

Commentary

Municipal bonds outperformed all US traditional fixed income asset classes during the quarter, as most key fixed income indexes recorded flat to marginally positive returns. The municipal bond market continued to benefit from elevated demand and limited supply, which caused municipal rates to remain depressed relative to taxable fixed income bonds yields. Broadly speaking, lower-credit-quality (BBB-rated) bonds outperformed higher-quality (AAA- and AA-rated) bonds during the quarter, while longer maturity bonds fared better than their shorter-maturity peers.

Within the NewSquare Individual Tax-Exempt Bond Strategy, exposure to longer maturity bonds contributed to performance relative to the benchmark, particularly longer-dated, revenue sector bonds, during the quarter. While we remain invested across the yield curve, our overweight to higher-rated bonds and our shorter overall bond duration relative to the index detracted from performance.

Outlook

We believe that municipal fixed income securities will continue to 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 on the short end of the yield curve (within the first eight years).

A “crowding out” effect in state and local government funding continues to lead to budget turmoil, especially as municipalities seek ways to fund ballooning pension payments. We believe that this crowding out effect is unlikely to dissipate anytime soon. As a result, we remain focused on dedicated revenue sector bonds, as we believe they are likely to provide more credit stability moving forward.

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.

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

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All investing involves risk, including possible loss of principal. While diversification through an asset allocation strategy can help manage overall portfolio risk and volatility, it does not promise any level of performance or guarantee against loss of principal. All performance figures, including the comparative indexes, are total return figures. Index performance is provided as a reference to broad market segments. Indices do not have fees or other costs, and it is not possible to invest directly in an index. This communication may include forward-looking statements that are subject to certain risks and uncertainties. Actual results, performance, or achievements may differ materially from those expressed or implied.

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