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Tax-Free Income Fund

Aquila Narragansett Tax-Free Income Fund
Podcast Transcript January 14, 2019

Interviewer:
Today we're talking to Jeff Hanna, portfolio manager of Aquila Narragansett Tax-Free Income Fund. 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?

Jeff Hanna:
Well, I've been consistent in my view around the data dependency for the Fed, and that the market had kind of gotten a bit over its skis on Fed tightening. Municipal bond investors were rewarded in 2018, and I think they'll continue to be in 2019, as relative value should remain at reasonable levels.

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?

Jeff Hanna:
Well, expectations for a municipal supply should continue to be muted for 2019 as well. And supply should be mainly new money. Unless we start to see – or, we've seen this more recently – rates coming back down. We could see another wave of refunding bonds. But for the most part, most is going to be new supply. In Rhode Island, supply has been a fairly non-existent so far this month, January, which is typical. But I'd expect things to pick up a bit more here in February and March timeframe.

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

Jeff Hanna:
Well, the tone has been very good as investors have taken advantage of recent relative value. The curve still has some steepness, and we have taken advantage of this. Expectations around any tax impacts will probably drive relative value over the next few months. Credit metrics still seem good at this point, particularly in the state. So, we feel pretty good about where things are right now.

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?

Jeff Hanna:
Well, volatility tends to be much more subdued with respect to the municipal bond market. The investing part is that the equity markets experience higher volatility. We generally see investors seek safer markets such as the bond market, and in particular the municipal bond market because the participants there are a fairly stable.

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?

Jeff Hanna:
Well as was discussed pretty well over the past year, folks in the higher tax brackets may see sticker shock with respect to the taxes they will pay and realize that municipal bonds are pretty much the last bastion of tax-free income. Higher tax states, Rhode Island included, will see many people get phased out of their itemized deductions – this is state and local taxes, home mortgage interest, gifting – then realize that municipal bonds offer some value. Unfortunately, once recognized, relative value may no longer exist post-April, until markets adjust, and we could see some adjustments on the federal side of things with respect to particular tax items.

Interviewer:
Please describe your current strategy and the positioning of the Fund.

Jeff Hanna:
Well, I'd say over the last quarter or two we've actually been shortening up duration a little bit. There's been a fairly good flattening of the yield curve. And as that's come down, taken advantage of selling some longer-term bonds, shortening duration a bit. While we do think the trend would be towards higher interest rates, more recently because of the volatility and corrections in the equity markets, we've actually seen bonds rally a bit. Actually, the Fund's done well despite that. But as we start to see a little bit more normalization of the yield curve, I'm going to have some opportunity here to find some good value along the curve, and reinvest some proceeds there out, and take advantage of maybe extending duration a little bit here, although it's been shortened up over the last quarter or two.

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.