16TH AMENDMENT ADVISORS LLC℠

SMA Update: Municipal Bonds Still at Historically Rich Levels

MUNICIPAL RELATIVE VALUE VS. TREASURIES CONTINUE TO REMAIN AT ELEVATED LEVELS

Municipal bonds remain at historically rich levels versus US treasuries. Investors continue to pour cash into the municipal bond market at the fastest pace in at least two decades driven in part by continued talk from President Biden about raising taxes on the highest income earners. With expected higher tax rates on the horizon, municipal bonds remain one of the key asset classes for tax efficiency.

DATE	10 YR TREASURY YIELD	10 YR MMD YIELD	RATIO	DATE	30 YR TREASURY YIELD	30 YR MMD YIELD	RATIO
Dec. 31st 2020	0.92%	0.71%	77%	Dec. 31st 2020	1.65%	1.39%	84%
April 27th, 2021	1.65%	0.94%	57%	April 27th, 2021	2.31%	1.55%	67%
Change	0.73%	0.23%	-20%	Change	0.66%	0.16%	-17%

Thus far in 2021, US Treasury yields have increased 73 basis points in 10 years and 66 basis points in 30 years, while the MMD (the municipal AAA index) has increased by 23 and 16 basis points. In "ratio" terms, MMD is trading at levels equal or lower than 1-tax rate which is highly unusual for longer dated maturities.

A key variable in the coming months and quarters will be the increased clarity on taxes and/or a decision on President Biden's infrastructure and education plans. Large infrastructure and education plans should increase supply meaningfully towards the second half of this year as a general matter. However, the timing of the increase in supply will likely be influenced if the bill incorporates tax-exempt advance refunding and/or BAB-like provisions and when issuers can take advantage of the savings these provisions may offer. Said differently, if the savings from these provisions cannot be realized until 2022, then some of the supply will likely shift to 2022.

April MTD issuance was $31.4bn as of April 28th up 15% compared to the same period last year. YTD issuance was $140.8bn, up 15% versus last year. YTD issuance is 72% tax-exempt, 26% taxable and 2% subject to the alternative minimum tax "AMT".

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Inflation fears along with large government spending programs could push yields to higher levels in the 3rd and 4th quarters. We believe the next catalyst to any correction in the tax-exempt market is more likely to come from a rapid increase in treasury yields.

The Bloomberg Barclays Managed Money Intermediate Total Return Index (Unhedged) returned -.008% year to date vs. 16th Amendment's Long Relative Value Muni SMA which has returned +.172%. If we get another sharp increase in yields over a short period of time, investors may withdraw cash from fixed income allocations. A sharp increase in yields, continued negative returns and investors withdrawing cash from mutual funds, would likely cause municipal underperformance.

We expect Municipal/Treasury ratios to widen out from the current record tight levels. We continue to believe that a rise in rates in conjunction with municipal underperformance, would present a buying opportunity for our SMA accounts. The current market conditions prove why an actively managed municipal portfolio is key to weathering the ever changing economic and political landscape. With a highly liquid portfolio we can take advantages of the market when conditions warrant changes.