ROPES WEALTH ADVISORS

Municipal bonds with one- to five-year maturities, normally a coveted source of tax-free income, have yields between 1% to 3% higher than those on comparable—and taxable—U.S. Treasuries. As aggressive government measures to slow the spread of the virus have brought economic activity to an unprecedented halt, concerns are beginning to mount about how municipal issuers will cope with lower or delayed revenue collection combined with higher expenses in the immediate term. Similar to the stock market selloff in March, the COVID-19 crisis has also created a dislocation in municipal bond valuations, and a buying opportunity for investors in many pockets of this market.

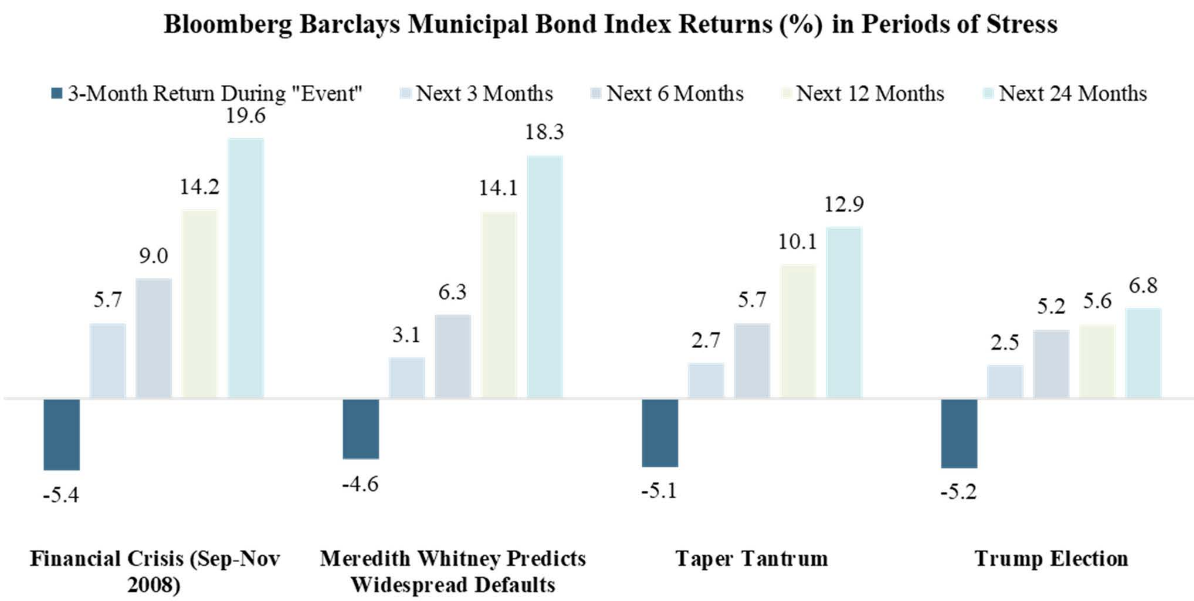
In most cases, we believe these cheap valuations are at odds with the strong underlying fundamentals of many issuers. Most of the recent negative performance in municipals can be chalked up to transitory liquidity pressures, not a material weakening of municipal credit fundamentals.

The coronavirus outbreak has sparked panic selling, causing broker-dealer balance sheets to become clogged with securities for which there were few buyers. Lately, we have seen two-way trading gradually returning to the market, and dramatic Federal Reserve measures will help to improve market plumbing, particularly in shorter-dated maturities.

At current valuations, we are also starting to see interest from value shoppers, including insurance companies, hedge funds, and other buyers that typically do not invest in municipal bonds.

Of course, picking the right sectors, issuers and lending term remains important, but advisors who do their credit homework should always have an advantage. For some types of issuers—for instance, long-term health care facilities, airports, parking facilities, convention centers—the coronavirus outbreak presents a high risk. But other issuers, including municipal water and sewer agencies, public utilities, and property and sales tax backed bonds, are unlikely to experience any significant long-term pressure. It is also comforting to know that conservative budgeting had helped many states bring their rainy day funds back to pre-financial crisis levels. What's more, the US Congress' $2.2 trillion relief package includes a variety of aid for states and local governments, including support for transit and hospital systems.

When we consider past municipal market dislocations of this magnitude, including those sparked by the 2016 election, the 2013 taper tantrum, and a 2010 warning by Meredith Whitney that scores of towns, cities and counties would default on hundreds of billions of dollars' worth of debt (they didn't), all turned out to be attractive long-term buying opportunities.



Source: Bloomberg Barclays as of February 2020

Of course, past performance is not indicative of future results, but the services that municipal issuers provide are essential, and we believe strong credit fundamentals and federal fiscal stimulus support should help the sector weather the coronavirus storm.

Therefore, with cash on the sidelines or earning little to no interest in bank accounts, consider municipal bonds as a way to step into the markets in these turbulent times.

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