

The opportunity in municipals: Mid-quality revenue bonds

Muni bonds have historically provided attractive tax-equivalent yields and lower default rates than traditional investment-grade bonds. Our approach to investing in mid-quality revenue bonds results in what we believe are attractive yields and total returns compared to traditional muni strategies.

Outperformance versus higher-quality munis

Within the muni market, mid-quality muni bonds have outperformed higher-quality muni bonds. Over the last 30 years, BBB- or A-rated munis have provided better annualized returns than AAA or AA munis, **with BBB- or A-rated munis outperforming 21 out of the last 30 years.**

Annual muni bond returns by credit ratings, ranked best to worst performance

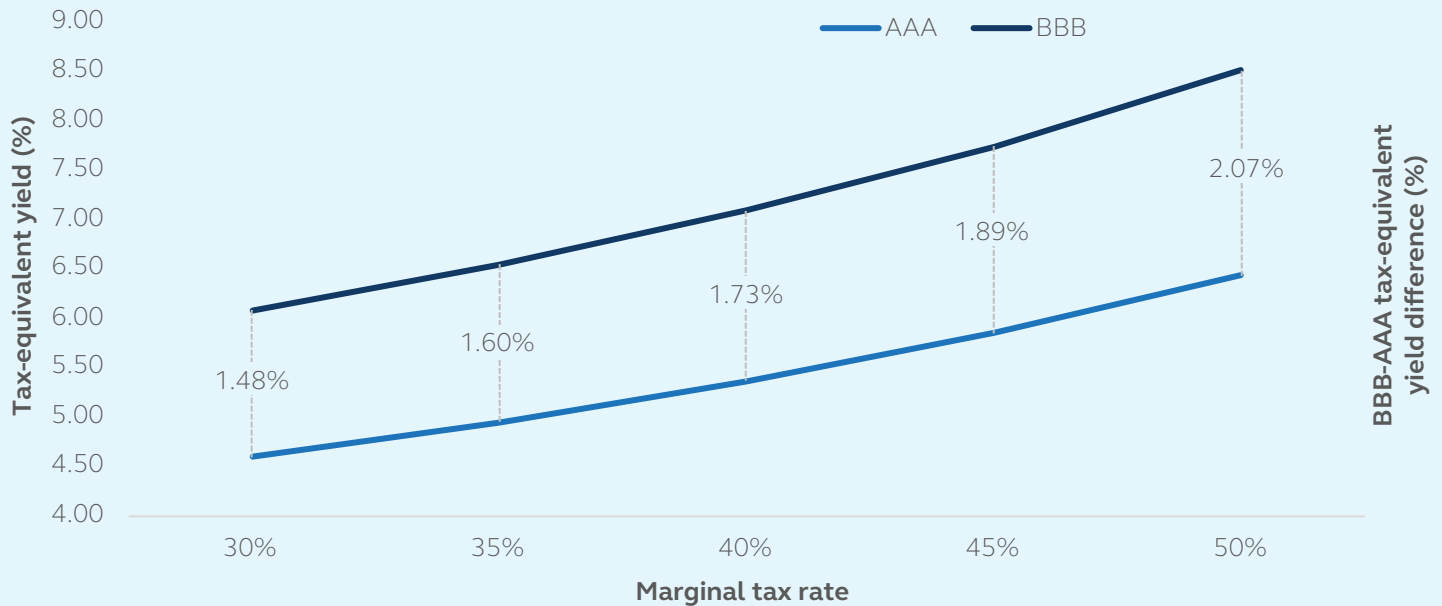
Event	Year	Ranked by annualized return			
		Top	→		Bottom
Great rate selloff	2023	BBB	A	AA	AAA
	2022	AAA	AA	A	BBB
COVID-19	2021	BBB	A	AA	AAA
	2020	AAA	A	AA	BBB
	2019	BBB	A	AA	AAA
	2018	BBB	A	AA	AAA
	2017	BBB	A	AA	AAA
	2016	A	BBB	AA	AAA
	2015	BBB	A	AA	AAA
Taper Tantrum	2014	BBB	A	AA	AAA
	2013	AAA	AA	A	BBB
Meredith Whitney	2012	BBB	A	AA	AAA
	2011	A	BBB	AA	AAA
	2010	BBB	A	AA	AAA
	2009	BBB	A	AA	AAA
Global Financial Crisis	2008	AAA	AA	A	BBB
Global Financial Crisis	2007	AAA	AA	A	BBB
Dot-com bust	2006	BBB	A	AA	AAA
	2005	BBB	A	AAA	AA
	2004	BBB	A	AAA	AA
	2003	BBB	AAA	AA	A
	2002	AAA	AA	BBB	A
	2001	BBB	AA	A	AAA
	2000	AAA	BBB	A	AA
	1999	AA	A	AAA	BBB
	1998	BBB	A	AAA	AA
	1997	BBB	A	AAA	AA
Greenspan rate hikes	1996	BBB	A	AA	AAA
	1995	BBB	A	AA	AAA
	1994	AAA	AA	A	BBB

Source: Barclays Live. Data as of December 31, 2023. Indices used are Bloomberg BBB-rated Municipal Index, Bloomberg A-rated Municipal Index, Bloomberg AA-rated Municipal Index, Bloomberg AAA-rated Municipal Index.

Tax-equivalent benefit of mid-quality munis increases with tax rate

The benefit in additional tax-equivalent yield from mid-quality munis increases with an investor's marginal tax rate. The yield advantage of BBB-rated munis compared to AAA-rated munis increases from 150 bps to 200 bps as the tax rate goes from 30% to 50%.

Bloomberg AAA and BBB Municipal Indices



Source: Bloomberg, Barclays Point. Data as of March 15, 2024.

Revenue bonds have proven to be more attractive than general obligation bonds

We also have a preference for revenue bonds because they provide less sensitivity over a market cycle, independent rate setting ability, and better seniority than general obligation bonds. **Over the last 44 years, revenue bonds have outperformed general obligation bonds 65% of the time.**¹

We believe this bias towards mid-quality and revenue bonds positions our portfolios to provide attractive relative yield and less sensitivity to business cycles than more traditional muni strategies. So far, 2024 is following historical trends with mid-quality muni bonds outperforming higher-quality muni bonds and revenue bonds outperforming general obligation bonds.²

¹ Source: Bloomberg. Data as of December 31, 2023.

² Source: Barclays Point. Data as of April 5, 2024

Risk considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Potential investors should be aware that Investment grade corporate bonds carry credit risks, default risk, liquidity risks, currency risks, operational risks, legal risks, counterparty risk and valuation risks. Lower-rated securities are subject to additional credit and default risks.

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