# Market Commentary

JANUARY 2020

16TH AMENDMENT ADVISORS LLC℠

# SMA Strategy Update:
# Municipal Bonds Hit Most Expensive Levels vs Treasuries on Record

### IT IS NOT A FUNCTION OF IF THE MARKET WILL CORRECT, BUT WHEN?

Municipal bonds are now at historically rich levels on both a relative and absolute basis. You may have noticed that our SMA strategies have gradually been moving toward a more defensive posture over the past two months. We have been reducing duration as municipal bonds started to trade rich on a relative value basis and due to the expectation of a steeper yield curve, along with the prospect of higher long-term rates. We have been surprised by the recent strong performance of municipals given a lack of additional stimulus from Washington D.C as well as increasingly negative news on the Coronavirus infection rates. We started moving out of long duration in late October, through November when the 10yr UST yield hit a recent low of around .83% and the 30-year UST yield was a 1.52% both on November 20th, 2020. Today UST yields rose to 1.08% in 10 years and 1.86% in 30 years bringing Muni/Treasury yield ratios to their lowest levels since at least 2001.

| DATE | 10 YR TREASURY YIELD | 10 YR MUNI YIELD | RATIO |
|---|---|---|---|
| Nov. 20th 2020 | 0.90 | 0.69 | 77% |
| Jan. 7th 2021 | 0.94 | 0.69 | 73% |
| Change | 1.16 | 0.93 | 80% |

| DATE | 30 YR TREASURY YIELD | 30 YR MUNI YIELD | RATIO |
|---|---|---|---|
| Nov. 20th 2020 | 1.52% | 1.42% | 93% |
| Jan. 7th 2021 | 1.86% | 1.41% | 76% |
| Change | 0.34% | -0.01% | -18% |

To put this in perspective, since November 20th, UST yields have increased 25 basis points in 10 years and 34 basis points in 30 years while municipal bond yields have remained unchanged. We feel if we stay patient in this current environment, the market will provide a much better opportunity for us to extend duration and the potential to pick up additional book yield.



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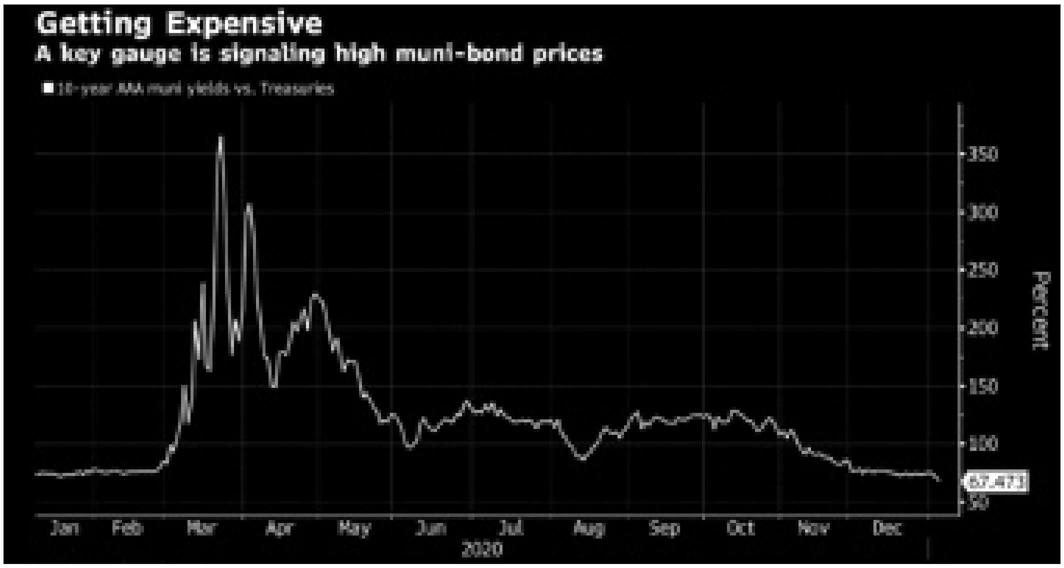
According to Bloomberg the 10-year Municipal/Treasury ratio hit its lowest level ever on record today at around 67.5%. (**GRAPH 1**)

**GRAPH 1**




*Source: Bloomberg*

We continue to believe that Congress, especially a Democrat controlled Congress, will be successful at passing further economic stimulus packages. Increasing government debt along with a Fed agreeing to let inflation run slightly higher should, over time, steepen the yield curve and lead to higher long-term rates. We expect Municipal/Treasury ratios to widen out from these current record tight levels which will lead to municipal underperformance, especially for longer duration portfolios. A shorter duration portfolio during this time should help weather any municipal underperformance.