Aquila Tax-Free Fund For Utah
Podcast Transcript January 29, 2019

Interviewer:
Today we're talking to JT Thompson, portfolio manager of Aquila Tax-Free Fund for Utah. There have been reports that the Fed will be patient in regard to near-term changes in the Federal Funds Rate. What are your expectations for Fed policy over the course of 2019, particularly as that policy might affect municipal bond investors?

JT Thompson:
What we're seeing is a slowing rate in increases in the Fed Funds Rate. There's kind of expected from zero to two increases in '19 versus the four increases in 2020. But one thing that is important to remember is that the municipal bond market is not in lockstep with the Fed Funds Rates. As an intermediate fund, 10 years out, what we see is rates do not increase as drastically as the Fed Funds Rates. For example, from September through the end of the year, the Fed raised 50 basis points, yet the 10-year municipal bond dropped by 56 basis points. They are not in lockstep and that's why municipals are always a good investment. They plod along and are an intermediate Fund.

Interviewer:
There was a significant decline in the supply of municipal bonds in 2018, largely due to the elimination of advanced refunding bonds. What are your expectations for supply in 2019?

JT Thompson:
Probably a little bit higher. In fact, Marie, for new issue bonds for infrastructure, that was actually up 16% in 2018, although, overall issuance was down. Part of that was because in December of 2017 there was an inordinate amount of supply. It could also get higher as the Build America bonds have call dates. The earlier ones had all 10-year calls and we're coming into that timeframe. With sequestration, the issuers are not getting the tax rebate that they were promised from the government, so we might see some current refunding from those bonds.

Interviewer:
How would you characterize the tone of the municipal bond market currently? Are you seeing any particular opportunities or areas of concern?

JT Thompson:
The municipal market continues to have a high demand. Some of the banks have reduced their exposure to municipal debt, but the insurance companies have increased their municipal holdings. The municipal market is mainly a retail market, a local market, and there's still demand. I think with the tax changes there is an increased demand for municipals.

Interviewer:
The word volatility is cropping up frequently in the press, particularly in relation to equities. How does volatility in the municipal market compare with that of other types of investment securities?

JT Thompson:
The municipal market has low volatility, mainly because there's over 66,000 issuers and over 2.2 million different municipal bonds out there, so they move slower. I've always compared the municipal market like a Clydesdale, it just plods along. The equity market is like a high-strung Thoroughbred that is waiting to get out and run. So, I do not see a whole lot of volatility in the municipal market through the next couple of years.

Interviewer:
Tax returns being filed this coming April will provide investors with some clarity on the impact of the Tax Cuts and Jobs Act. How are you expecting to see the upcoming tax season play out for the municipal bond market?

JT Thompson:
I think the tax season will be similar to the Reagan tax reform. I remember back in '86 when the reform was going in, there was so much written about the death of the municipal market because tax rates were going be dropped from 70% down to 38% and what people found out was, yes, the rates dropped, but so many of the deductions were eliminated. If you look at the new tax law, there were tax on deductions, so you have the same dynamic that there could be some people that are actually ... their tax rates go up because they're limited on their deductions. I always feel that it's important that part of your income be separate from the calculation for adjusted gross income. You're always better off. So, whatever happens with the tax laws, you're shielded from that.

Interviewer:
Would you describe your current strategy and the positioning of the Fund?

JT Thompson:
We're focusing on the opportunities in the 7 to 13-year range. That's where the curve is the steepest, then it flattens out quite a bit. Because there is talk of a rising interest rate and there is some talk of a slowing economy, we're bar-belling our credit risk. By that I mean, we're taking in the shorter end of the curve, the lower-rated bonds, the lower credit bonds, and out in the longer end of the curve are good, solid double A or a really fine A rated bond. That way when credit spreads widen with the slowdown in the economy, the Fund is not going feel the pressures that, if we had a lot of long-dated, non-rated or low-rated paper.

Interviewer:
Thank you very much. For those of you listening, before investing in the Fund, carefully read about and consider the investment objectives, risks, charges, expenses and other information found in the Fund prospectus which is available on this site, from your financial advisor, and when you call 800-437-1020.

Thank you for listening to this podcast.