SEIX INVESTMENT ADVISORS LLC®

Our Perspective

MUNIS AND THE PRESIDENTIAL ELECTION – MARCH 2016

Ronald Schwartz, CFA
Managing Director,
Senior Portfolio Manager,
Tax-Exempt

Ron is a Senior Portfolio Manager focused on the Tax-Exempt Strategies. He has worked in the investment management industry since 1982. Ron received a B.A. in Business Administration from Adelphi University and is a CFA Charterholder and a member of the CFA Society of Orlando.

Scott Andreson
Director, Municipal Research

Scott is the Director of Municipal Research for Seix Investment Advisors. He has more than 16 years of investment experience. He earned his MPA from USC and is a current board member of the National Federation of Municipal Analysts.

CONTRIBUTORS

Dusty Self
Director, Portfolio Manager,
Tax-Exempt

Phillip Hooks, CFA
Vice President,
Municipal Credit Research

As the 2016 presidential candidate field narrows, we have received repeated questions regarding this year's election and the possible implications for tax exempt bonds. Recent articles in the press have suggested that candidates' campaign rhetoric has contributed to volatility in the financial markets. Because of the dependence of munis on their tax-exempt status, potential changes in tax policy are a political risk that could have a significant impact on muni yields. This month we will take a brief look at the tax reform policies of the five remaining presidential candidates and also review recent elections to see any market impact on the municipal bond asset class.

Currently, none of the candidates' tax reform proposals specifically target eliminating municipal bond tax exemption. However, all of the tax proposals would have an effect of reducing the value of tax exemption either through lower rates or by reducing deduction caps. The Republican candidates support lowering marginal tax rates while Democrats generally support raising tax rates and capping/limiting tax exempt deductions. Three of the five candidate's tax plans incorporate a deduction limitation which would likely have negative pricing implications for the muni market if eventually enacted.

- **Clinton**: Hillary Clinton's plan raises personal income and investment taxes on high-income taxpayers with a 4% surcharge on adjusted gross income (AGI) over $5 million and incorporates a 30% minimum tax on AGI over $1 million, while maintaining the Affordable Care Act (ACA) 3.8% net investment surtax. Her proposal also calls for a 28% cap on tax benefit of deductions, including municipal bond interest.

- **Cruz**: Ted Cruz's plan is a flat personal income tax of 10% and a 16% VAT-style sales tax. His plan would repeal the ACA surtax and lower the rate on capital gains and dividends income to 10%.

- **Kasich**: John Kasich's plan establishes three personal income tax brackets with a top rate of 28% and increases the Earned Income Tax Credit by 10%.

- **Sanders**: Bernie Sander's plan adds four new brackets for high-income households of 37%, 43%, 48%, and a 52% top rate on taxable income over $10 million while increasing the ACA to 10%. His proposal also calls for a 28% cap on tax benefit of deductions, which would likely include tax exempt interest, but does not specifically list it.

- **Trump**: Donald Trump's plan lowers the individual tax brackets to 10%, 20%, and 25%. His plan would repeal the ACA surtax and have a maximum rate on dividends and interest of 20%. He also calls for limiting the tax value of itemized deductions, including tax exempt interest, at an unspecified level.

Source: www.Taxfoundation.org – "Comparing the 2016 Presidential Tax Reform Proposals" 3/28/2016

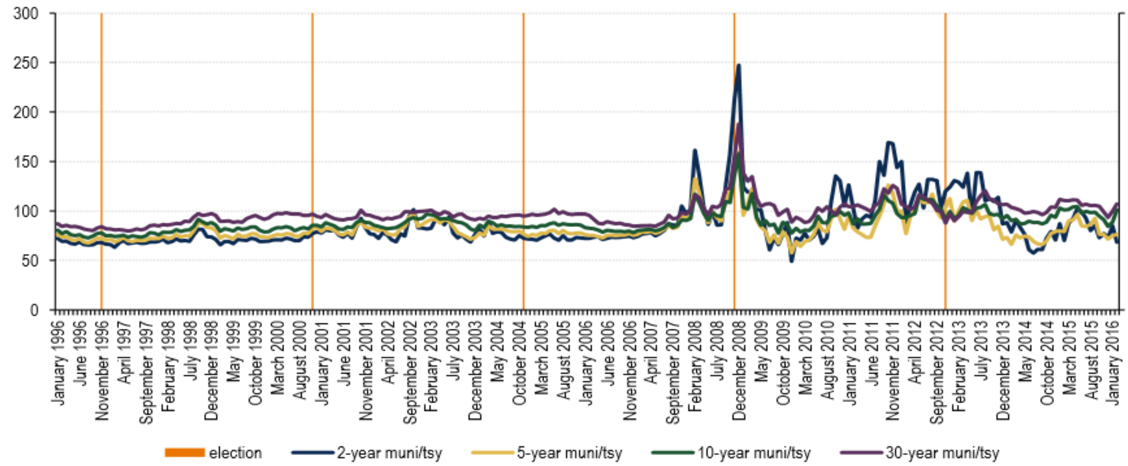
SEIX INVESTMENT ADVISORS LLC®

Our Perspective

MUNIS AND THE PRESIDENTIAL ELECTION – MARCH 2016

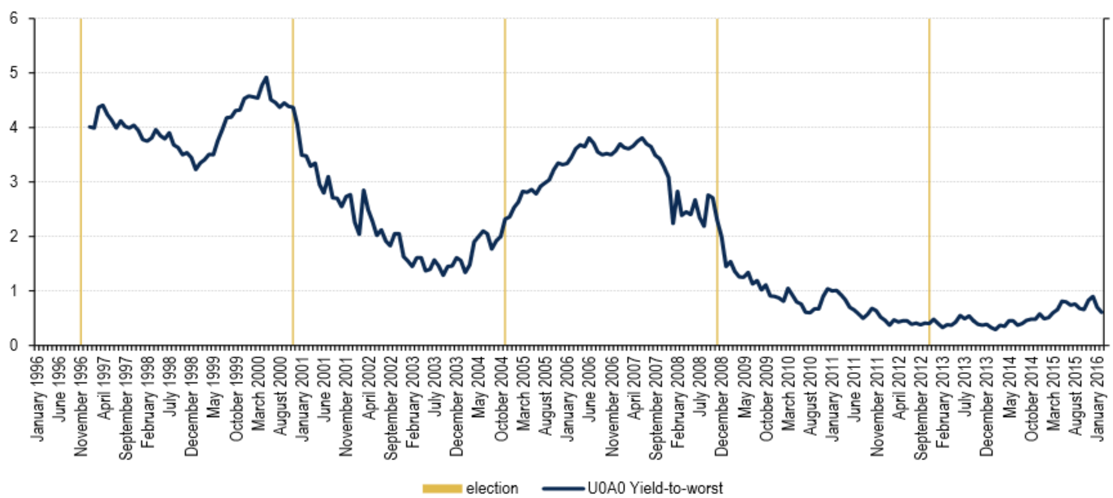
Interestingly, and as the two charts below show, recent presidential elections have had little impact on tax exempt yields or Muni/Treasury ratios, despite having a litany of tax reform proposals. We believe this is because Republicans and Democrats strongly disagree about what the goals of any tax reform should be, making any sweeping reform extremely difficult, if not impossible, even when one party controls the White House and Congress. In addition, as we have repeatedly discussed in the past, members of Congress generally understand the importance of tax exempt bonds for funding the majority of infrastructure projects in their districts, and are unlikely to enact tax reform that diminishes tax exemption. Despite several Congressional tax reform study groups over the past few years, no tax reform has been enacted that impacts municipal bonds negatively.

Muni / Treasury Ratio (%)



Source: BofA Merrill Lynch Global Research – Municipals Weekly 3/18/2016

BofA Merrill Lynch Municipal Master Index Yield-to-Worst, 12-month (%)



Source: BofA Merrill Lynch Global Research – Municipals Weekly 3/18/2016

While political risk is greater in election years, it is too early for the candidates' campaign rhetoric to be a major valuation factor for the muni market as the earliest an elected candidate could propose tax reform policy would be in January of 2017. No matter who comes out on top in November, we continue to believe that it is highly unlikely that any significant tax reform that impacts the tax exemption of municipal bonds will be enacted as it would require full participation by Congress and the White House.

The assertions in this perspective are Seix Investment Advisors' opinion.

BofA Merrill Lynch Municipal Master Index tracks the performance of the investment-grade U.S. tax-exempt bond market. Qualifying bonds must have at least one year remaining term to maturity, a fixed coupon schedule, and an investment grade rating (based on average of Moody's, S&P, and Fitch).

Investment Risks: All investments involve risk. Debt securities (bonds) offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher-quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a portfolio's fixed income securities will decrease in value if interest rates rise and vice versa. A portfolio's income may be subject to certain state and local taxes and, depending on your tax status, the federal alternative minimum tax. There is no guarantee a specific investment strategy will be successful.