Aquila Tax-Free Fund For Utah
Podcast Transcript May 6, 2019

Interviewer:
Today we are talking to JT Thompson, Portfolio Manager of Aquila Tax-Free Fund for Utah. On May 1st, Federal Reserve officials decided to hold rates steady and stated that key economic activity had slowed during the first quarter. How have bond markets reacted to the announcement?

JT Thompson:
When the Fed's announcement last week came out, Chairman Powell talked about that he didn't believe that inflation would stay low forever, and we saw a spike in interest rates, but within the last week there was talk about the tariffs being increased which has driven interest rates lower. The expectations in the market are that there will be no rate increases in 2019 and that the Fed's balance sheet – they may start rather than having a roll off towards the fall – start reinvesting some of the proceeds that are rolling off.

The President and others have been pushing for an easing as the next move of the Federal Reserve, but from now until 2020, I think there's probably not going to be any increases nor any easing and it's just going to be status quo.

Interviewer:
Americans recently filed their first tax returns with the state and local tax, or SALT, deduction caps in place. Do you think that change in the tax law had a perceptible impact on the municipal bond market?

JT Thompson:
I still think it's too early to say. Normally what we've seen historically that most people sell their tax-exempt investments to pay for their taxes and that is normally because maybe the tax-exempt market is less volatile. Usually there's less gains or losses than in the more volatile equity market so it's hard to say. Usually investing comes a little bit later than paying for taxes, but one thing I can say is that the demand for municipals are high. Historically, March is a month when municipal yields rise because of people selling municipals to pay taxes. 2019 was an exception rather than the rule as municipal rates decreased rather than increasing.

Interviewer:
How has new issue supply year to date changed versus 2017 and 2018, and what are you anticipating over the remainder of this year?

JT Thompson:
I believe it will be slightly higher in 2019 than it was in '18. There are a number of Congressmen, both Democrat and Republican, that want to reinstate advanced refunding. If that is the case, we could see a large increase in issuance the remainder of the year. The other question is that President Trump and Nancy Pelosi and Chuck Schumer got together and announced two trillion in infrastructure spending. If that passes, you'll probably see a higher increase in issuance in the municipal market. The one thing we've got to be aware of, there are probably very few shovel-ready projects out there. So it will take years for permits and environmental impact statements and such. Probably even if it does pass, you're probably not going to see issuance explode right away.

Interviewer:
We've seen generally positive economic indicators in recent months. How would you assess the financial strength of municipal bond issues in general, and there are particular sectors that you find attractive?

JT Thompson:
The balance sheets of most issuers have been improving, even some of the issuers that have a little problem with their pension – unfunded pensions – their returns are coming in a little bit higher than what they anticipated, so that has helped. So I do think many issuers, especially local issuers, balance sheets have been improving. Over the last half year, I would say one of the sectors that has really outperformed is the airport sector. The spreads have narrowed on those fifteen to twenty basis points in the last six months.

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

JT Thompson:
Right now, probably increasing the average life slightly and following that, a little bit in duration. Value along the yield curve right now is probably twelve to seventeen years. In September or October, it was probably seven to thirteen years, but that does not have value anymore. You have to go out twelve to seventeen years. We have a little over a ten and a quarter year average life with right around a five-year duration, so we've been increasing it slightly. We're an intermediate fund. We will stay positioned there because we feel that we can mitigate not only credit risk but interest rate risk. We are positioned to take advantage of market opportunity. Any time that there is a tweet or some movement in the market where interest rates increase, we have the flexibility to take advantage of those market opportunities. We will stay in the intermediate sector where we feel that we can mitigate interest rate risk and credit risk.

Interviewer:
Thank you very much JT.

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 1-800-437-1020.