Aquila Tax-Free Fund For Utah

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 Tax-Free Fund For Utah, JT Thompson. We'll be discussing recent events related to the municipal market, as well as Utah specific topics. Welcome, JT, and thank you for being here today.

JT Thompson:
Thanks, Matt. I enjoy this opportunity.

Interviewer:
Absolutely. So, the question I want to start off with, JT, 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, 2022. One, all markets experiencing volatility in terms of their price yield. And the second thing is some of the most severe and volatile municipal markets in 40 years. So, what would you say is different this time around?

JT Thompson:
Well, Matt. Believe it or not, I was around 40 years ago when there was volatility in the markets, as Volcker was raising rates and obviously, trying to curb inflation and now, Jerome Powell is doing the same thing. We have inflation that is way above their 2% (over (% as of July 2022), as measured by the Consumer Price Index, and so they're raising rates to try to curb inflation, which has brought volatility into the markets. What's different this time around though is the Fed's balance sheet of approximately $9 trillion. To whittle that down is, in essence, where you're going to be is the same as tightening. The Federal Reserve ("the Fed") has mentioned that they're going to allow about $95 billion a month roll off starting in September. If you think about it though, it was a $9 trillion balance sheet. It's going to take seven to nine years for that to roll off. So, I think we have some type of volatility going forward, as not only interest rates when they kept out raising interest rates, but how does that balance sheet get reduced?

Interviewer:
Great color, JT. And I think we can all appreciate your experience in the markets. JT, what is the municipal bond market looking like in terms of relative value to U.S. Treasuries and the larger fixed income markets? And how has that kind of changed throughout this year so far?

JT Thompson:
Well, Matt. One of the benchmarks that muni people use is at what percentage of Treasuries are municipal yields in that comparison. And that kind of gives you an idea where the municipal bond market is. For example, in the last year, in the five-year range, which is the duration, approximate duration of the Fund, munis traded at the lowest comparison was at 43% of Treasuries. At the highest end, the market started expanding, was about 91% of Treasuries. This means it has been 62% over the prior year. Today, it's at about 68%. So, when you look at munis to Treasuries in that ratio, it's comfortable to believe that munis are in great shape right now. There's a possibility, obviously, if they get towards the low end of outperforming other fixed income asset classes, in my opinion, there is relative value in municipals right now compared to Treasuries.

Interviewer:
Thanks, JT. Talking about issuance, what are you seeing from an issuance standpoint heading into sort of the latter half of the year. And are you being presented with yields that are more appealing than what we saw in 2021?

JT Thompson:
Definitely, Matt. When interest rates rise, obviously you're able to buy bonds with higher yields than you were the year before. And that's one of the benefits of a mutual fund, Mutual funds have bonds being called. They have bonds maturing. You have interest payments, and the manager is able to reinvest them. And this year, we able to reinvest those monies at higher interest rates than last year. For example, in June, the State of Utah had $809 million roll off for reinvestment. And the municipal bond market, as a whole in June, was $49 billion. So, that money gets reinvested back into the municipal bond market, and it keeps the municipal market fairly stable.

Interviewer:
Interesting info, JT. You just touched on Utah. At Aquila, we know that financial advisors, and clients of advisors, look to us as the local subject matter experts. What are you seeing locally in terms of Utah's economic growth this year?

JT Thompson:
Matt, we're seeing continued growth in the economy here in Utah. And at the end of April, which are the last statistics I could get from the government. When it comes to tax revenues, the State budgeted tax revenue of an increase of 20% over last year. It is on target. They budgeted personal income tax of being slightly less, about 5.1% less. That's on target from their budgeted to what's actually happening at the end of April. And corporate income tax is above what they budgeted, and they looked at about a 34% increase in corporate tax. So, overall, in the General Fund, overall tax revenue is 19% higher than what had been budgeted. And since April and in the end of June, which is the fiscal year, I didn't see any let-up. So, I think the State of Utah is probably going to have another budget surplus this year.

Interviewer:
Impressive data for Utah. Those are all the questions I have for you today, JT. Thank you for joining us and providing some really great color on the markets.

JT Thompson:
Thank you, Matt.

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The Fund seeks to provide a high level of income exempt from state and federal income tax as is consistent with capital preservation. Past performance does not guarantee future results. For certain investors, some dividends may be subject to federal and state income taxes, including the alternative minimum tax referred to as AMT. Please consult your tax professional.

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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 weighted average life, also referred to as weighted average maturity, is a reflection of the quickness with which the principal of an issue is expected to be paid.

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

Taxable equivalent yield is the return that is required on a taxable investment to make it equal to the return on a tax-exempt investment.

For certain investors, net investment income tax, known as NIIT may apply. NIIT is a 3.8% tax established by the patient protection and affordable care act that applies to the lesser of, the net investment income, or a taxpayer's modified adjusted gross income above an applicable threshold amount.

Yield refers to the earnings generated and realized on an investment over a specific period. Yield is expressed as a percentage based on the invested amount, current market value, or face value of the security, and includes the interest earned or dividends received from holding a particular security.

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.