## Intra-Quarterly: Market Update (3/10/2020)

While many investors have been assigning the cause of the February/March financial market meltdown to the Coronavirus outbreak, in RSW's opinion, it was only the lit match, but not the wood pile.

As we have witnessed for decades, when interest rates fall dramatically for an extended period, several effects become apparent. Namely, speculation becomes excessive, banking issues emerge and debt levels balloon to unprecedented heights.

In RSW's 2020 Investment Outlook, pre-Coronavirus, we believed that the economy was already poised for a slowdown and the risk markets were primed to correct the excesses in the financial system. We specifically said, "While most are breathing a sigh of relief and feeling upbeat about our nation's economic prospects, we are poised to once again fade the opinion of the masses. While a steeper yield curve can be viewed as a signal that the outlook for growth is favorable, it is not always the explanation. In fact, we believe that the recent optimism is misplaced and that a financial event could be unfolding."

So for us, the financial market correction and ensuing economic slowdown has been expedited but was not caused by the Coronavirus.

As of last night's close, for the year, the yield on 10-year U.S. Treasury bonds has dropped 137 basis points from 1.91% to close last night at an unprecedented 0.54%. While the yields of "AAA"-rated tax-exempt bonds followed in the same direction, rates on comparable maturity debt declined by roughly one-half as much or 66 basis points.

This year, as the rally in the municipal bond market lagged that of U.S. Treasury securities, the ratio of 10 year "AAA"-rated tax-exempt bonds relative to Treasury debt rose dramatically from 75% to 144%. The bottom line: A rare phenomenon has occurred as the relationship between the two asset classes switched places and tax-free's are now offering higher yields.

In this choppy environment, we have continually been adhering to our discipline. As yields have declined, we have been methodically reducing the level of duration in our clients' portfolios. Our objective has been to strike a balance between reducing interest rate risk, while being cognizant of disrupting the relatively high earnings yield and realizing capital gains.

Patience should be rewarded as our long-awaited opportunity to restructure assets out of bonds that are the least interest rate sensitive, into higher yielding long call/maturity bonds should emerge in the coming months.

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