Aquila Narragansett Tax-Free Income Fund

PODCAST TRANSCRIPT

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Interviewer:
Hello, everyone. Welcome to another Aquila Group of Funds podcast. I'm your host Matthew DiMaggio. Joining me today is the portfolio manager of Aquila Narragansett Tax-Free Income Fund, Jeffrey Hanna. We'll be discussing recent events related to the municipal market, as well as Rhode Island-specific topics. Welcome. Jeff. And thank you for being here.

Jeff Hanna:
Thanks, Matt. Always great to be here.

Interviewer:
The question I want to start off with is quite direct. There are downturns in all markets given a long enough timeline, but we saw two things in the front half of this year. One, all of the markets experiencing volatility in terms of price and yield. And two, some of the most severe and volatile municipal markets in 40 years. So, what would you say is different this time around?

Jeff Hanna:
Well, I'd say what's different this time around is you have the Federal Reserve ("the Fed") coming off of stimulus. They're raising short-term interest rates in the way of the discount rate. They're also shrinking the loaded balance sheet they've had for providing liquidity into the markets over the last number of years, particularly during the pandemic. So, from that standpoint, that was the case. You also have a fiscal policy or fiscal programs that have also stimulated on the fiscal side, not just the monetary side, and that's led to inflation. And with inflation and the Fed, remember, the Fed has a dual mandate. One is full employment. Another is stable prices. So, with the recent pricing we've seen in the Consumer Price Index ("CPI"), Producer Price Index ("PPI"), and Personal Consumption Expenditures Price Index ("PCE"), what we're finding here is those levels are high—much higher than the Fed has for its target. And the Fed's going to want to, basically right now, they've finished fighting the full employment because we're there, and now they're on to fighting inflation. So, that's really what's driven this, and with inflation, as you know, purchasing power gets lowered and bond values typically go down on fixed rate instruments.

Interviewer:
Tons of color there. Now, what is the municipal market looking like in terms of relative value compared to Treasuries and the larger fixed income markets?

Jeff Hanna:
Well, the percentages of munis to Treasuries at the end of last year, beginning of this year were at historical highs. So, we've seen some significant widening there. A couple weeks ago, everything was pretty much close to 100%. Historically, that number tends to be somewhere in the range of 75 to 85%. Right now, I'd say it's fairly valued. I think from the standpoint of a percentage, we're seeing anywhere from 85 to a 100% on the longer end from kind of 10 years out to 30 years. On the shorter end, which historically has probably been a little closer to 75 to 80% of munis as a percent of Treasuries. We're seeing that number fairly similar in that range, maybe at the top end of that range, but still, I would say fairly valued.

Interviewer:
It has certainly been an interesting year thus far. What are we seeing from an issuance standpoint heading into the second half of the year? Are you being presented with yields that are more appealing than what we saw coming in 2021?

Jeff Hanna:
Yes. So, from the standpoint of the issuance and what's going on, the issuance has been a little bit behind that. A lot of the issuance was done earlier in the year. The issuers really took advantage while rates were still low and just starting to move. We're definitely seeing yields that are more attractive, on an absolute basis and a relative basis. So, that's great from a portfolio standpoint—being able to add some names, perhaps that you don't have in the portfolio, at better yields. That's always welcome, but I think from the standpoint of issuance, it's been a little bit slow and you have a fair amount of maturities in cash inflow for municipal bondholders this summer. So, I think from that standpoint, unless supply starts to increase again, I would expect to see some continued tightening here on this market.

Interviewer:
We appreciate the insight. Shifting gears a bit. We've been addressing the larger municipal market. At Aquila, we know that

advisors and the clients of advisors look to us as the local subject matter expert. Jeff, what are you seeing locally in terms of Rhode Island's economic growth?

Jeff Hanna:
The economic growth in Rhode Island actually has been pretty good. It's been encouraging. We have an unemployment rate that's below that of the national level, although there are a few adjustments that would need to be made in there, but relatively speaking, done very well. We've got a number of companies here that are growing. We have a few new companies that are moving here to Rhode Island, and we also have some offshore wind staging areas, both at Quonset Point. And part of the governor's current proposal is a place called the South Quay in East Providence, which also could stand as a staging area for offshore wind. That would be the turbines and anything related to that. So, from that standpoint, it's good, and Quonset Point also has a number of cars that come in from overseas and we've actually seen that number of cars coming into the port increasing over the last few months. So, that's been encouraging as well. So, things are starting to move. Looks like supply chains have loosened up a little bit, automotive area, at least from the foreign imports.

Interviewer:
Those are all the questions we have for you today, Jeff. Thank you for joining us and providing great color on the markets.

Jeff Hanna:
Oh, thanks for having me. It's always great to talk to you and have a great day.

Interviewer:
Same to you.

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