Aquila Tax-Free Trust of Oregon

PORTFOLIO MANAGER COMMENTARY

Q4 2023

A Shares: **ORTFX**	C Shares: **ORTCX**	F Shares: **ORFFX**	Y Shares: **ORTYX**

Municipal Bond Market Overview

After continued weakness in the month of October, the municipal bond market staged a powerful rally in November and December during the quarter ending 12/31/23. The 10-year AAA yield, as measured by Bloomberg, declined 119 basis points, from 3.45% on September 30 to 2.26% at the end of the quarter. This resulted in an overall decline in this benchmark yield of 19 basis points for the 1-year period ending 12/31/23, when yields began the year at 2.45%. The market demonstrated a sharp turnaround during the fourth quarter. Following a jump in the 10-year AAA yield, to 3.65% at the end of October 2023, the market began a recovery in November, which picked up steam in December. This delivered the strongest quarterly performance for the municipal bond market since 1986, according to Bloomberg. The Bloomberg Municipal Bond: Quality Intermediate Index posted a positive return of 5.86% for the quarter, which enabled it to record a positive total return for the year of 4.64%.

The municipal bond market also outpaced the U.S. Treasury bond market by a wide margin, as the yield on the 10-year U.S. Treasury bond declined only 70 basis points. This outperformance was largely mirrored across the entire 1-30-year yield curve, reducing the ratio of municipal bond yields to U.S. Treasury bond yields. During the fourth quarter, this 10-year ratio declined from 74% to 58%, while the 30-year ratio declined from 93% to 83%. Although this outperformance has diminished some of the "cheapness" which had surfaced in municipal bond values last fall, the taxable equivalent yields of municipal bonds at the end of the quarter remained attractive relative to recent inflation readings that have remained below 4%. This still leaves municipal bonds in what appears to be a position to offer better risk-adjusted return prospects than other corners of the taxable investment-grade fixed income markets.

While investors have remained focused primarily on interest rate increases in 2023, and intentions in 2024 of the Federal Reserve (the "Fed") and Chairman Jerome Powell, the continuation of the trend of inflation below 4% since last June has begun to provide a supportive tone to the municipal bond market. Coinciding with the drop in market yields was a surge in new municipal issuance during the past quarter. Nationally, issuance totaled $105.5 billion, a robust 39% increase over the $75.5 billion issued in the fourth quarter of 2022. For the year, issuance in 2023 totaled $379.9 billion, a modest 2.9% decline from the $391.3 billion issued in 2022, according to data from *The Bond Buyer.*

The credit quality of municipalities has demonstrated resilience in the face of recession concerns and the wake of the latest U.S. government downgrade last August by Fitch Ratings (from AAA to AA+). A barometer of this was the upgrade of the Metropolitan Transportation Authority ("MTA"), one of the most economically-sensitive New York issuers in the national municipal bond market. The upgrade of the MTA in October by S&P Global Ratings (from BBB+ to A-) reflects how the essential nature of important municipal services (in this case, mass transit in the nation's largest city) is important to credit quality. The upgrade is also a result of the impact municipalities derived from the significant intergovernmental transfers made by the U.S. government to power the COVID-related economic recovery. This included the $6 trillion in CARES Act packages passed in 2020, and the $1.9 trillion American Rescue Plan passed in February 2021.

Oregon Municipal Bond Market and Economy

Although personal and corporate tax collections continue to exceed the State's expectations, Oregon's revenue outlook appears to have stabilized. State economists disclosed in their December 2023 Economic and Revenue Forecast that, aside from persistently strong corporate income taxes, collections in recent months have tracked closely with the September forecast. The State is estimating gross General Fund revenues for the 2023-25 biennium will reach $25.8 billion, which is an increase of $156 million from the September 2023 forecast, and an increase of $559 million from the Close of Session forecast. The State has attributed most of the increase to strong collections of corporate income taxes, which continue to outstrip underlying profit earnings. However, as the first personal income tax filing season of the biennium approaches, there is considerable uncertainty in the State's forecast.

In anticipation of an economic downturn, the State has accumulated reserve fund balances that are larger than Oregon has been able to accumulate in past cycles, which should help stabilize the budget should a recession occur. The Oregon Rainy Day Fund, and the Education Stability Fund, currently total a combined $2.1 billion. At the end of the 2023-25 biennium, the two reserves are projected to total $2.9 billion, which is equal to 11.1% of current revenues. Including the currently projected $1.1 billion ending balance in the State's general fund, the total effective reserves at the end of the current 2023-25 biennium are projected to be 15.9% of the State's current revenues.

The Interstate-5 Bridge replacement project has been awarded $600 million through the U.S. Department of Transportation's Mega Program funding. The project received the most funding of the 11 awards granted nationwide. The century old I-5 Bridge, which crosses the Columbia River between Oregon and Washington, is a critical connection supporting local jobs, and a vital trade route facilitating local and regional economic growth. The total project is currently estimated to cost around $6 billion. The States of Oregon and Washington have collectively applied for an additional $2.6 billion from the U.S. Department of Transportation, and each state has pledged an additional $1 billion as their share of the project. Currently, the State of Oregon is planning to issue $250 million in bonds in each of the next four two-year budget cycles as Oregon's down payment on its portion of the project. An additional $750 million may end up coming from other sources, with Oregon planning a major transportation funding package in 2025. Construction is expected to start in 2026 and light rail and express bus service are planned as part of the replacement bridge.

Although the labor market remains healthy, it has eased from the overheated state witnessed during the pandemic. Oregon reported that, as of November 2023, seasonally adjusted nonfarm payroll employment declined by 7,300 jobs. However, Oregon's unemployment rate remains at a reportedly low 3.6% for both October and November, and has remained below 4.0% since May. For comparison, the U.S. unemployment rate was higher at 3.9% in October and 3.7% in November. Oregon job declines were greatest in the Professional and Business Services (-2,900 jobs), and Construction (-1,700 jobs) sectors. The State's fastest growing major industries over the past 12 months were Healthcare and Social Assistance, collectively adding 17,900 jobs, or 6.5%.

Rising mortgage rates, due to the Federal Reserve's continued moves to curb inflation, have made home financing more expensive. The purpose of the rate increases is to cool prices off, and Oregon markets are responding with declining home sale prices and less activity. The Willamette Valley Multiple Listings Service ("WVMLS"), which covers Benton, Linn, Marion and Polk counties, reported that the number of closed sales declined 26.3% for the 12-month period ended 12/31/23 versus 2022. However, the median sales price reported by the WVMLS increased for December 2023 to $420,000, a 3.7% increase from December 2022. According to data reported by Standard & Poor's for the S&P CoreLogic Case-Shiller Index, national home prices increased 4.8% year-over-year in October, the fastest acceleration of 2023. Detroit (+ 8.1%) and San Diego (+ 7.2%) showed the largest gains, while Portland (- 0.6%) was the only major city to register home prices lower than the same period last year. Despite October's increases, several major metros remain notably below recent peaks, including San Francisco (down 8.1% from the peak), Seattle (-6.5%), Portland (-4.3%), Las Vegas (-4.2%) and Phoenix (-3.9%.)

Despite higher interest rates, the pace and amount of Oregon municipal bond issuance has been vigorous. Issuance of tax-exempt non-AMT municipal bonds for the 2023 calendar year was $4.15 billion, or 92%, above 2022 issuance. Although we have seen a significant improvement in issuance, demand has also been strong, with new issues multiple times oversubscribed. Over the past quarter, the pace of issuance has been slow with only four new Oregon tax-exempt issues. New issues have included: State of Oregon General Obligation Bonds, Deschutes County Full Faith & Credit Obligations, housing revenue bonds for an apartment project and a charter school financing.

Historically, the November election has been an important source of municipal bond issuance in Oregon and an indication of the level of issuance for the following year. At Oregon's November 2023 Special Election, Oregon residents only approved two issues, with a combined par amount of $19 million, across the State. These results are considered anemic compared to previous elections. In November 2022, Oregon voters approved a more typical $1.45 billion in new bond measures. Oregon issuance will likely be more subdued going into 2024 with only the two measures approved at the November 2023 election currently scheduled for the first quarter.

Fund Strategy and Outlook

Given the current shape of the municipal yield curve and current market volatility, we remain cautious in our selection of municipal bonds. Our portfolio positioning of shorter duration, higher credit quality and higher average coupons has been relatively advantageous during current dynamic market conditions, which include volatile daily changes. Furthermore, in recent months, proceeds have been reinvested in the 15-year maturity range to take advantage of the steeper slope and greater percentage of Treasury yields in that portion of the curve.

Credit research remains the cornerstone of our strategy, with vigilant monitoring of both issuers and sectors. Under our overall defensive portfolio strategy, credit quality remains high with approximately 91% of the portfolio rated AA or higher (as of 12/31/23). Although we have observed wider spreads for certain credits, we are only selectively taking risk where we find risk rewarded by the market.

Furthermore, we have expanded our effort to evaluate currently under-represented sectors and bonds with attractive structures or relative spreads. We believe these under-represented sectors present an opportunity to increase exposure to holdings with yields commensurate to, or exceeding, potential volatility. As a result, we feel these opportunities present an opportunity to capture incremental yield while helping to diversifying associated risk.

For specific information about fund characteristics, holdings and performance, please see the Fund Fact Sheet on our website at www.aquilafunds.com.

Fund Facts as of 12/31/2023

LEAD PORTFOLIO MANAGER	INCEPTION DATE	TOTAL INVESTMENTS	NUMBER OF HOLDINGS
TIMOTHY ILTZ	6/16/1986	$424.5M	217

This information is general in nature and is not intended to provide investment, accounting, tax or legal advice, nor is it intended to represent a recommendation or solicitation related to any particular investment, security or industry sector. The opinions shared are those of the portfolio managers and do not necessarily reflect those of the Investment Adviser of the Fund. 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.

Independent rating services (such as S&P Global Ratings, Moody's Investors Service and Fitch Ratings) assign ratings, which generally range from AAA (highest) to D (lowest), to indicate the credit worthiness of the underlying bonds in the portfolio. Where the independent rating services differ in the rating they assign to an issue, or do not provide a rating for an issue, the highest available rating is used in calculating allocations by rating. Municipal/Treasury Ratio compares the rates of municipal bonds with those of U.S. Treasury bonds in percentage terms.

Municipal-to-Treasury Ratio compares the rates of municipal bonds with those of U.S. Treasury bonds in percentage terms.

A credit spread or a yield spread is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities.

Modified and effective duration both measure the value of a security in response to a change in interest rates. Effective duration also takes into account the effect of embedded options.

The Bloomberg Municipal Bond: Quality Intermediate Index tracks the performance of municipal bonds with remaining maturities between 2 and 12 years and a minimum credit rating of A3. Indices are unmanaged and are not available for direct investment.

Mutual fund investing involves risk; loss of principal is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived decline in credit quality of the issuer, borrower, counterparty, or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. State-specific fund performance could be more volatile than that of funds with greater geographic diversification.

Before investing in the 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 professional, and when you call 800-437-1020 or visit www.aquilafunds.com.