Aquila Tax-Free Fund For Utah

PODCAST TRANSCRIPT

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Interviewer:
Thank you for joining us for another Aquila Group of Funds Podcast. I'll be your host, Matthew DiMaggio. Today, we are joined by JT Thompson, Lead Portfolio Manager of Aquila Tax-Free Fund for Utah. Thanks for being here today, JT.

JT Thompson:
Thank you, Matt. I always enjoy these podcasts.

Interviewer:
Well, thank you. Let's start with a popular topic here currently. The Fed's monetary tightening cycle this time around is certainly unique. What's your take on how the economy and the markets look at this point relative to the position the Federal Reserve is taking?

JT Thompson:
Well, inflation, it appears, is moderating, allowing the Federal Reserve (the "Fed") to pause raising rates both in June and in September. The Consumer Price Index for September was 3.7%, which was a little higher than expected. The unemployment rate at 3.8% has many market watchers feeling that the Fed could raise rates again before year-end. The spike in interest rates in the Treasury market over the past month of nearly 50 basis points in the 10-year bond could indicate that the market is doing some of the Federal Reserve's job in slowing down the economy.

Interviewer:
Thank you, JT. It seems at this point all fixed income is in a different position with regards to the changing macroeconomic landscape. So, at this point in time, how do municipals look?

JT Thompson:
Well, Matt, the higher yields in the Treasury market are also dragging along the municipal bond yields higher, kicking and screaming. Demand for municipal bonds has been good, especially at these higher interest rates. The 10-year AAA MMD (Municipal Market Data) scale is at about 73% of the 10-year Treasury yield. That's up from about 66% in the beginning of the fourth quarter. We feel that demand for municipal bonds will stay firm through the end of the year.

Interviewer:
And to take a look at the other side of the coin there, talking about supply, it seems the national municipal supply has begun to pick up just a little bit here in the fourth quarter. How does supply, more specifically in Utah, compare?

JT Thompson:
Well, through the end of September, Utah issuance was down 13% versus 2022. There was a $767 million Intermountain Power Agency for a hydro gas generating facility, and a $600 million Salt Lake City International Airport bond deal that came to market. And both of them were in high demand, allowing the issuers there to reduce their interest costs because of the demand. We feel that the fourth quarter will probably see lower issuance than fourth quarter of '22.

But, on the other side, what we're seeing is an increasing secondary market in Utah bonds, and that allows the Fund to maintain Utah holdings above 75%. And we feel that things are going to be fairly constant. One of the things about Utah is you have to have a balanced budget. That is in the State's Constitution. So, issuers are a little hesitant, as interest rates are rising, to issue a lot of debt and they just want to make sure their budgets are balanced.

Interviewer:
And continuing on the topic of Utah, can you tell us of any developments impacting Utah's local economy or the municipalities?

JT Thompson:
Utah economy appears to be strong. Our unemployment rate is low. There's a lot of construction going on. Although there are signs of some weakness, technology companies, like Qualtrics, have reduced their labor force by about 15%. The technology area, known in Utah and other tech areas as the Silicon Slopes, has been a vibrant part of the economy. And as we've seen other technology firms across the nation reduce payroll, that gives a pause for concern. Again, as I mentioned, in Utah, you have to have a balanced budget.

So, every year, in both February and May, the budget is forecast for the next year. In February of ‘23 and May of ‘23, the forecast for fiscal year ‘24 shows that the forecasters dropped nearly $500 million off of the amount of personal income tax that would come into the State. Sales tax continues to be on -budget and fiscal year 2023 ended with a big budget surplus. So, again, I think some of the forecasters want to be a little bit on the conservative side, so as the lawmakers make their decisions, they can keep on-budget.

Interviewer:
Thank you for the detail there. And just for one final question, JT. Can you share how the Fund is being positioned?

JT Thompson:
Yes. Matt, the Fund has about 77% AA-rated or better at the end of September, and 79% of the Fund was in Utah paper. The average maturity was 9.39 years, with an effective duration of 4.92 years. That’s the way we look at the Fund. Yes, we have some of the reciprocal states, but we really do want to focus on Utah issuers. We feel that Utah issuers have stronger credits, and especially if we have any type of recession, it doesn’t appear like one’s going to happen, but if it does, we feel the Utah credits will stay stronger.

We’ll seek to continue to take advantage of market opportunities without any significant changes to the average maturity or the duration. With the inverted municipal yield curve that we have right now, it really allows for barbelling. It allows us to have higher yields in the short-end and also put on some higher-yielding, longer-duration paper. But as always, our focus at Aquila Group of Funds is to have a high-quality, intermediate-term fund to help mitigate a lot of the interest rate volatility that is out in the marketplace.

Interviewer:

That wraps up our podcast. Thank you for listening. And thank you again for joining us, JT.

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The Fund seeks to provide a high level of income exempt from state and federal income tax as is consistent with capital preservation. Past performance does not guarantee future results.

Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio. A complete list of the Fund’s current holdings, including percentage allocation, is available on our website and by contacting Aquila Group of Funds. The following securities of issuers referenced were portfolio holdings of Aquila Tax-Free Fund For Utah, represented as a percentage of the Fund’s total portfolio, as of 9/30/23: City of Salt Lake City, Utah Airport Revenue: 4.93%; and Intermountain Power Agency: 0.45%.

For certain investors, some dividends may be subject to federal and state income taxes, including the alternative minimum tax referred to as AMT. And for certain investors, net investment income tax, known as NIIT may apply. NIIT is a 3.8% tax established by the patient protection and affordable care act that applies to the lesser of, the net investment income, or a taxpayer’s modified adjusted gross income above an applicable threshold amount. Please consult your tax professional.

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Before investing in a Fund, carefully read about and consider the investment objectives, risks, charges, expenses, and other information found in the Fund prospectus. The prospectus is available from your financial advisor, when you visit www.aquilafunds.com, or call (800) 437-1020.