



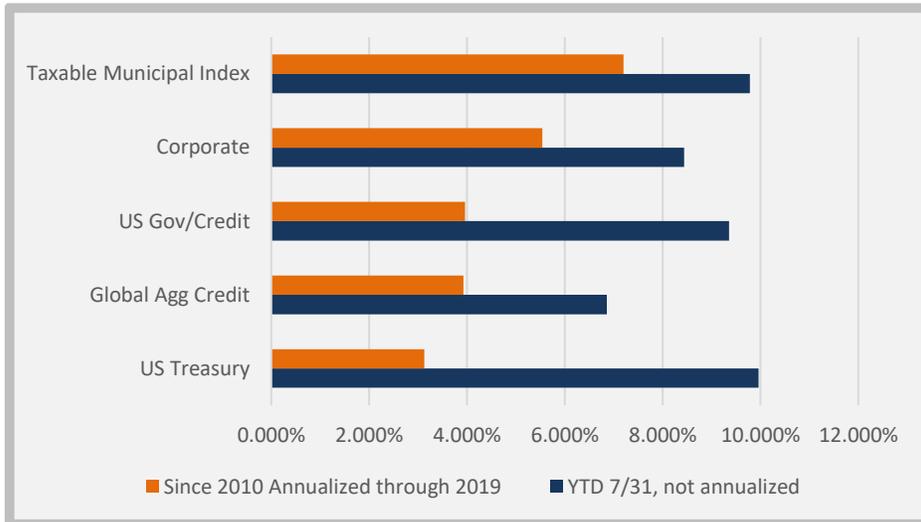
Taxable Municipal Bonds: Overachievement Under the Radar

The unfathomable effects of the COVID-19 crisis on Americans' physical and fiscal health have generated unprecedented market adjustments, including short term negative pricing of crude oil futures and deep declines in key interest rates to record lows. Without a clear end in sight, the federal government continues drastic stimulus measures to help resuscitate a gasping economy. For one, the Federal Reserve recently committed to holding its benchmark interest rate near zero through 2022 to aid a nascent recovery. That action has increased expectations for lower interest rates, prompting investors to seek instruments that offer elevated levels of income. As the hunt for yield continues, Asset Preservation Advisors suggests that advisors consider taxable municipal bonds, given their compelling advantages for pension funds, corporations, foundations, and individuals outside of the highest tax bracket.

Taxable Municipals vs. Corporate Bonds

Taxable municipals are often overlooked within the taxable fixed income arena, particularly versus their more popular rival: corporate bonds. Taxable municipals, however, have quietly outperformed their corporate counterpart over the past 10 years, all the while offering less volatility and correlation to mainstream market dynamics. Investors should consider that in weak economic times, corporate bonds are at the mercy of earnings or M&A activity, which can trigger sharp price fluctuations. Taxable municipals, given their more protective orientation, have outpaced corporate bonds and other fixed income asset classes in 2020. See *Annualized Returns chart below*.

Annualized Returns— as of July 31, 2020



Source: Bloomberg LP, 31 July 2020

Taxable Municipal Issuance— January 2011 — June 2020



Source: SIFMA, Data Report 4 August 2020

Expanding Market, Inexpensive Valuations, & Strong Replacement Opportunity

- ◆ In 2019, issuers of municipal bonds refunded outstanding tax-free bonds with taxable bonds, increasing supply. See *Taxable Municipal Issuance chart below*.
- ◆ Through July 2020, taxable municipal issuance was up 328% for the same period as last year.
- ◆ The ratio of taxable municipal bonds to corporate yields has approached its highest level since 2016, indicating that taxable municipals are cheaper, relative to other taxable options with similar credit quality. See *yield comparison chart on p.2*.
- ◆ The impact of negative interest rates is being felt in countries such as Japan and the United Kingdom, while the 10-year U.S. Treasury yield has plummeted to approximately 50-60 basis points.
- ◆ Taxable municipal bonds can be a stronger alternative to negative-yielding sovereign debt instruments and may offer yields of 25 to 150 basis points greater than U.S. Treasuries.
- ◆ Taxable municipals offer a high-quality alternative; with 78% of the taxable muni market rated in the top two credit ratings categories, compared to 72% for tax-exempt and only 7% of the corporate market.

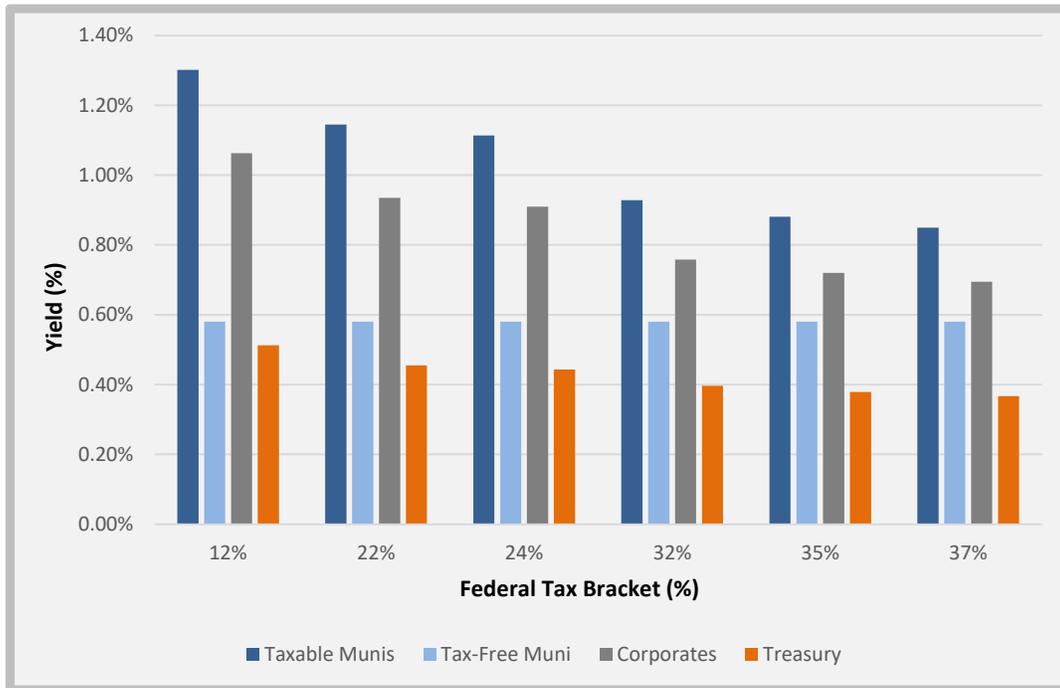
Niche Asset Class

Given the relative niche nature of this asset class, APA believes it is critical for investors to partner with dedicated professionals: APA has more than 22 years of experience managing taxable municipals and delivering superior levels of service to registered investment advisors and institutional clients.



In the current market, taxable municipals may offer a higher after-tax yield than other fixed income asset classes across tax brackets. Typically, the higher tax brackets enjoy the most yield benefit from tax-free municipals, however, taxable municipals in certain maturity ranges may presently offer a higher after-tax yield. For those seeking a hybrid strategy to include both taxable and tax-free municipals, APA offers custom strategies based on client specific profiles.

Tax-Adjusted Yield by Asset Class – August 2020



Source: MMD and Bloomberg LP, Yield Scales as of 10 August 2020

**For more information about Asset Preservation Advisors customized portfolio management, please contact:
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