EAGLE MUNICIPAL MARKET UPDATE

Featuring Burt Mulford, CFA

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AN AFFILIATE OF CARILLON TOWER ADVISERS

The first third of 2022 was a brutal period for bonds, and the $3.9 trillion municipal market was not immune, posting the worst start to a year in the history of the Bloomberg Municipal Bond Index. During May, however, municipal bonds began to bounce back.

"The market is showing some signs of strength, but what's been going on this year is that Fed policy has disrupted the normal demand for the municipal market," said Eagle Asset Management Portfolio Manager Burt Mulford, CFA. "There's been heightened interest rate volatility with investors pulling out of municipal mutual funds."

For several reasons, however, Mulford doesn't see investors staying out of munis. And when it comes to reacting to emerging opportunities in the muni market, he said, timing matters.

Burt Mulford, CFA
Portfolio Manager
Eagle Asset Management

Burt Mulford is responsible for the management of all Eagle Asset tax-sensitive strategies. He oversees approximately $2 billion in assets under advisement in Eagle's Municipal Managed Income Solutions and High-Quality Tax-Free strategies as well as the Strategic Income Portfolio – Tax Advantaged strategy, which he co-manages.

Before joining Eagle in 1999, Mulford was the director of trading and portfolio manager for several bank trust departments. He graduated from Furman University, where he was an all-American swimmer. He earned an M.B.A. with highest distinction from the University of Southern California, is a member of Tampa Bay Society of Financial Analysts and is a CFA charterholder.

THE STATE OF MUNICIPALS. Current trends, historical context.

- ✓ Mulford sees **three reasons** to like municipal bonds now
    - ➢ Credit quality in the space is strong and solid. Moreover, boosted by federal aid, credit fundamentals – including rainy day fund balances, state tax revenues, and pension liabilities – rebounded quickly following the outbreak of the pandemic.
    - ➢ Valuations are attractive.
    - ➢ The market can bottom before outflows from the space reverse, creating a compelling risk-reward opportunity. Waiting for technical indicators to improve could mean missing out on attractive buying opportunities.

- ✓ After peaking in mid-April, **outflows** from municipals began to decline into May. “I think this is a signal that the market was ripe for a turnaround,” Mulford said.

- ✓ **Strong returns** historically have followed significant rises in municipal yields.
  - ➢ Since 1992, there have been six periods where AAA rates climbed 100 basis points or more in a time frame similar to recent history. In the 12 months that followed those rises, 10-year municipal index total returns rose from 5.10% to 21.10% during each of those time periods.*

- ✓ The **market-implied tax rate** for municipal bonds is now 24%, creating a compelling opportunity compared to corporates for investors with medium-range tax rates.

- ✓ Eagle’s fixed income team is **focused primarily** on the 10- to 15-year part of the curve, offsetting some of that length with short-term 1- and 2-year paper.

“We’re expecting a turnaround to continue,” Mulford said. “Even though munis have gotten somewhat pricier, muni valuations are still cheap relative to past expectations.”

* The six periods and the (ensuing 12-month total returns of the 10-year municipal index) were:
Jan. 13, 1994 through April 4, 1994 (9.70%);
June 10, 2003 through Aug. 27, 2003 (9.50%);
July 28, 2008 through Oct. 15, 2008 (21.10%);
April 5, 2013 through June 24, 2013 (8.60%);
Sept. 8, 2016 through Nov. 29, 2016 (5.10%); and
Dec. 31, 2019 through March 20, 2022 (14.10%).
Source: ICE Data Indices, LLC and Bloomberg; as of May 18, 2022.

About Eagle Asset Management

Eagle Asset Management is built on the cornerstones of intelligence, experience and conviction, driven by research and active portfolio managers. Our long-tenured investment teams manage a diverse suite of fundamental equity and fixed income strategies designed to meet the long-term goals of institutional and individual investors. Our teams have the autonomy to pursue investment decisions guided by their individual philosophies and strategies.

About Carillon Tower Advisors

Carillon Tower Advisors is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our partner affiliates – Chartwell Investment Partners, ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. Carillon Tower Advisors believes in providing a lineup of institutional-class portfolio managers – spanning a wide range of disciplines and investing vehicles – is the best way to help investors seek their long-term financial goals.

Risk Considerations

Investing involves risk, including risk of loss.

Diversification does not ensure a profit or guarantee against loss.

Investing in bonds involves risks that may adversely affect the value of your investment such as inflation risk, credit risk, call risk, interest rate risk, and liquidity risk, among others. The two most prominent factors are interest rate movements and the credit worthiness of the bond issuer. Investors should pay careful attention to the types of fixed income securities that comprise their portfolios and remember that, as with all investments, there is the risk of loss of capital.

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Definitions and indexes

Technicals refers to technical indicators of historic market data, including price and volume statistics, to which analysts apply a wide variety of mathematical formulas in their study of larger market patterns.

Basis points (bps) are measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

The market-implied tax rate is the tax rate level to which an entity or individual would need to be subject in order to benefit from investing in municipal bonds versus corporate bonds across the curve.

A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

Fund flow is the net of all cash inflows and outflows into and out of a particular financial asset. It typically is measured on a quarterly or monthly basis. Investors and others look at the direction of fund flows for indications about the health of specific securities and sectors or the overall market.

Indices are unmanaged, and one cannot invest directly in an index.

The Bloomberg Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The inception date of the index is January 31, 1980.

The Bloomberg 10-Year Municipal Bond Index is an unmanaged index comprised of investment-grade municipal bonds with maturities of eight to 12 years.

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AN AFFILIATE OF CARILLON TOWER ADVISERS

880 Carillon Parkway | St. Petersburg, FL 33716 | E22-0730 | Exp. 10/15/2022 | FL-EA-MUNIUPDATEGP