UPDATE ON THE HIGH YIELD MUNICIPAL BOND MARKET IN THE WAKE OF CORONAVIRUS FEARS

Coronavirus fears have induced sharpened volatility in all markets of late, including the high yield municipal bond market, which had held up well until recently showing its first sign of weakness. The coronavirus issue is clearly having a profound ripple effect in the economy, especially in the equity and commodity markets, but it appears no asset class or market is fully immune to the worry over the virus and its potential reach and implications in the U.S. and around the world.

THE MARKETS

The markets promise to continue to be volatile, especially the equity and commodity markets. In the past, weakness in these markets has often translated to outperformance in the high yield municipal bond market, but we are now seeing the first signs of weakness in our market. This was demonstrated by what we would consider to be some irresponsible trading that took prices down substantially this past Friday. It is important to note that these bonds are not in default or even troubled. As we open this week, we may continue to see some more of this irrational selling that is not rooted in fundamentals nor connected to the project/credit itself. Our view, as always, is that:

- Volatility, no matter the level or degree, is part of a normal credit cycle.
- We are seasoned, active portfolio managers who have managed through virtually every period of disruption over the past 30 years and have seen all markets, good or bad.
- The strategy's primary objective of income is intact; i.e. our income profile remains strong even as bond prices fluctuate and we believe that income will prevail over market volatility.
- We believe that our strategy and credit selections continue to be solid and we are not planning to dramatically change the long-term strategy or the composition of our portfolio.

- The high yield municipal bond asset class has historically proven to be a good diversification play with low correlation to the equity markets.
- Our strategy is not directly tied to commodities or earnings, but instead is tied to senior secured, bricks and mortar projects that often provide essential services. Our fervent belief is that these projects will continue to operate in both good and bad markets.
- We are long-term investors and will continue as such. We believe that "this too shall pass."
- Our long experience has taught us that this may be the absolute worst time to contemplate selling. Our single best piece of advice is to hang in, do not sell, and do not succumb to getting caught up in the volatility that is swirling.

PRICING ISSUE, <u>NOT</u> A CREDIT ISSUE

In the near-term, our market may continue to see more indiscriminate selling that is not reflective of the underlying value of the project/credit itself. Again, this does not mean that we are experiencing defaults in the portfolio. The translation is that this is a pricing issue, not a credit, default, or income issue. We may see more volatility before the market stabilizes. However, we believe that the composition of our portfolios is solid and should remain so moving forward.

STAYING CALM

In our view, the key is to stay calm and not to sell into the irrational fears that may take hold for awhile. The portfolio is intact and doing what it is supposed to do; i.e. generating attractive tax-free income. We are here and present and we have managed through situations not unlike this. This is a time to be calm, rational, and opportunistic. We are working through these issues and will selectively add value.

We will continue to update you as news warrants.

Please do not hesitate to contact us at any time. As always, we are happy to get on the phone with you and/or your clients.

The views expressed regarding market and economic trends are subject to change at any time. There is no guarantee that market forecasts discussed will be realized or that these trends will continue. This material does not constitute an offer to buy or a solicitation to sell any units of any investment fund or any service.

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