Aquila Narragansett Tax-Free Income Fund

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Candace Roane:
Hello, everyone. Welcome to another Aquila Group of Funds podcast. I'm your host Candace Roane. Joining me today is Jeff Hanna, Portfolio Manager of Aquila Narragansett Tax-Free Income Fund. In this podcast, we'll cover Rhode Island's economy, the muni market, the Biden administration spending plans, and interest rates. Welcome, Jeff.

Jeff Hanna:
Thank you for having me.

Candace Roane:
Let's start with an update on Rhode Island's economy. How has revenue fared over the past year through the pandemic?

Jeff Hanna:
Actually, despite the drop in tourism and it's include casino revenue, et cetera. Rhode Island revenue actually has fared a little better than expected. Despite all the things that are going on, what we saw is revenues have actually come in above expectations, albeit, downward-revised expectations. But the other side of that is expenses have been below expectations as well. So, you've kind of seen a shrinkage if you will on both sides of revenue expenses, but relative to each other has actually narrowed the gap a little bit. And part of that also, we still have a large budget deficit, but that deficit actually has been cut rather considerably from what was projected about six months ago.

Candace Roane:
Thanks, Jeff. Looking back at the municipal market over the past year, where have you seen the most recovery?

Jeff Hanna:
Well, I mean, where are you seeing recovery clearly from the tightening spreads, really across the board and municipals, but particularly on the lower credits, on the high yield municipals, but in the lower-rated investment-grade credits. So you have seen, when you saw the initial downgrades or concerns regarding things as far as transportation, hospitals, convention centers, airports, and then I kind of moved on to colleges and universities. A lot of those have all bounced back. I could say specifically in Rhode Island, we saw the airports really come back rather nicely. Hospitals came back nicely as well. The convention center actually has held up fairly well, also. Part of that is the fact that you do have, in Rhode Island, you have Care New England and Lifespan, which are the head of the two largest healthcare providers coming together in the process of having an agreement and merging together, along with Brown University. So, between the three of them, they are looking at putting together an agreement to have one healthcare provider, but also provide some additional teaching facility, if you will, for students at Brown University. In addition, I think, with everything going on, certainly the American Rescue Plan that's out here, clearly there's funding now expected for states and municipalities. So that should help, as well as increased vaccines that we're seeing across the country, and those numbers continuing to go up and more people getting the vaccine and certainly has helped in this municipal market, as well as most markets.

With respect to the Care New England Lifespan situation, and it certainly it speaks specifically to Lifespan, elective surgeries coming back here, I mean, I would say Rhode Island was fairly early in getting back on that. It was an end of the summer, early fall, last year in 2020, where elective surgeries were back, so that certainly has helped revenue and gotten certainly the hospitals in better shape. And we've seen that through the tightening of spreads.

Candace Roane:
Jeff you mentioned the American Rescue Plan. We've seen quite a bit of sending proposed by the Biden administration this year. That was the sixth policy response to COVID-19. Congress is currently weighing the $2 trillion American Job Plan. And we expect the American Family Plan to be proposed in the coming weeks. How do you see all of this government spending coming together and impacting the municipal market across the nation and at home in Rhode Island?

Jeff Hanna:
Yeah. Well, what you have is clearly a lot of stimulus. No matter how you look at it or however you want to call it, it's all stimulus. Stimulus, given the situation we've been in, is good. We just have to be careful about having too much. As you may recall, the Federal Reserve kind of came in, became the backstop, provided pretty much everything it could to keep the markets moving and giving people hope that things were going to turn around. And now you see the fiscal side of the House coming into play. Now, certainly they were in earlier during the pandemic, but now you're seeing continued plans coming forward. From the standpoint of what that's going to mean for the municipal market, just what we've seen, help coming to the cities and towns and states, that certainly will help from a credit standpoint. And, we have seen credit quality not really deteriorate all that much, and this certainly will help. This will help cities and towns and states, perhaps, with budgets, healthcare, education, a number of programs within the states. States, and particularly in Rhode Island, clearly there's a lot going on here. Rhode Island certainly will be a beneficiary of this stimulus and additional funds. So, I think from that standpoint, it'll kind of keep things moving along, but municipal markets are certainly going to be beneficiaries, and you'll see spreads remaining fairly tight in here.

Candace Roane:
Let's talk about interest rates. Investors are certainly watching interest rates closely and thinking about inflation. Today is Tuesday, April 27th. At the end of last week, the 10-year yield was around 1.5%, falling almost 5% over the past month, but it was up 70% for the year. What are your expectations for the next several quarters around rates and inflation, Fed policy, and how do you have the portfolio currently positioned?

Jeff Hanna:
Sure. So from that standpoint, we just finished talking about what's going on here with the stimulus. So normally, what that stimulus means is additional government borrowing. So in and of itself that would put pressure on rates to push rates higher. And clearly that may be the case, particularly given the amount of money we're talking. Again, it's still a negotiation, right? So we don't know what that final number is going to be, but it's certainly going to be considerable. And again, additional stimulus borrowing, it puts increasing pressure on rates and inflation. Obviously, too many dollars chasing too few goods, that could push up rates as well. Again, inflationary expectations are what drives interest rates. You've seen a steepening of the yield curve more recently. You've seen some flattening. Some rates coming down a little bit, but my view is that we're going to start see rates moving up a little bit. And again, it's going to come out in bits and pieces as this stimulus plan unfolds, or these plans unfold. And we're going to start to see more impact here, I think overall on interest rates as a result of that. With respect to the Fund itself, how's that been positioned? Well along those lines, I've really kept a fair amount of cash or less sensitive, if you will, to interest rate changes, to take advantage of rising interest rates or steepening yield curve. So as the yield curve moves up and we're a little less interest rate sensitive, we look to add bonds a little bit further out and pick up some additional yield, which you can do by moving out the curve a little bit while keeping the portfolio positioned kind of right where we want it. And, within a range, certainly within a range, we're probably at the lower end of that range right now. So it gives us a little more flexibility, should rates start to move a little bit higher.

Candace Roane:
Thank you, Jeff. As always, it was a pleasure having you today. I appreciate all of your insight.

Jeff Hanna:
Thank you very much.

Disclosure:

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A credit spread is a difference in yield between two bonds of similar maturity, but different credit quality.

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The yield ratio represents the comparison of the expected yield of one bond to the expected yield of another. A yield ratio is important when deciding whether to invest in one bond or another. Generally, the higher yield is considered better.