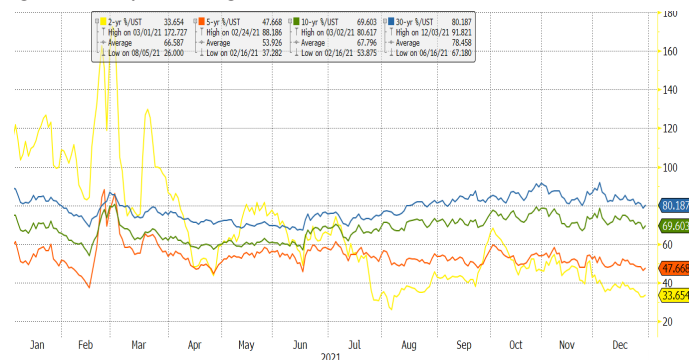


MUNICIPAL QUARTERLY

January 2022

Does the municipal market know something other markets do not? Or is it perhaps the Treasury market that is in-the-know? Either way, something does not quite add up when looking at the front-end of the curve. There, municipal percentages-of-Treasuries are not just rich; they are downright out-of-whack. Consider, for example, that the 2-year AAA municipal percentage-of-Treasury ended the year at 33.65%. At such a low level, the taxable equivalent yield on the municipal bond at the maximum 40.8% tax rate would be well-below that of a matched-maturity Treasury. So much for an illiquidity discount.

Figure 1: Municipal Percentages-of-Treasuries

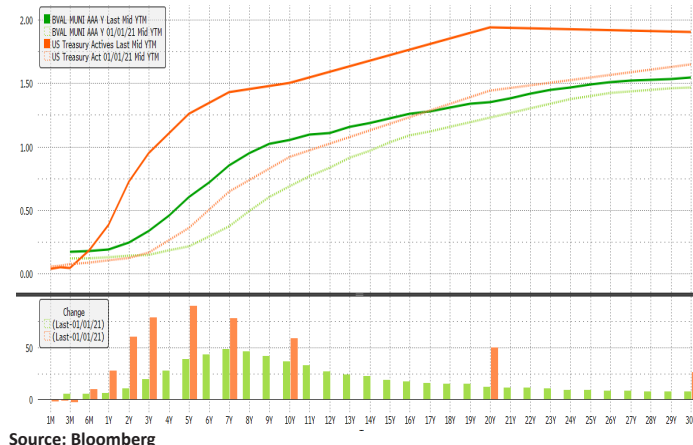


Source: Bloomberg

So, what gives? Maybe it is that the Treasury curve has gotten ahead of itself in pricing in interest rate hikes. Or maybe it is that, despite all the evidence to the contrary, the municipal market has not given up on the prospect of broad-based tax increases that would cause a repricing of taxable equivalencies, thereby justifying current lofty valuations. Our guess is neither of these explanations, alone, hit the mark. Rather, with the Federal Reserve having adopted a more hawkish tone in the 4th quarter by announcing an expedited taper timeline and calling for three interest rate hikes in 2022 (and a total of eight hikes by the end of 2024), we would argue that the real reason the two markets appear to be telling different stories is that Treasuries are taking the Fed at face value, whereas municipals are behind the curve.

Whatever the reason for the disconnect, it is hard to make a case for there being much compelling value in short municipal paper at the moment. That is not at all to say there is no value to be found in the asset class, as stands. There is value; one just must venture a bit further out on the curve to find it. Even there, percentages-of-Treasuries do not exactly scream cheap, with the 10-year and 30-year AAA municipal spots at 69.60% and 80.19%, respectively. With more policy clarity coming out of the December FOMC meeting, though, our expectation is for short municipal yields to rise as the municipal curve flattens and re-aligns with the Treasury curve. Should such a scenario play out, relative valuations could be looking at better days as we head into 2022.

Figure 2: Municipal vs. Treasury Yield Curves



Source: Bloomberg

While current relative valuations, in general, may be nothing to write home about, it is worth keeping in mind that today's tight valuations are a byproduct of yesterday's strong returns. And such was the case in 2021, with the Bloomberg Municipal Bond Index posting a 1.52% total return. This, too, sounds a paltry figure at first, but was quite a coup considering that municipals were the only investment-grade domestic fixed income asset class to post a positive total return for the year. Equally impressive, they did so in a year where the yield on the 10-year Treasury rose 64%, from .91% to 1.51%.

Figure 3: 2021 Fixed Income Return

Municipal	1.52%
US Aggregate	-1.54%
US Treasury	-2.32%
Corporate	-1.04%
CMBS	-1.16%
ABS	-0.34%
U.S. MBS	-1.04%

*Source: Bloomberg Indices

For the third year in a row, the long-end of the municipal curve outperformed the front-end, with the 5-year (4-6), 10-year (8-12), and Long Bond (22+) slices of the broader index returning .34%, .96%, and 3.17%, respectively. In a departure from the previous year, the returns of lower-rated securities bested those of higher-rated ones, with the Aaa, Aa, A, and Baa slices of the index returning .47%, .92%, 2.25% and 4.85%, respectively. Revenue bonds outperformed general obligations, 1.86% to 1.01%.

Figure 4: 2021 Municipal Market Returns

<i>Municipal Bond Index</i>	1.52%
<i>GO Bond Index</i>	1.01%
<i>State GO</i>	0.92%
<i>Local GO</i>	1.10%
<i>Revenue Bond Index</i>	1.86%
<i>Electric</i>	1.01%
<i>Hospital</i>	2.72%
<i>Housing</i>	0.94%
<i>IDR/PCR</i>	1.43%
<i>Transportation</i>	2.40%
<i>Education</i>	1.70%
<i>Water & Sewer</i>	0.82%
<i>Resource Recovery</i>	-0.47%
<i>Leasing</i>	2.41%
<i>Special Tax</i>	1.68%
<i>Aaa</i>	0.47%
<i>Aa</i>	0.92%
<i>A</i>	2.25%
<i>Baa</i>	4.85%
<i>5 Year (4-6)</i>	0.34%
<i>10 Year (8-12)</i>	0.96%
<i>Long Bond (22+)</i>	3.17%

*Source: Bloomberg Indices

The outperformance of lower-rated securities in 2021 was not exactly a surprise. It was a story sown in the wake of all the post-pandemic stimulus funds that flowed to the asset class going back to last year, including the CARES Act, American Rescue Plan, and other measures targeted towards specific sectors. These funds effectively shored up the credit quality of the municipal market, giving lower-quality securities the cover to run. The same can be said for the outperformance of revenue bonds versus general obligations. Thanks again to all the stimulus and a general re-opening of the economy, even the most pandemic-impacted revenue sectors (airports, hospitals, higher education, transportation) have regained most, if not all, the ground they lost since the Spring of 2020.

As 2021 comes to a close, the credit quality of the municipal market ends on a high note and remains strong, overall. With that said, as the likelihood of meaningfully higher individual tax rates has declined and the passage of the Build Back Better plan, watered-down or otherwise, has been called into question, this may be about as good as it gets for the asset class for the time-being. That is not by any means to suggest it is downhill from here. We are just inclined to believe that the recovery story has largely played out and that 2022 returns will be driven more by duration and carry than a return to the mean.

ABOUT REGIONS INVESTMENT MANAGEMENT

Regions Investment Management, Inc. is an active investment manager focused on achieving long-term investment goals for our clients through diversified portfolios. We offer a variety of domestic fixed income and equity strategies, as well as several liquidity/cash management products. For more information, please see RIM's current Form ADV Part 2A, a copy of which is available upon request at 205-264-6735.

This publication has been prepared by Regions Investment Management, Inc. (RIM) for Regions Bank for distribution to, among others, Regions Wealth Management clients. RIM is an Investment Adviser registered with the U.S. Securities & Exchange Commission pursuant to the Investment Advisers Act of 1940. RIM is a wholly owned subsidiary of Regions Bank, which in turn, is a wholly owned subsidiary of Regions Financial Corporation. While the commentary accurately reflects the opinions of the Analyst by whom it is written, it does not necessarily reflect those of Regions Bank or RIM. This publication is solely for information and educational purposes and nothing contained in this publication constitutes an offer or solicitation to purchase any security, the recommendation of any particular security or strategy or a complete analysis of any security, company or industry or constitutes tax, accounting or legal advice. Information is based on sources believed by RIM to be reliable but is not guaranteed as to accuracy by Regions Bank, RIM or any of their affiliates. Commentary and opinions provided in this publication reflect the judgment of the authors as of the date of this publication and are subject to change without notice. Certain sections of this publication contain forward-looking statements that are based on the reasonable expectations, estimates, projections and assumptions of the authors, but forward-looking statements are not guarantees of future performance and involve risks and uncertainties, which are difficult to predict. Investment ideas and strategies presented may not be suitable for all investors. No responsibility or liability is assumed by Regions Bank, RIM or their affiliates for any loss that may directly or indirectly result from use of information, commentary or opinions in this publication by you or any other person.

Index return information has been provided for illustrative purposes only, and the source of index return data is Bloomberg. Additionally, the composition and performance of the index or hypothetical blend of indices may differ significantly and in multiple respects from the composition and performance of any individual strategy to which it is compared and from ones portfolio. Market indices are unmanaged and an investment may not be made directly in a market index. Performance figures reflected in this report do not include the deduction of management fees, transaction costs or other expenses, nor do they reflect any fees payable to Regions. The results would have been lower had any of these costs been included in the performance figures.

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith."

Regarding any presentation of asset rating information provided by Standard & Poors within this document, all information is copyright © 2022, S&P global market intelligence (and its affiliates as applicable). Reproduction of any information, opinions, views, data or material, including ratings ("content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("content providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. In no event shall content providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the content is not a recommendation to buy, sell or hold such investment or security, does not address the suitability of an investment or security and should not be relied on as investment advice. Credit ratings are statements of opinions and are not statements of fact.

TEY is calculated as: Taxable equivalent yield=tax free municipal bond yield/(1-Tax Rate). TEY measures what an investor would have to earn (yield) on a taxable (or fully taxable) investment in order to match the yield provided by a tax-exempt municipal bond. The TEY is only one factor that should be considered when purchasing a security, and is meant to be used only as a general guideline when determining taxable equivalent yields for agency and treasury securities.

Trust and investment management services are offered through Regions Wealth Management, a business unit of Regions Bank. Investment advisory services are offered through RIM. In some cases, RIM's investment management services and/or strategies will be utilized by Regions Wealth Management for its trust and investment management clients. RIM receives compensation from Regions Bank for providing certain services, including market commentary. When applicable, RIM receives additional compensation based upon the assets in Regions Wealth Management client accounts managed according to RIM's strategies. For additional information concerning RIM or its strategies, please see RIM's Form ADV Part 2A, which is available by calling 205-264-6735.

Neither Regions Bank, nor Regions Wealth Management (collectively, "Regions") nor the Regions Bank subsidiary, Regions Investment Management, Inc. (RIM), are registered municipal advisors, nor provide advice to municipal entities or obligated persons with respect to municipal financial products or the issuance of municipal securities (including regarding the structure, timing, terms and similar matters concerning municipal financial products or municipal securities issuances) or engage in the solicitation of municipal entities or obligated persons for such services. With respect to this presentation and any other information, materials or communications provided by Regions or RIM, (a) Regions and RIM are not recommending an action to any municipal entity or obligated person, (b) Regions and RIM are not acting as an advisor to any municipal entity or obligated person and do not owe a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934 to any municipal entity or obligated person with respect to such presentation, information, materials or communications, (c) Regions and RIM are acting for their own interests, and (d) you should discuss this presentation and any such other information, materials or communications with any and all internal and external advisors and experts that you deem appropriate before acting on this presentation or any such other information, materials or communications.

Investment, Insurance and Annuity Products
Are Not FDIC-Insured Are Not Bank Guaranteed May Lose Value Are Not Deposits
Are Not Insured by Any Federal Government Agency Are Not a Condition of Any Banking Activity