

MONTHLY REVIEW

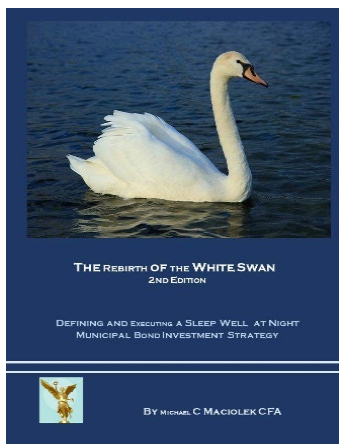
October 2023



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Defining & Executing A SWAN Investment Strategy

Need an “owner’s manual” for the municipal bond market? Especially, when it appears to be a perfect time to learn about them? Something that goes through its history, defines and explains risks, opportunities and why munis are a Sleep Well at Night investment? Well you are in luck, as the second edition of *“The Rebirth of the White SWAN – Defining and executing a Sleep Well At Night Municipal Bond Investment Strategy”* is now available on Amazon: self-published with you, our valued MainLine customer, in mind.



Munis posted losses again in October, but the tide is turning. MainLine feels this could be an investor’s last chance, for some time, to lock in yields to provide a winning investment strategy for an extended period. Or better yet, execute a SWAN strategy that provides tax-exempt income in place of the temporary high yields that cash will not provide forever. *Don’t let managing your risk by staying in cash to the last moment lead to managing your regret for the next 10 to 20 years.*

Muni Market Review

The muni market posted losses for the month of October with a slight outperformance versus taxables. Munis (Bloomberg Index) was down .9% versus US Treasury index which was down 1.20% and US corporates down 1.88%. Long-end, low coupon and spread product were the worst muni performers. October highlights are as follows:

September highlights:

- Muni yields were lower from 20 to 31 bps, with taxables down 7 to 27 bps.
- Supply continues to pick up and issuance for the month was roughly \$41 billion, the second largest in 2023. Look for the recent rally and year-end demand to fuel a continued strong end to the year new issue market.
- Mutual fund flows remain negative, posting the second highest year-to-date monthly outflows but ETFs as measured by the largest funds are up on the month. ETFs are viewed to be an indicator of professional investors, versus mutual funds that represent individuals.

MainLine feels the time to get invested is now. Those who have been waiting for higher yields now have them available. Muni supply is picking up and tax-equivalent yields are at long-term top performing levels; a short-term strategy provides 5.50% tax-equivalent while max-yield strategy is almost 8.50%. *MainLine feels munis are poised to finish 2023 strong and levels that are available today could disappear for years to come.*

SPECIALISTS IN MUNICIPAL BOND INVESTMENTS



Market News & Credit Update:

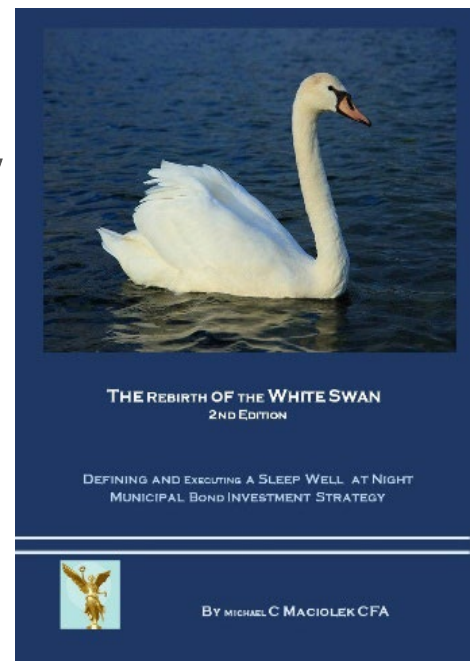
Well, the reintroduction of UBS into the muni market is off again. We highlighted earlier this year that UBS was making a push to become a bigger player in munis by hiring a lot of its Wall Street professionals. In October, UBS announced they will be downsizing their muni presence with layoffs and be less involved in underwriting. As the 20th ranked underwriter, UBS will be missed, but their absence should not impact the market. It does, once again, show the lack of commitment that major firms have made to the “for the public good” bond market.

A hockey rink in Maryland Heights Missouri (St Louis) is going into default. MainLine hates to see a hockey rink not survive, but it helps us show investors the difference between essential and non-essential service. The bonds are backed by a 1% sales tax used to fund public uses projects and the city had “agreed” (not legally bound) to set aside funds each year for the rink if needed. It has done so a few times, but in doing so its credit rating has drop from AA+ to BBB- largely due to its involvement with the Centene Community Ice Center. *The city has now officially washed its hands of the rink, and will no longer financially support it and, therefore, the bonds for the rink will default.* I guess you could say Maryland Heights does not see an ice rink as an “essential service”. Go Figure?

Defining & Executing A SWAN Investment Strategy

This month’s credit review is very important, timely and, yes, it’s personal.

In 2016, I published a book called the *“Birth of the White SWAN” – Defining and executing a Sleep Well At Night municipal bond investment strategy.* This book was written to help MainLine Investors better understand the municipal market and why we do what we do at MainLine. It was sort of like an “owner’s manual” on munis. Then, everything changed in our world with COVID, which caused violent, record setting market moving events. This prompted me to update the SWAN book. This second edition “The Rebirth” title is fitting, as it allows us a chance to show how the core qualities of muni finance have not changed through the years, even though there are lots of other things that have changed. It has been a wild ride since the first edition in 2016, but munis have ended up in the same spot, just “Reborn” and still the same as the past life.





“The Rebirth” book goes back through the history of municipal bonds, how they have remained a safe, wealth building investment class, and how and where MainLine finds value. The new edition updates old studies and contains four new chapters that include the following:

- **The Taxable Muni Market:** A review on the fundamentals of the market, opportunities, and downfalls.
- **The curse of the lower coupon:** A review of market risk outside of deminimus and its impact on a bond’s performance and pricing risk.
- **Climate Change and the Muni Market:** A review on how the potential of climate change could affect munis and what to do today to minimize it. Munis are ground zero for climate change and its impact on investors.
- **A view on the Cost of Climate change:** A study that helps to quantify what the cost of climate change could be for muni bonds.

MainLine has worked with firms on Wall Street, and individuals on Main Street and managed small par amounts for separately managed accounts and large par amounts for tax-advantaged hedge funds. At the end of the day, the municipal market remains the same for all parties, just add a few zero’s to the par amount. *No matter how you dress them up, munis will never be the star of the show, but at the end of the investment rainbow they will be the pillar of consistent strength, - like a graceful Swan floating comfortably in a world of turbulence.* If you dare want to live your investment life peacefully, I recommend you try the municipal market. It will allow you to sleep well at night, while you worry about more exciting things all day long.

[Amazon.com Link to The ReBirth of the White SWAN](#)

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