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Charles W. Fish
Chairman and Chief Investment Officer

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Letter from the Chairman…

"There are no great men, only great events to which ordinary men must rise."
Adm. Wm. J. Halsey, USN

In 1350, three years from the time the bubonic plague first invaded Europe, Pope Clement VI declared a jubilee in Rome, announcing that all[1] should come to praise God and give thanks for the end of the "Black Death." They did, causing the plague to reignite, killing countless thousands more. Surely, when the surge in our current pandemic passes, many containment protocols will need to remain in effect for months to come. The crisis will not truly come to a halt until an effective immunizing vaccine brings an end to new cases worldwide.

As the graph on the back of this page shows, the municipal market took a crash dive two weeks ago. While highly rated bonds due in ten years or less have since recovered about two-thirds of their declines, spread products (lower rated or non-rated bonds) have only recovered about one-third of their much greater losses.

The level of fear associated with the COVID-19 pandemic triggered a panicked scramble to raise and horde cash as well as empty store shelves of food and supplies. The liquidity crisis was stemmed by the aggressive intervention of our Federal Reserve. Through a number of maneuvers, it effectively opened the flood gates on the world's primary reserve currency and it is working. Tenuous to be sure, but working.

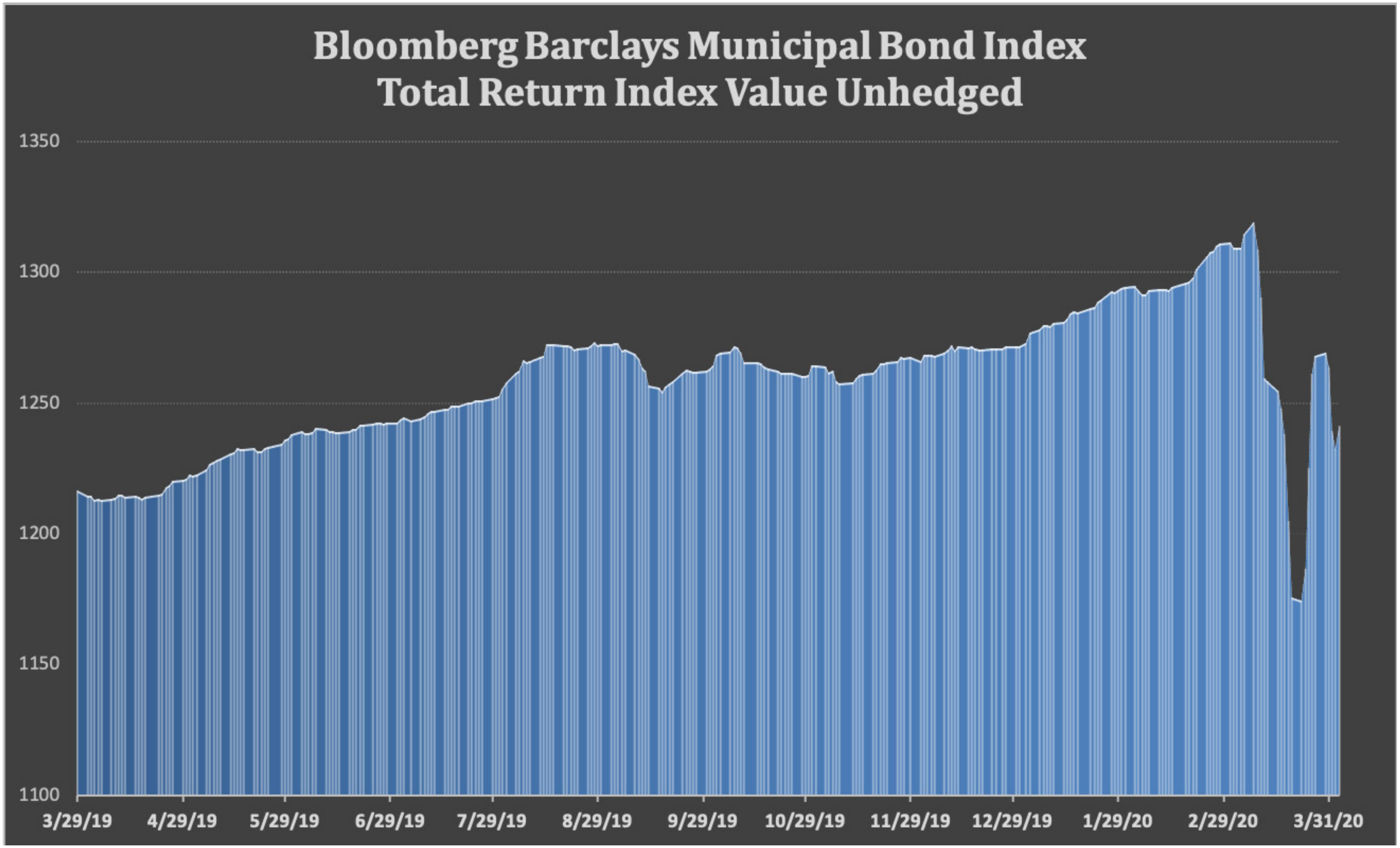
The dislocations in the muni market and tidal wave of forced selling by mutual funds have presented a once-in-a-decade opportunity to improve municipal bond portfolios. While eagerly embracing these favorable circumstances, we are not among those anticipating a "V" shaped recovery. For starters, the arc of the pandemic will take some time to play out and we must protect against prematurely letting our guard down. China, for instance, has had to reimpose some restrictions such as re-closing movie theaters. The huge explosion of debt, coupled with a huge implosion of revenues, will curtail public spending for years to come. Corporations, lacking the required liquidity, will cease buying back their own shares, a significant impetus behind the eleven-year bull market in stocks. The money sent to families around the country may pay for food and medicine, but will leave nothing for discretionary spending, robbing the economy of any surge in hiring. Unemployment will surpass 15%, especially if you add in those not counted by the Bureau of Labor and Statistics, because, hoping to be rehired, they are not technically looking for work.

We are encouraged by the hundreds of clinical trials being conducted here, in China and elsewhere, searching for effective medicines as well as a vaccine. We are encouraged by Congress's acknowledgment that they must do much, much more. And we can take heart in the courage and sacrifices of our medical professionals and first responders. We are less encouraged by the response to date of our executive branch, however there remains much that can still be accomplished, both tactically and logistically. To "…provide for the common defense…"[2] is a federal responsibility.

One thing is for certain, the munis that are most exposed (such as revenue bonds for venues that have been closed) will have a diminishing chance of recovery the longer the pandemic lasts. Federal assistance is needed here as well. Sending aid to the various states and letting them administer the temporary rescue measures for these bonds makes the most sense.

When the bubonic plague of the mid-14th Century hit London, it's citizens, citing the Papal Bull of Pope Gregory IX that declared black cats were demons, started killing them. The frenzied mobs soon started killing all cats, black or not. The only natural predator to the plague flea carrying rat was wiped out. We should not allow issuers of municipal bonds to be wiped out due to the imposition of constraints aimed at combatting COVID-19.

[1]The Pope stayed safe in Avignon, sending a Cardinal in his place.
[2] Preamble to the United States Constitution



Bloomberg Barclays Municipal Bond Index
Total Return Index Value Unhedged
1350
1300
1250
1200
1150
1100
3/29/19
4/29/19
5/29/19
6/29/19
7/29/19
8/29/19
9/29/19
10/29/19
11/29/19
12/29/19
1/29/20
2/29/20
3/31/20