneficial. So, thank you. Shifting gears a bit, JT, I want to talk about Utah. What are the latest developments impacting the local economy and/or the municipalities themselves?

JT Thompson:

In Utah, municipal bond issuance is down 31%. We have a few other reciprocal states. In Florida, issuance is down 57%. In Texas, it's up slightly to 5%. In Nevada, it's down 75%. So, issuance has been a little bit of a problem. Here in Utah, we find interesting with construction costs overruns, a lot of the school districts have had to issue alternative type of municipal structures to pay for those cost overruns. They're not using their GO (general obligation) debt. They're using what they call appropriation debt to cover those overruns. Historically, it's been rare that a school district has ever used appropriation debt, but this year the majority of the issuance — the larger issues — have been appropriation debt, which again, is something a little unusual. But with the growing economy and growing population, the tax revenue is there to pay for the bonds.

Locally, Texas Instruments just announced an \$11 billion expansion to their chip factory here in the Salt Lake Valley, and that will continue to help with the economy going forward. We see growth. Delta Airlines has talked with the Salt Lake Airport about expanding to more gates. The Salt Lake International Airport hasn't even finished its whole reconstruction yet, so it's been good. We've had a lot of snow this year, so at the end of the season, we'll see how many ski days, but my guess is that we probably had record ski days because of the wonderful powder that we get here in Utah.

Interviewer:

Yes, and great, great coverage on such a unique state. I want to wrap up today and ask you, given what you shared, what would you want the key takeaways to be from our conversation for the listeners?

JT Thompson:

I think an important part of a well-balanced portfolio is a fixed income portion. And, in that fixed income portion, some high-quality, tax-exempt municipal bonds, I think should be, in my opinion, the essential part of that piece of that pie. And when you look at the intermediate sector, which is what the Utah Fund is—a high-quality intermediate-term portfolio, I think a high-quality intermediate fund like Aquila Tax-Free Fund For Utah really fits in nicely with an overall investment portfolio.

Interviewer:

All right, that wraps up for today. JT, thank you again for joining us, and thank you to our listeners.

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