RSW INVESTMENTS

Double-Edged Sword (4/23/2018)

Typical double-edged sword. The recent rise in oil prices is the latest catalyst for heightened inflation expectations and could be the cause for the rise in rates that we eluded to in RSW's Q1 2018 commentary. More specifically, since President Trump was elected, average gas prices have risen $0.55 cents per gallon. For an average two-car American family that consumes 110 gallons per month, this price increase equates to an annual increase in gas expenditures of around $730. This increase virtually offsets the entire tax benefit derived, on average, from the recently enacted tax reform legislation.

The slowing effect that rising rates have on the economy, combined with the direct "tax" increase of higher gas prices, should sow the seeds of a meaningful economic slowdown. As for us, the risk of higher yields is the key reason why we have maintained relatively low levels of interest rate risk (duration) in our client portfolios. We project that any surge in market yields will prove to be temporary in nature and should be followed by a meaningful shift toward lower rates in the back half of the year. Whether the rise in yields will be a surge, or a continuation of the reluctant grind higher will depend on how specific events unfold.

Please note that the move toward higher bond yields first occurred in most regions of Europe. As the choir shifts from synchronized world growth to synchronized world rate increases, 10-year U.S. Treasury bond yield touched 3.00% early this morning. Should Municipal bond yields follow-suit, we would view this as the opportunity that we have been patiently waiting for to extend our average maturities and/or overall level of interest rate sensitivity (where applicable.) This shift should result in a higher stream of tax-exempt income and potential for greater price appreciation going forward.

Robert S. Waas Chief Executive Officer / Chief Investment Officer	Matthew T. Werner Senior Portfolio Manager	Mark J. Tenenhaus Director of Municipal Research	Mark A. Scott Senior Trader	Randy J. Fox Assistant Portfolio Manager	Andrew C. DeVivio Junior Credit Analyst	Alec K. DeWitt Product Specialist	Marites V. Pasturan Compliance Officer	Jeffrey S. Thompson Client Service Associate	James D. Thompson Client Service Associate	Mary Chris Ong Trade Operations Associate