Municipals Seen as Quality Amid Bank Stress, Economic Uncertainty

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- The uncertainty experienced in the banking sector in recent weeks reinforced the idea that investors continue to see U.S. municipal bonds, especially in the state and local government sectors, as high-quality investments.
- Public finance upgrades continued to outpace downgrades in all of 2022 and we believe this trend is likely to continue in 2023 to be driven by local government and school district upgrades.
- We think the current landscape strengthens our call to trade up in quality when possible.
- The FDIC retained Blackrock to gradually and orderly sell the securities of Silicon Valley Bank and Signature Bank over time. We reviewed why banks increased municipal holdings over the last 10 years and believe some catalyst would need to materialize to cause them to unload current holdings in consequential numbers.
- President Joe Biden's veto of H.J. Res. 30 protected a Labor Department rule that removed obstacles for fiduciaries to consider environmental, social, or governance (ESG) factors when making investment decisions. Under the existing rule ESG factors can be considered but, are not required when making investing decisions.

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