



231 S. Phillips Ave Suite 201
Sioux Falls, SD 57104

Tel: (605) 367-3336 / 1 (888) 828-3339
Fax: (605) 367-1118

Date: 05 October 2023
Re: Municipal Bonds – It’s a Buyer’s Market.

Dear Clients,

Municipal bonds are ripe for purchase. Today, we are finding high quality municipal bonds issued at 5%+ income yields. For a buyer in the 37% Federal Tax bracket, **a 5% tax-exempt yield is equivalent to a 7.93% taxable income yield¹**. It’s an income level we have not seen for more than a decade. As we canvass the investment landscape, fixed income securities stand out with attractive returns.

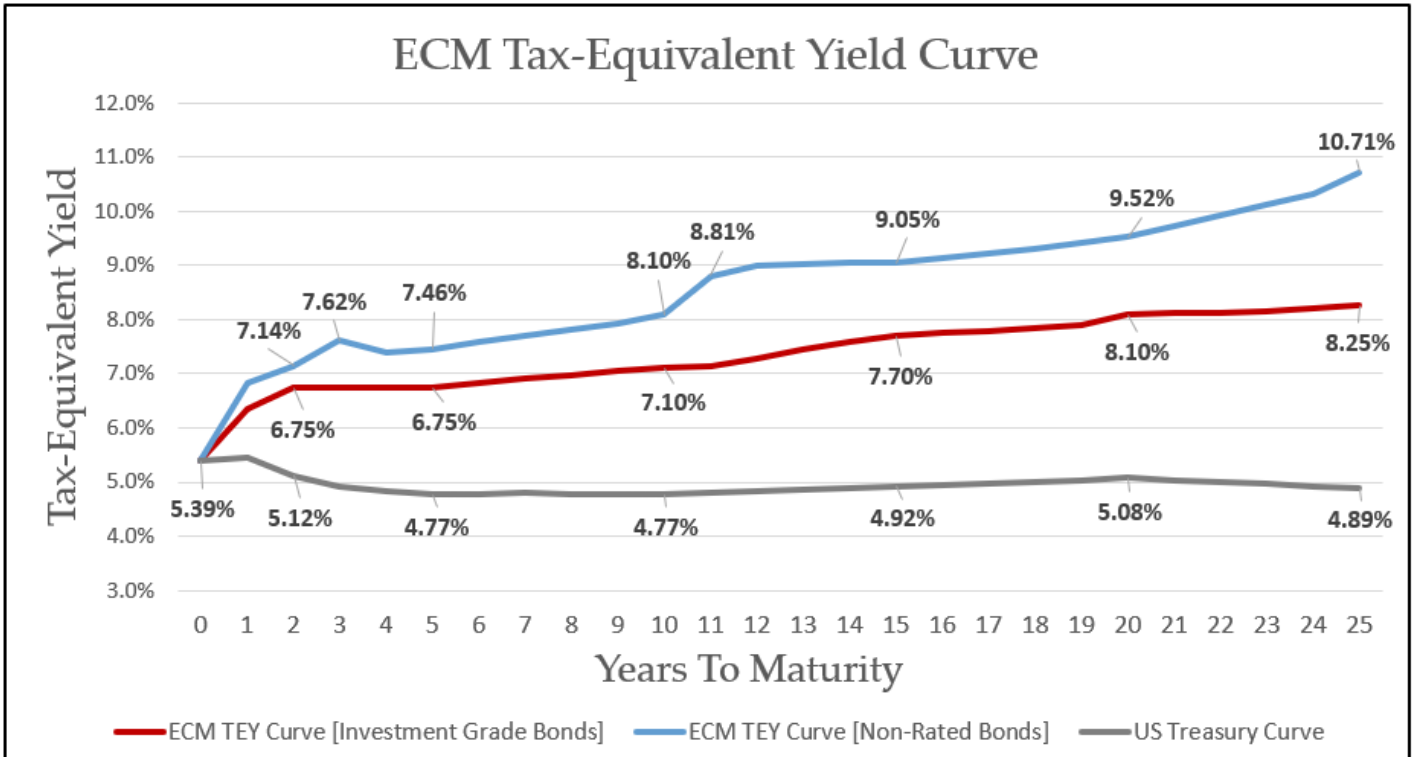
Listed below are **a few key advantages** to buying Municipal Bonds today, and why we believe ECM’s investment process is advantageous:

1. **At ECM, We’re Nimble.** We buy bonds that are too small for the big banks and money managers to notice, and we hold the bonds to maturity. A big investment firm managing \$1 Trillion of client assets does not have the time to consider a \$4 million Douglas County, Nebraska bond issuance. But we do! Our network of brokers across the Midwest feed us a quality list of under-the-radar bonds, often at premium yields to the market. We negotiate price terms on many local bond deals. Actively engaging brokers for better price/yields for our families is a key pillar of our process.
2. **Supply and Demand.** Local banks are often a large buyer of municipal debt issued by their local municipalities. But banks are now pulling back. Due to liquidity challenges and the high costs of bank deposits, banks are scaling down bond purchases. Our contrarian style lends itself well to buying bonds at higher yields when others cannot!
3. **Tax Rates.** We do not expect income tax rates to fall. Frankly, quite the opposite. Cash flows from tax-exempt municipal bonds will become more attractive if/when tax rates rise.
4. **Relative Returns.** If equity markets deliver returns in line with historical averages (8% – 10%), we believe a quality municipal bond with an 8% tax equivalent yield is quite enticing.
5. **Providing Local Capital.** We have more than 71% of our municipal portfolio in SD, ND, and MN bonds. Our investment philosophy generally focuses on securities in conservative municipalities. The fiscal discipline in our region is a core advantage to the quality of the bonds in your portfolio. Not only do we supply capital to communities and organizations in our region, but we find better bond yields locally given the smaller size of our Midwest market.

The chart below highlights the Tax-Equivalent Yields of municipal bonds we are buying today (red and blue lines). Remember, a 5% tax-exempt yield is equivalent to a 7.93% taxable income yield.¹

- **Blue Line:** Tax-Equivalent Yields of Municipal bonds in smaller, non-rated municipal markets (e.g., small Midwest county/city bond issues)

- **Red Line:** Tax Equivalent Yields of investment-grade rated Municipal bonds in Midwest localities (e.g., Sioux Falls, SD City General Obligation bond).
- **Gray Line:** US Treasury Yield Curve (Fed Taxable yields).



¹Tax Equivalent Yield calculations assume a 37% Federal income tax bracket.
 Graphic as of 10/04/2023