Aquila Narragansett Tax-Free Income Fund

PODCAST TRANSCRIPT

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Interviewer:

Hello, everyone. Thank you for joining us for another installment of the Aquila Group of Funds podcasts. I'll be your host today, Matthew DiMaggio. Today, we are accompanied by Jeffrey Hanna, Portfolio Manager of Aquila Narragansett Tax-Free Income Fund. Thanks for being here today, Jeff.

Jeff Hanna:

Great, Matt. Always great to be here.

Interviewer:

Fantastic. If I can, I'm just going to jump right in here. The Federal Reserve (the "Fed") decided to sit tight on short-term rates early this year. It seems the sentiment in the markets seems to be the same here in March. What are you thinking about? How does it affect how you manage the portfolio?

Jeff Hanna:

As I've said and been pretty consistent all along here, the market's gotten ahead of itself and had this aura that the Federal Reserve was going to make cuts in late 2023/early 2024. We're not going to force the Fed's hand. I think from that standpoint, the Fed has more time on its side and wants to be certain that when they do begin cuts, that it's at the right time, and continue to watch the data before deciding to make those cuts. There's an expectation here that there'd be two or three cuts in the latter half of the year. As far as management, it's steady as she goes. Clearly, having some opportunity here if rates are rising, because inflation may be a little bit sticky. There's some opportunity to take advantage of that.

Interviewer:

Thank you for the color there, Jeff. Definitely top of mind for investors. I want to address a topic that is very relevant to municipal bond investors, which is Municipal-to-Treasury ratios. Municipal-to-Treasury ratios have been below average for an extended period of time. It seems the only part that is aligned with historical average is the long end of the curve. What's your take on what's going on there with the curve? What's it going to take to see some change there?

Jeff Hanna:

Well, I think there are a couple of items here at play. There tends to be some seasonality to the tightness this time of year, prior to tax time. I think that's playing out. But taxable equivalent yields still look fairly attractive given the overall credit quality and the relative value versus taxable bonds. With respect to the long end… again, when you're looking at 30 years a lot of folks aren't necessarily investing out that long. There are certain folks that do, but most individuals are focused a little more on the intermediate term, in the intermediate range of the investment. I think from that standpoint, there's still a little bit of tightness in here. But again, that's going to vary over time, but still some good relative value. I think we'd need to see some sustained increase in issuance and perhaps some credit deterioration to have those items, those percentages move a little bit closer back towards historical norms.

Interviewer:

Fantastic, Jeff. An observation that I've made is that we haven't seen a confident municipal market really since the bottom of the market a few years ago. What can you say about that? Do you have any thoughts?

Jeff Hanna:

I think people are hesitant to jump in because valuations seem to be a bit strained. I think there are some concerns over higher interest rates potentially. But historical prices in that asset value is still at the lower end of the range of the long-term average. Again, you have to remember, fixed income provides some steady stream of income and, under normal circumstances, tends to provide some downside protection versus equities and those assets that tend to be a little bit more volatile. We happen to be in a time when the Fed has raised rates pretty much at an unprecedented level. We're nearing the end of that. It's just a matter of how much longer before the Fed actually makes cuts. I think that's going to take a little bit longer to play out than most people are comfortable with or even being patient with.

Interviewer:

I really appreciate your recognition of the income side of the municipal investment, so thank you for that. Tracking this year so far, it seems the year-over-year supply is growing just a bit. What do you think it'll take for municipal issuers, or state issuers even, to really have that supply number pop a little bit here in 2024? Just as important, will the demand side be able to support that?

Jeff Hanna:

Issuance continues to be strong. Issuance is up about 34% year-to-date. Demand is still there. That's certainly demonstrated by the tighter Municipal-to-Treasury ratios we spoke of earlier. Some of this supply is a result of the decrease in the Fed monies we saw during the pandemic. An additional impact may also be the election cycle, which normally sees a considerable drop off in issuance towards the end of the year. Folks again, I think, are trying to get issuance out a little bit earlier in anticipation of that before folks become complacent with putting their money back to work as we get towards the end of the year and the election cycle.

Interviewer:

Great coverage on supply. While we're on the topic of supply, usually the numbers are documented on a national level, but, of course, the national level of supply doesn't trickle down evenly to each state in the union. How is the State of Rhode Island looking for supply?

Jeff Hanna:

No, that's a great point. A very valid point too, Matt—that each individual state has its own needs for issuance. That can vary widely from state to state. There's also some seasonality and Federal monies' impacts as well, as I mentioned. Again, I expect there to be a pickup in issuance in Rhode Island, particularly as public school's bonds continue to come to market. We did see a couple of other issues come to market early on in 2024 that were not necessarily expected. That's provided some good supply into the market as well.

Interviewer:

While we're on the topic of Rhode Island, is there anything else you've observed happening in the state or local landscape?

Jeff Hanna:

Well, we did see a number of bond referenda last November for local projects that'll need to be funded within the next year or so. A lot of cities and towns passed bond issues that are still waiting to come to market. At the state level, we expect bond referenda that'll support certain industries that the State's attempting to promote, such as biotech, cybersecurity, and the blue economy. That means, essentially, those industries that are supported by the comparative advantage we have here in Rhode Island as the Ocean State.

Interviewer:

Fantastic, Jeff. I'd like to close here by speaking about the Fund—Aquila Narragansett Tax-Free Income Fund. Could you tell us about the current positioning in the Fund and how you're managing this environment?

Jeff Hanna:

Sure. As always, we're working to increase the overall yield in the portfolio, so taking advantage of the yield curve, particularly when we do see movements higher in interest rates and as we get some supply out here. Again, new issue supply has been a little bit light from the standpoint of going forward from where we are and, again, limiting the fluctuation in the net asset value as best we can during increased times of market volatility and ensuring that the credit quality remains near historical levels. I don't really anticipate that changing at all. I think from that standpoint, steady as she goes and, again, keeping things as we always have.

Interviewer:

That sums up for today. Thank you everyone for joining us. Of course, as always, thanks for being here and providing great insight, Jeff.

Jeff Hanna:

Oh, you're welcome, Matt. Always a pleasure.