Commentary

Key US fixed income indexes declined during the quarter, as interest rates rose, credit spreads widened and bond yields hit four-year highs across the maturity spectrum. Municipal bonds followed the broader market, despite expectations for a positive start to the year, which were fueled by a lack of supply and still-solid demand. Credit remained on a downward trend as state and local municipalities continued to struggle to meet long-term pension debts. Shorter maturity, lower-rated bonds outperformed as yields sold off across the yield curve. Additionally, higher-credit-quality (AAA- and AA-rated) bonds underperformed during the quarter relative to lower-quality (BBB-rated) bonds.

Within the NewSquare Individual Tax-Exempt Bond Strategy, exposure to shorter-maturity bonds helped performance relative to the benchmark[1], particularly pre-refunded and/or escrowed-to-maturity bonds. While we remain invested across the yield curve, a bias towards slightly longer-maturity bonds was the main detractor during the quarter.

Individual Tax-Exempt Bond Description

The NewSquare Individual Tax-Exempt Bond Strategy is a separately managed account bond portfolio for investors who seek a combination of long-term capital appreciation and tax-free income. The strategy aims for low volatility and enhanced risk-adjusted returns through duration positioning and security selection. The portfolio is built around a long-term, strategic allocation that typically includes investments in high-quality, investment-grade municipal bonds, which may be supplemented with taxable fixed income securities for diversification and/or to seek relative value opportunities.

Outlook

We believe that municipal fixed income securities will continue be a consistent driver of performance given the current market environment. We continue to focus on achieving a core yield advantage through structure (calls, puts, sinking funds, etc.) while not sacrificing credit quality. In our view, the best relative value exists in intermediate- to long-dated municipal bonds (eight to 15 years). We maintain a focus on revenue bonds as we believe they provide more credit stability moving forward.

Overall, we expect the municipal market to rebound, but generally expect more modest gains going forward. We are concerned that state and local general obligation debt will come under increased pressure, and we continue to see a “crowding out” effect in government budgets, many of which remain delayed or unbalanced.

Please see important disclosure on page 2

[1] The Barclays 1-10 Year Municipal Bond Index, which comprises one- to 10-year maturity investment-grade municipal bonds.