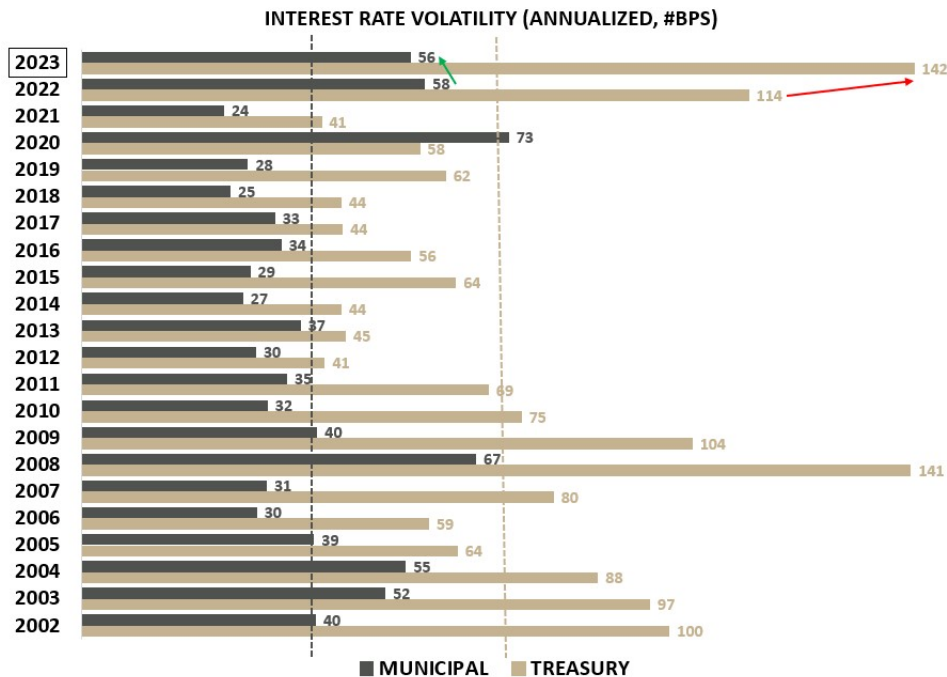


Municipal bonds are best known for three primary attributes: First, high income (keep more of what you earn in tax-exempts, competitive yield relative to corporate bonds in taxable municipals, regulatory capital efficiency...). Second, high credit quality (low default risk, less rating transition, greater supply of top-rated credits...). and third, low volatility (stable prices, low correlation...). In today’s environment of rising ‘rate-vol’, municipals are bucking the trend. Volatility is down, not up, unlike what is being experienced in the US treasury market.

In this post, we calculate the 20-day rolling standard deviation of daily yield-to-worst changes for the Bloomberg Municipal (tax-exempt) and Treasury index. We chart average annualized interest rate volatility in basis points by index and year versus historical averages.

Much has improved for municipals after a dismal 2022 as it relates to supply, demand, and valuations. While 2022 was one of the worst years on record in terms of absolute performance, it offered one of the best years for active management. Municipal volatility is 23% lower than its historical peak in 2020 and is currently 4% lower than last year. Municipals are less correlated, not uncorrelated, and we expect this year’s lower volatility trend to continue.

Today’s environment presents another great opportunity for active management. Long-term positives exist for future performance expectations and a potential normalization of the asset classes sleep-well characteristics.



Source: Bloomberg as of 5/22/2023; 20 day rolling annualized daily change in yield-to-worst #basis points; Prepared by 16Rock Asset Management

About

16Rock is a full-service asset management firm specializing in U.S. Municipal Bonds with a global perspective. We cater to the modern needs of institutions and high-net-worth individuals around the world. Our passion is to help clients translate their desires and aspirations into sophisticated outcomes that exude order. Our team leverages decades of experience to construct highly curated portfolios. We offer tailored managed account solutions, transition management services, and through our alternative investment capabilities, products designed to deliver absolute return excellence.

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