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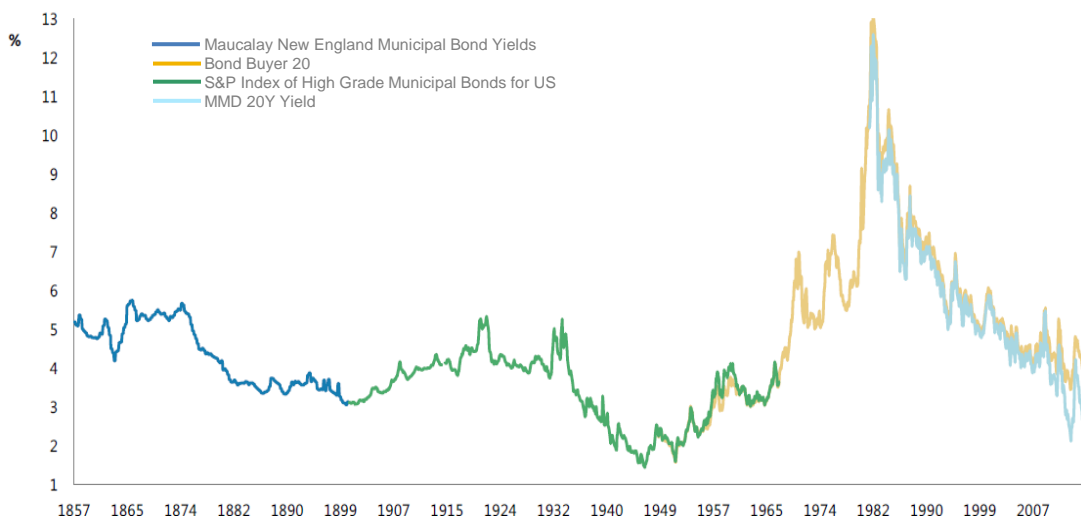
Only two months after the Federal Reserve Bank introduced its first rate hike in nearly a decade, tax free yields have declined to five-decade lows (see chart below). Investors that have been sitting in cash waiting for higher muni yields must have been sorely disappointed. Despite the decrease in yields, demand for munis has remained strong and sustained with 21 straight weeks of positive mutual fund flows, taking aggregate inflows this year to \$9.8bn. Municipal bonds are up 1.6% YTD even after finishing 2015 as the top-performing major asset class. As we have repeatedly stated over the past few years, we continue to believe long term rates will remain lower for longer, and we remain constructive on the municipal sector because of its tax exempt income, strong technical factors, healthy fundamentals, and compelling yields compared to global fixed income rates.

Tax Free Yield Have Reached the Lowest Level in More Than 50 Years



Source: Janney Fixed Income Strategy; Bond Buyer 20 GO Index

Muni yields are much lower than they were in the 1980s, but as this Morgan Stanley chart below shows, long municipal bond yields over the past 150 years have averaged approximately 4%.



Source: Morgan Stanley Research, S&P Dow Jones Indices, Bond Buyer, MMD, NBER

While U.S. interest rates are low, they remain attractive compared to global fixed income rates, particularly compared to the central banks of four developed countries and the Eurozone that are employing negative-interest rate policies. In fact, municipal yields are near their highest levels in 20 years compared to European government debt.

	Current Yield	Spread vs. Tax-Exempt Munis								
		Cur	3YR AVG		5YR AVG		10YR AVG		20YR AVG	
AAA Tax-Exempt Muni 10 Yr Yield	1.66		Spread	Z-Score	Spread	Z-Score	Spread	Z-Score	Spread	Z-Score
Spain 10 Year Yield	1.79	-12	-66	0.5	-180	1.0	-129	0.8	-112	0.8
Italy 10 Year Yield	1.57	10	-64	0.7	-171	1.1	-131	1.1	-118	1.0
France 10 Year Yield	0.56	109	70	0.8	14	1.2	-12	1.8	-32	2.3
Germany 10 Year Yield	0.20	145	114	0.8	73	1.2	28	1.8	-9	2.2

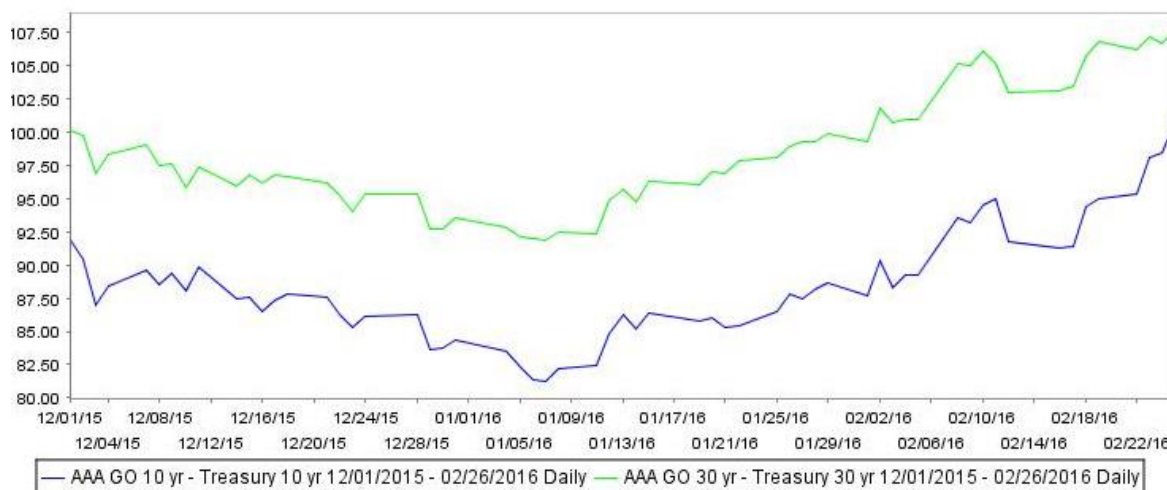
Source: Bloomberg, Thomson Reuters, JP Morgan

Volatility is likely to remain throughout the year given the current macroeconomic backdrop and soaring political uncertainty from the presidential election. Investors appear to be seeking safe havens from global financial market volatility and evolving monetary policy. Tax exempt bonds appear to fit the safe haven bill as they are highly rated with an extremely low default rate. In addition, munis have basically no correlation to equities, and very low correlation to other fixed income classes, while offering good risk adjusted returns.* As a result, we expect demand for tax exempt bonds to remain solid, especially as investors continue to realize how compelling munis are on a taxable equivalent yield (see below). Finally, while yields may be lower YTD, muni/Treasury ratios, an indicator of relative value, have actually gotten cheaper since late last year.

	2 Year	5 Year	10 Year	30 Year
AAA Tax-Exempt Yield	0.52	0.89	1.71	2.78
Taxable Equivalent*	0.92	1.57	3.02	4.91
A Tax-Exempt Yield	0.69	1.23	2.24	3.34
Taxable Equivalent*	1.22	2.17	3.96	5.90

*Highest equivalent of 43.4% with Medicare net investment income tax.

Source: Municipal Market Data 2/24/16



Source: Municipal Market Data 2/26/16

* As of 1/15/16 versus Barclays US Aggregate, Global Aggregate, US Credit Corp, US High Yield

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

Barclays Municipal Bond Index is a widely recognized index of investment grade tax-exempt bonds. The eight subsets of the Index are market weighted. The Index includes general obligations, revenue bonds, insured bonds, and pre-refunded bonds.

Standard & Poor's 500 Index is an unmanaged index of 500 selected common large capitalization stocks (most of which are listed on the New York Stock Exchange) that is often used as a measure of the U.S. stock market. Investors cannot invest directly in an index.

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