Muni Market Update with JT Thompson

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This is Candace Roane with Aquila Group of Funds. Today is April 6th, and I'm joined by JT Thompson, lead portfolio manager of Aquila Tax Free Fund For Utah. JT has over 30 years of experience in municipal finance and has been managing the Fund since 2009.

Welcome, JT.

JT Thompson:
Welcome, Candace.

Candace Roane:
Thank you. This is the time of year that we would normally be reminding investors about the benefits of investing and tax exempt municipal bond funds, but Tax Day has been rescheduled, and we recently experienced one of the most precipitous market declines in modern history. So let's focus today on what happened in March, and how it impacted municipals - and I would like to get your thoughts on what we have in store for the remainder of the year.

To start, the municipal bond asset class is typically a place of respite for investors during times of economic unrest, but the recent virus-induced market volatility took municipal bonds on a ride along with equities. Can you give our listeners insight on how investor sentiment changed and the impacts that had on the municipal bond market?

JT Thompson:
Sure, Candace. The impact on the municipal market was due a lot in the fact that people were supposed to work at home. You had traders out there without the support staff that they normally have. They were sitting at home and not being able to look and see every bid item out there or the staff to show them. So, what we were seeing were a lot of bid items out there, thousands, and a person, a trader in his home, trying to submit bids was a very difficult time for him. Also at the same time public meetings were stopped. So the primary market, there was no real primary market out there to help investors kind of understand what is happening in the market. And because of that you started seeing a lot of the tender option bond funds and the ETF Funds being liquidated. And as they were unwound, it created a few days and it's kind of up and down, just created volatility in the markets for the last couple of weeks. And that's what's kind of created some of this dislocation.

Candace Roane:
How has the Fund's investment approach handled the volatility? And were you able to find opportunities among those price dislocations?

JT Thompson:
Yes, we were. The Aquila Tax Free Fund for Utah, on the 1st of March we had over three and a half percent of the Fund's assets in cash. And as yields started to rise in the market dislocation, we are able to do some buying. But, and the other side of it is, we were able to handle some of the redemptions that occurred. So we were in good shape.

Candace Roane:
Great. We know that Utah entered this year with a strong revenue growth... very strong state budget balance sheet, credit fundamentals remain strong, but it's unknown what's really going to happen with what we're dealing with - COVID-19. Are you concerned about revenue declines in Utah? And are there any sectors that you're monitoring closely?

JT Thompson:
Because of Utah's conservative nature, you have to have a balanced budget. And since 2008 we've rarely seen any type of bond issue that was speculative, meaning golf courses, theaters, exercise places, et cetera. So we haven't seen any of those nor very many dirt bonds, assessment district bonds. And a lot of that's because of the conservative nature. What we are paying close attention to right now is sales tax bonds. And as everybody knows probably sales tax bonds got a little bit of bump from everybody buying toilet paper in March. So the real question

is with that bump, can it be sustained over the long period of time? We will see a decline, as restaurants and other types of facilities are closed, but the sooner the economy gets back on track, the less likely there should be any credit concerns in Utah.

Candace Roane:
That's great news. With the CARE relief bill recently passed by Congress, the next big question for many investors is how is that going to be implemented? What will the Fed buy? What are your thoughts on that?

JT Thompson:
Well, in the municipal market it's going to be kind of very difficult for the Fed to come in. First, size... Most municipals have serials and maybe a term, and for the most part they aren't huge supplies out there. Second off, if the Fed were to buy, let's say, New York bonds or California bonds or New Jersey bonds, then you see a benefit of one state over another. So, I think it becomes very complicated of how can the Fed help the municipal market out there. I feel that one way the Fed can help out the muni market is allow banks and other borrowers at the Fed to use municipal securities as collateral. That would work and then maybe buying, if you are going to buy maybe or lend to big national funds or ETFs, you lend them the money so you're not picking and choosing a state because if you're in buying New York, New York yields are going to drop tremendously at the cost to the other 49 states.

Candace Roane:
Finally, we are still living with a tremendous amount of uncertainty around the healthcare situation and what's going to happen with the market as they react to that. And even the type of recovery is being debated right now. Can you give listeners your thoughts on future volatility, how the Fund is positioned and your expectations for the next few quarters?

JT Thompson:
Well, we're going to see volatility until there's a better idea from the government when they're going to allow people to get back to work. The interesting thing, recessions usually last 12 to 18 months. What's different is this wasn't a loss of confidence in the business sector, which most recessions are. This was the government actually shutting down the economy. Now, right now the big unknown and most CEOs or small business owners, it's hard for them to make a decision because they don't know when they're going to be back in business.

I have a good friend that owns a metal fabrication shop and over the past few years they have complained that it's so hard to find anybody with experience. And now their concern is do I just keep paying the people that I have and burn through all my cash. Because once we do get started, I'm going to need that experience to pick everything up. Or do I furlough everybody and take the gamble that I'm not being able to find the qualified help that I need. So, the very second you can see the light at the end of the tunnel, I think a lot of decisions are going to be made and with that you'll see the economy get back on track.

The Utah economy has been growing quite well at over three percent job growth in the last few years. There's a number of large construction projects going on that really bring life to the economy and as long as we can get back to somewhat normal sooner, the better. And that's what I see. As far as the Fund, we will do what we've always done. We're a high quality intermediate Fund. We've always felt all along, by those two factors, we can mitigate changes in interest rates and credit spreads very easily and we anticipate the Fund may be able to weather the storms that are coming down the pike.

Candace Roane:
Thank you for joining me today, JT, and for your valuable insight.

JT Thompson:
Thank you.

Disclosure:

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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 principle of an issue is expected to be paid. A credit spread is the 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 in excess of an applicable threshold amount. The acronym PERS, P-E-R-S, stands for public employee retirement system. The acronym PERA, P-E-R-A, stands for public employees' retirement association.

CARES Act Stands for Coronavirus Aid, Relief, and Economic Security Act.

Yield refers to the earnings generated and realized on an investment over a specific period of time. 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.

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