

T-Bill yields are projected to decline. What should income investors do?

From MacKay Municipal Managers

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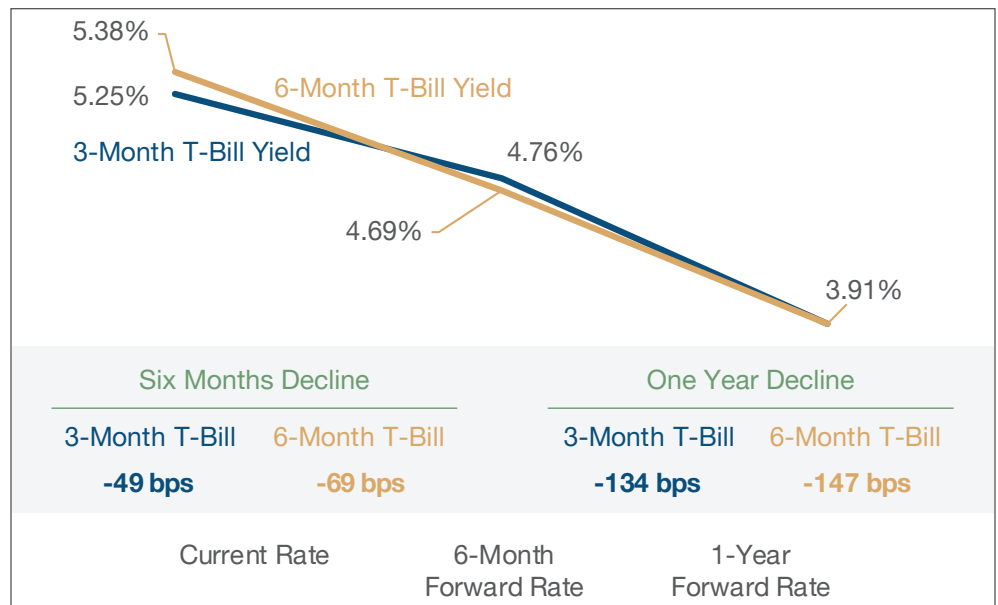
From **MacKay**
Municipal Managers™
The Minds Behind Munis

T-Bill rates have skyrocketed since the beginning of 2022. They're considered a reflection of the federal funds rate, which increased by 500 basis points (bps) in 14 months, the fastest pace in 40 years. However, after 10 straight federal funds rate hikes, some believe that a pause, or even rate cuts, might be on the horizon.

Compensation for holding and rolling T-Bills could be diminishing; the forward market currently anticipates a significant downward trend in T-Bill yield levels. In our view, prudent investors should start proactively managing re-investment risk, which is the possibility that their cash flows cannot be invested at the previously attainable rate.

Municipal bonds may offer a practical solution

3-Month and 6-month T-Bill yields are anticipated to decline significantly



Source: Bloomberg, data as of June 8, 2023. "Forward rate" is an interest rate applicable to a financial transaction that will take place in the future.

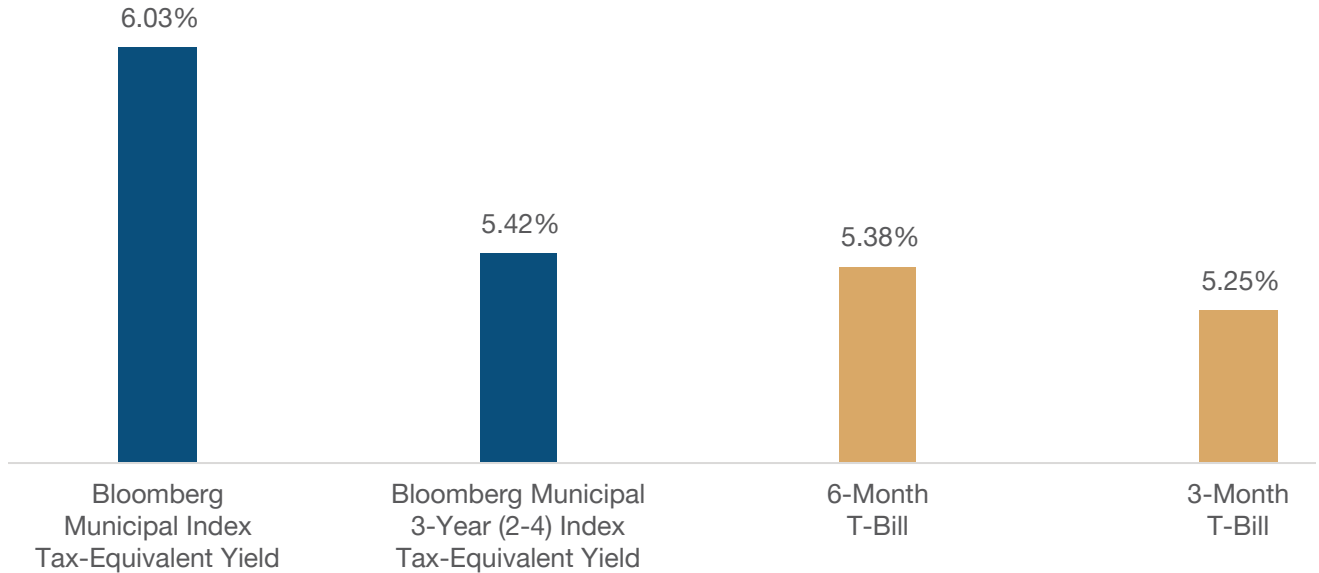


INVESTMENTS

Not FDIC/NCUA Insured	Not a Deposit	May Lose Value
No Bank Guarantee	Not Insured by Any Government Agency	

We believe municipal bonds may offer a practical solution. Exempt from individual federal income tax, municipal bond yields are nearly at their highest level in a decade. When assessed by their tax-equivalent yield, municipal bonds offer a yield advantage over even current T-Bill rates.

Municipal bonds currently provide an after-tax yield advantage over T-Bills*



Source: Bloomberg, data as of June 8, 2023.

Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index. Treasury Securities are backed by the full faith and credit of the United States government as to payment of principal and interest if held to maturity. Interest income on these securities is exempt from state and local taxes. "Forward rate" is an interest rate applicable to a financial transaction that will take place in the future.

*Shown for illustrative purposes only. Assumes a U.S. taxable investor who pays U.S. Federal income tax rates at the highest current marginal rate of 37.0% and the 3.8% Medicare surcharge tax on income. There are limitations to presenting tax-equivalent yields including, but not limited to (i) they do not show the effect of state and local taxes, which will vary; and (ii) each individual taxpayer may possess unique circumstance that could alter the computation of tax-equivalent yields. Thus "tax-equivalent yields" are only intended to represent mathematical illustrations and not actual returns to any investor. Prospective investors cannot rely on this illustration as it is not possible to invest directly in an index, and not every investor would have the same return experience in investable products or strategies. See disclosures at the end of this document for information related to comparisons to an index and index descriptions.

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The following indices may be referred to in this document:

Definitions

ICE BofA U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

Bloomberg Municipal Bond Index

A rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following agencies: Moody's, S&P, Fitch.

Bloomberg Municipal 3 Year Index

The Bloomberg Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch.

About risk

Municipal bond risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes, which could affect the market for and value of municipal securities. Bonds subject to interest rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk which is the possibility that the bond issuer may fail to pay interest and principal in a timely manner. Diversification cannot assure a profit or protect against loss in a declining market.

Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, certain ESG strategies may limit exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating. There is no assurance that employing ESG strategies will result in more favorable investment performance.



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