RIVERBEND Capital Advisors

Municipal Comment

January 2022

Looking Back

Navigating 2021 was challenging for fixed-income investors, but the municipal bond market performed well and benefitted from a number of tailwinds. Significant federal support and stimulus facilitated improved state and local fiscal conditions, which led to a narrowing of credit spreads. The looming threat of higher taxes throughout the year contributed to record levels of cash into muni investments. These factors resulted in a positive year for the municipal bond market and should continue to drive performance in 2022.

Total returns for the Bloomberg Treasury Index, Corporate Index and Municipal Index in 2021 were -2.00%, -0.60% and 1.50% respectively. Munis outperformed just about every other fixed income asset class last year and the market experienced unprecedented demand. Total return was generally positive across the muni yield curve. Best outperformance was in the 7-10yr range, with worst being the 1yr. Muni 10yr yields stayed in a narrow 57 basis point range throughout the year.

The first half of 2021 provided the best run of investment grade muni returns, particularly the five-month streak of consecutive positive performance beginning in March. The market was weakest and more volatile in September and October. Investment grade healthcare, transportation, and lease revenue bonds were best performing sectors.

New issue muni volume was second highest in history at $473 billion, just shy of 2020's record $485 billion. The market experienced its third consecutive year of growth with net issuance of nearly $150 billion.

Strong Muni Credit Trajectory

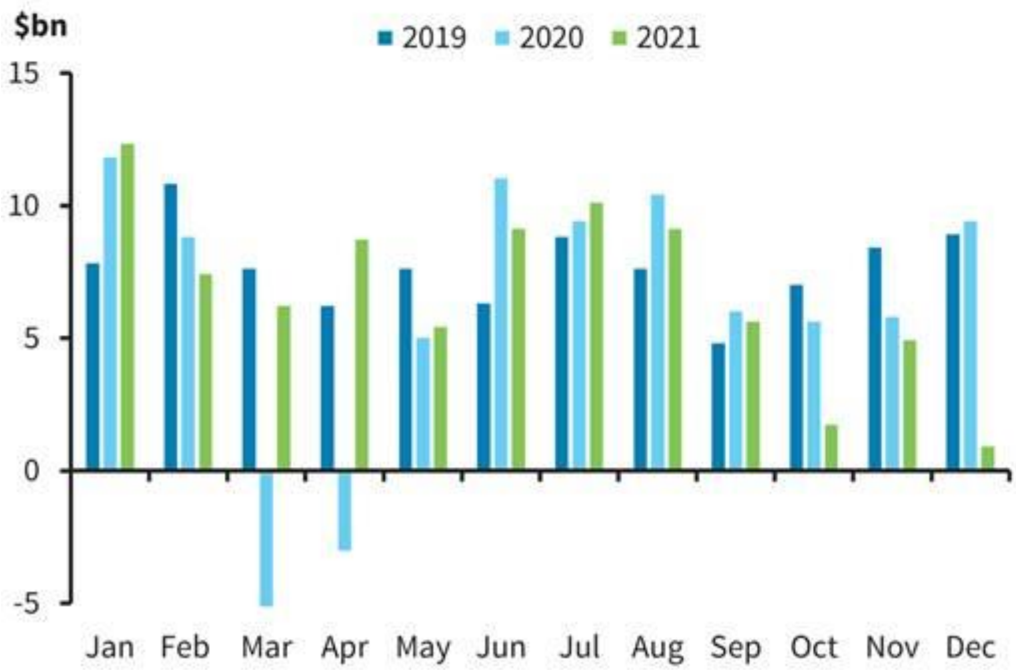
Balance sheets and operations for most municipal issuers were healthy in 2021 after nearly two years of stimulus and support. The majority of negative municipal credit events were concentrated in continuing care retirement community and industrial development sectors. The CCRC and IDR sectors accounted for 66% of municipal defaults in 2020 and 84% in 2021. Riverbend portfolios avoid both these sectors.

Fiscal year 2022 budgets are fundamentally conservative, with reasonable capital expenditures and spending limits that were adopted during a period of Covid-related uncertainty. Muni credit is quite strong, with an abundance of positive rating outlooks. Indeed, last year muni credit ratings experienced the strongest upgrade/downgrade ratio in almost 15 years. We remain positive on the prospects for muni credit in 2022.

Fund Flows

According to Refinitiv Lipper fund flow data, municipal bond mutual funds and ETF inflows totaled approximately $100 billion in 2021, the highest on record, as investors sought tax-free income and were reassured by improving credit quality among state and local government bond issuers.

Municipal Bond Fund Flows

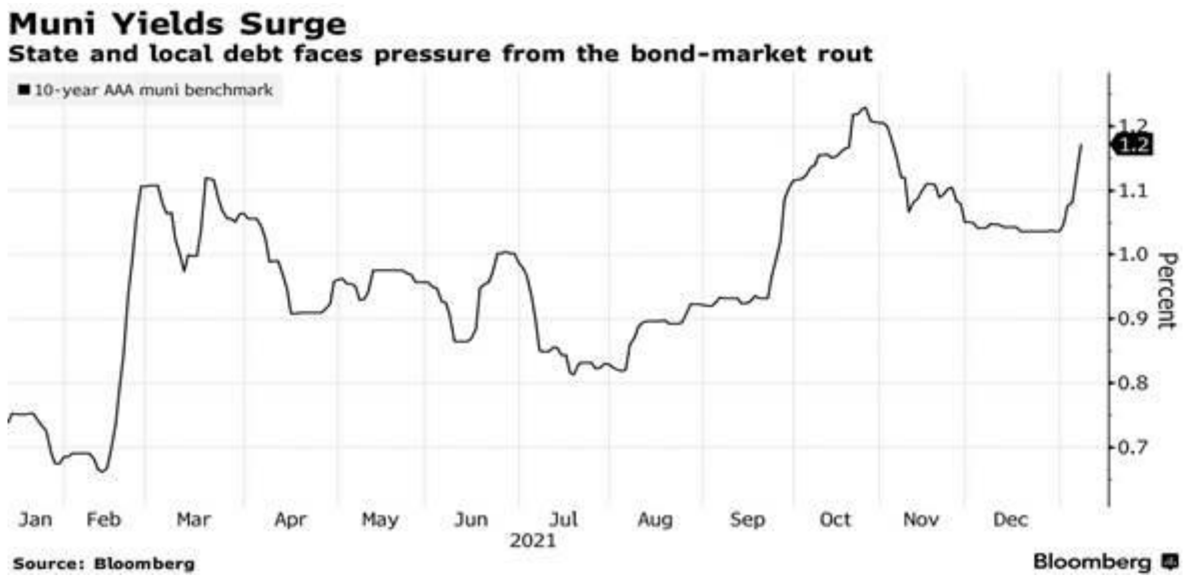


Source: Refinitiv

These positive dynamics have continued this month, albeit at a diminishing pace, with investors adding $231 million to muni bond funds last week. However, fund flows should be carefully monitored as yields rise. In a retail-driven market like munis, investors tend to react (and sometimes overreact) to headlines and market changes. While a gradual increase in interest rates over time similar to what munis experienced in 2021 isn't likely to create market disorder, another 20-30 basis point selloff in the UST market over the coming weeks may slow muni fund flows or lead to redemptions.

Rough January

As investors digest the possibility that Federal Reserve rate increases will commence as early as March, fixed income markets are adjusting accordingly. Municipal market performance in 2022 is off to one of its worst starts in 10 years, with rates up across the curve. The Bloomberg Municipal Index is down nearly 1.00% thus far in 2022. This is unusual given the positive seasonal factors the market traditionally experiences in January – light new issue supply and significant cash proceeds from maturing issues and coupon payments seeking to be reinvested.



2022 Outlook: Get Ready

Riverbend portfolios are structured defensively, with reasonable duration and high credit quality. Investors can continue to achieve income and safety objectives with a proactive approach to portfolio management. Bond selection is critical. Structure, quality and execution are also important. It's worth consideration that municipal bonds have consistently outperformed during Fed rate hike cycles over the last 30 years. Ratios to taxable bonds declined during these periods. Muni portfolio duration is manageable with the inclusion of callable bonds.

The municipal bond asset class is fundamentally sound, has a low correlation with UST and other fixed income securities, and will continue to benefit from a favorable supply and demand outlook. The tax-exemption of munis mitigates interest rate volatility and generally provides more stability. Already in 2022, muni yields are higher and ratios to taxable securities represent more attractive relative value than last year. While maintaining awareness of potential rate hikes is important, increasing yields and periods of market volatility may create opportunities.

Riverbend and You

Our typical portfolios are primarily comprised of:

- Essential service revenue bonds (water/sewer/electric utility)
- General Obligation bonds from states, cities, and counties with strong balance sheets and in many cases, multiple layers of support
- Higher education bonds from nationally recognized institutions with positive enrollment trends and significant endowments
- Healthcare facilities that are part of larger networks with dominant market share
- Transportation issues with consistent revenue streams and solid credit profiles

The portfolios we manage are conservative, defensive, and well-positioned for potential volatility. We adhere to a disciplined strategy involving high quality credits and lower duration. Riverbend muni portfolios balance risk and offer stability in the midst of uncertainty.

Please feel free to contact us anytime if you'd like to discuss the topics cited in this update, or any others related to the municipal bond market.

Riverbend Capital Advisors, LLC

191 North Wacker Drive

Suite 1025

Chicago, IL 60606

312-948-5100

Disclaimer:

This commentary contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this presentation will come to pass. Investing in the municipal bond market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. Riverbend Capital Advisors, LLC (Riverbend Capital) is a registered investment adviser with its principal place of business in the State of Illinois. Riverbend Capital and its representatives are in compliance with the current registration requirements imposed upon registered investment advisers by those states in which Riverbend Capital maintains clients. Riverbend Capital may only transact business in those states in which it is registered, or qualifies for an exemption or exclusion from registration requirements. Any subsequent, direct communication by Riverbend Capital with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of Riverbend Capital, please contact Riverbend Capital or refer to the Investment Adviser Public Disclosure web site (www.adviserinfo.sec.gov). For additional information about Riverbend Capital, including fees and services, send for our disclosure statement as set forth on Form ADV from Riverbend Capital using the contact information herein. Please read the disclosure statement carefully before you invest or send money.