

Aquila Tax-Free Trust of Arizona

Podcast Transcript September 19, 2017

Interviewer:

Today we're talking to Todd Curtis, portfolio manager of Aquila Tax Free Trust of Arizona. During the remainder of 2017 and into 2018, are you anticipating that we'll see additional rate increases from the Fed?

Todd Curtis:

Yes. Now, as of right now, anyway, I anticipate another rate increase, the fourth in 13 months, in December of 2017. Into 2018 I'll be a little hesitant as to talking about it. Let's wait and see what's going on and I say that because I think we are going to have to continue to see some economic growth. I think we're going to have to see employment numbers stay reasonably good, and of course I think we're going to have to see some sneaking in inflation, which I think we will see, to allow the Fed to increase in December. But going forward into next year, I think it's a little bit more iffy as to what the Fed will do. And I think as always, I mean as I just mentioned, economic data will play a big role in what the Fed does going forward. I think we have a lot of geopolitical risks hanging over our head that will have an influence. And I would say even legislative actions as to what Congress does in terms of enacting tax legislation, healthcare reform, other legislation going forward, will have an impact also.

And on top of all that, how the market reacts to Fed actions will also I think have an influence. So right now I have a long-winded answer, to say yes, I anticipate one in December. After that it's a blank slate.

Interviewer:

And how might the unwinding of the Fed's balance sheet play out through either 2017 or into 2018?

Todd Curtis:

This is a big one. I think the market is probably seeing this as a pretty important pivotal point in just how monetary policy will go forward. And I won't profess to be a very knowledgeable person on the Fed's balance sheet. But I will say and acknowledge that they will, they've done 10 years now of increasing their balance sheet. It's what, at now \$4.5 trillion or something like that. And they're going to shrink it, and the downsizing of the Fed balance sheet, we have two ways of seeing it.

And one is, well not two ways, but two points to make. And one is the downsizing is certainly a tightening move, and will be a tightening move. And I think what will, and the second point would be that there's never really been a central bank to do this type of move, both through downsize an inflated balance sheet, and to do it to this magnitude. So the Fed will be, I think, very slow. They'll be very cautious in how they proceed. And they'll certainly watch the reaction of how the economy reacts to their downsizing the balance sheet going forward. So it'll be a very slow process and a very deliberate process going forward.

Interviewer:

Since the 2016 election, there's been talk of increased infrastructure spending by the federal government. How might those plans be impacted, if at all, by the 2017 hurricane season?

Todd Curtis:

Well, I think the two hurricanes, Harvey and Irma, certainly show that our need is there and we're going to have to go back into Texas and Florida and add a lot of – a good deal of relief. And I think that's almost a side question in terms of the infrastructure needs of the country,

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which have been discussed over the last couple of years and they're certainly growing in magnitude. The need is there. Unfortunately I think that the – an infrastructure plan coming out of D.C. and Congress probably on the back burner and playing third fiddle to healthcare reform and tax reform first, before they can tackle infrastructure.

But I think it's certainly going to stay on the table. It's got to be done. They've got to come up with some type of package to help states rebuild bridges and roads and that sort of thing around the country. So it's going to be there. It's going to come to fruition in some form. But probably a bit down the road from what we're seeing right now.

Interviewer:

Aquila Tax Free Trust of Arizona invests only in investment-grade bonds. Beyond the rating, what factors do you focus on when you're evaluating the credit quality of potential or existing fund holdings?

Todd Curtis:

Well, I mean yeah, you mentioned the rating agencies. So we'll certainly look there. But I mean the rating agencies give you a picture kind of right now. They're a little bit of a snapshot. They try and look at trends and that sort of thing. But the trends are really from the past more than the present. I think as we look at our credits, we'll always try and spot some trends and changes and shifts that might be going on in the communities out there. And by that I mean population gains, losses, both at the citizen level and say in school districts, populations of students going to a certain school district, whether they're getting bigger or shrinking.

They'll certainly take into factors of businesses moving in and out, just kind of noticing different trends that would have an impact on future revenue flows of the local community. Changes on a political structure and just changes kind of in philosophies at the local entity level. A good example for me, in Arizona, there is Prescott, Arizona, just passed a city sales tax increase to help alleviate the pension funding costs. So you kind of look for those trends and shifts and evaluate what could be down the road. And those trends and shifts will certainly tend to be small and small steps but they can lead to a big one. So you kind of look for and kind of assess them as you go forward.

Interviewer:

What are you anticipating in the way of new issuance in the fourth quarter of 2017?

Todd Curtis:

The old issuance question. Well, we're down for this year, through August. On a national basis I think it's down about 15 percent, to about \$250 billion. In the last few years easily done \$400 billion a national basis. And that'll probably be less than that this year, which I expect will pump out on a national basis it'll be pretty good for the fourth quarter. Probably another \$100 billion, take it up to roughly \$350 billion, which is a good, good year – not an outrageous year. In Arizona I think we're a little bit different than that.

We were fairly heavy in issuance earlier this year, the first half of 2017. We've dropped off considerably here in the second half. And I think that drop off will continue. We'll have some issuance. We're down to about 38 percent year to date through August in Arizona. And I would suspect that the last couple years, where we issued close to \$7 billion on a state basis, that'll drop. We've done \$2.5 billion through the first eight months. We could do another billion to \$3.5 billion, which is still only half of what we've done in the last couple of years.

So there's an answer to you, on a national basis, it'll continue to put. I think here in Arizona we're going to be a little, kind of, slow in terms of new issuance.

Interviewer:

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