October 2018

Municipal Bond Outlook Q4 2018

The municipal market has finally broken out from the narrow trading band that guided it for the first eight months of the year. Yields have increased, with the accompanying drop in bond prices. What does that mean for the market, and what is our outlook about this?

The Positives:

1) The Treasury market sell-off precipitated an increase in municipal bond rates.
2) The elimination of advance refunding of older, higher coupons has reduced the supply of new issues in the market place.
3) Reinvestment yields will be higher than the levels that prevailed not only earlier this year, but for the last few years.
4) The impact of the changes in the tax codes, especially the capping of state and local tax deductions, emphasizes the benefit of tax exempt income even in a lower nominal tax bracket.
5) It would appear that the Fed is going to raise rates one more time, at the December meeting. This would tend to support higher rates throughout the yield curve.
6) A strong, healthy economy should help municipal finances.

The Negatives:

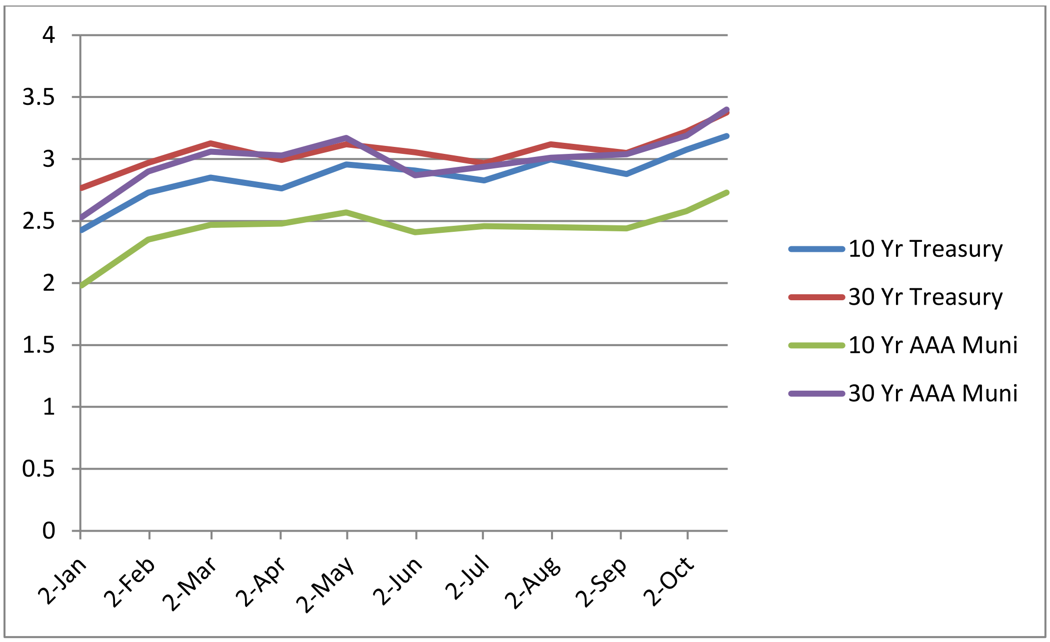
1) The Treasury market sell-off precipitated an increase in municipal bond rates.
2) Increasing rates will lower the price of one's existing bond portfolio. Should an investor need to raise cash, prices will have declined from perhaps where the bonds were purchased, which may generate either losses or modest gains.
3) Notwithstanding one's political views and sentiments, Washington's turmoil has added uncertainty to an investor's overall financial planning.
4) There is concern that the Fed may go too far in tightening interest rates, which could possibly slow the economy more than needed. The most recent Fed minutes from the September meeting, released October 17, show most board members could be in favor of going beyond what is deemed neutral rates for the economy, in order to keep inflation around a 2% target. The current Fed Funds implied probability of rate increase, shows an almost 79% chance of at least a quarter of a percent increase in December, as reported in Bloomberg Information as this is being written.

October 2018

Municipal Bond Outlook Q4 2018

Rate Movements This Year:

As mentioned above, after relatively flat price action for most of the year, the following graph shows recent rate movement activity for the ten year maturity Treasury Notes, the thirty year maturity Treasury Bonds, the ten year AAA municipal scale bonds and the thirty year AAA municipal bond rates.



* The above data is compiled from the daily Treasury quotes provided by Bloomberg Analytics and the municipal quotes are from Municipal Market Data, the leading industry source for yields in the municipal bond market.

The chart graphically shows that rates have spiked up. While the overall trend for all the rates is clear, on any given point, some rates lead or lag the other rates. All municipal bond rates tend to move in the same direction at the same time, but there are temporary swings among them. An increase or decrease in one state’s tax rates relative to other states may make the in-state bonds more or less attractive to investors. Thus individual returns may temporarily vary with overall market trends due to the fundamental local nature of municipal bonds. Over time the market adjusts to the new equilibrium, but it may have provided some unique opportunities getting there.

Municipal Bond Outlook Q4 2018

Our Outlook:

It is our opinion that rates will continue to gradually increase, but nowhere near the dramatic increases that we saw in the late 1970's and early 1980's. Back then, inflation was out of control and very dramatic actions were needed to revive prosperity and stabilize the economy. We believe that bond rate increases will come in spurts like we have just seen, followed by a period of more stability before the next increase. As such, we will continue to keep portions of the portfolios short and defensive. We will be opportunistic with some of the maturity liquidity to take advantage of bond market over-reaction to events. We shall also continue to emphasize what we feel are investment grade bonds with the appropriate risk/reward ratios.

We welcome your questions and concerns, and are always glad to discuss outlooks, opinions, and attitudes about the market. Since we are coming up on year end, please let us know if you can use gains or losses from your bond portfolio to offset your equity investment results. And have a happy holiday season.

Contact Us:

Gregory W. Serbe
gserbe@dcmadvisors.com
Phone: (917) 386-6274
475 Park Avenue South, 9th Floor
New York, NY 10016

Allison Hay
ahay@dcmadvisors.com
Phone: (917) 386-6264

October 2018

Municipal Bond Outlook Q4 2018

Disclosures: The commentary, analysis, references to, and performance information contained herein, except where explicitly noted, reflects that of DCM Advisors, LLC (DCM), a registered investment adviser.

Opinions expressed are as of the current date and subject to change without notice. DCM shall not be responsible for any trading decisions, damages, or other losses resulting from, or related to, the information, data, analyses or opinions contained herein or their use, which do not constitute investment advice, are provided as of the date written, are provided solely for informational purposes and therefore are not an offer to buy or sell a security. This commentary is for informational purposes only and has not been tailored to suit any individual. References to specific securities or investment options should not be considered an offer to purchase or sell that specific investment.

DCM does not guarantee the results of its advice or recommendations, or that the objectives of a strategy will be achieved. Analysis shown herein should in no way be considered indicative of, or a guarantee of actual or future performance of, or viewed as a substitute for any portfolio invested. Performance data shown represents past performance which does not guarantee future results. Investments in securities are subject to investment risk, including possible loss of principal. Prices of securities may fluctuate from time to time and may even become valueless. Before making any investment decision, investors should read and consider all the relevant investment product information. Investors should seriously consider if the investment is suitable for them by referencing their own financial position, investment objectives, and risk profile before making any investment decision. There can be no assurance that any financial strategy will be successful.

All data presented is based on the most recent information available to DCM as of the date indicated and may not be an accurate reflection of current data. There is no assurance that the data will remain the same.

This commentary contains certain forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

No graph, chart, or formula in this presentation can be used in and of itself to determine which securities to buy or sell, when to buy or sell securities, whether to invest using this investment strategy, or whether to engage DCM's investment advisory services.

Disclaimers: DCM is an SEC registered investment advisor under the Investment Advisers Act of 1940 (Advisers Act). Under the Advisers Act, Rule 204-3 requires DCM to provide clients with specific information about the advisory firm. DCM offers its Form ADV, Part 2 to serve this important purpose. Investors can request the Form ADV, Part 2 to learn more about the registration status of DCM by calling DCM directly at (917) 386-6260 or by visiting the SEC's website at www.adviserinfo.sec.gov. The GIPS®-compliant firm is defined as DCM Advisors Institutional ("DCMI"), the institutional investment management business of DCM. A portion of DCM's assets are deemed within DCMI. DCMI claims compliance with the Global Investment Performance Standards (GIPS®).

Investors can obtain a GIPS®-compliant presentation for DCMI assets, including descriptions of DCMI's composites and benchmarks, by calling DCM directly at (917) 386-6260.

October 2018

Municipal Bond Outlook Q4 2018

Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. The investments and investment strategies identified herein may not be suitable for all investors. The appropriateness of a particular investment will depend upon an investor's individual circumstances and objectives.

About DCM Advisors

DCM Advisors, LLC (DCM) is an SEC registered investment advisory firm. DCM provides asset management and wealth advisory services to institutions, registered investment advisors, family offices and high net worth individuals. Additionally, DCM is affiliated with Lisanti Capital Growth, LLC (Lisanti), a certified woman-owned and managed SEC registered investment advisor specializing in small and small/mid-cap (SMID) growth equity investing.

In asset management, DCM believes in time-tested investing. As a result, DCM has carefully crafted a group of investment artisans that have proven and consistent long-term investment performance. All of DCM's investment teams have extensive market cycle experience, and a philosophically fundamentally driven investment approach that generates unique insights, with strong convictions, supported by a portfolio investment process that is optimally diversified and risk-managed. Current DCM and Lisanti portfolios include Global Equity, International Equity, U.S. Small Cap Growth, U.S. SMID Cap Growth Equity and U.S. Municipal Bonds. In addition, DCM provides research subscription and advisory services to institutional clients related to global and international equities. Lisanti also is the investment adviser to the Lisanti Small Cap Growth Fund (ASCGX).

Heckman Global Advisors, the research division within DCM, also provides research subscription and advisory services to institutional clients related to global and international markets including offering recommendations as to country and sector allocations.

In wealth advisory, DCM offers advisory services to high net worth individuals through our wealth management representatives.