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# SMITH SHELLNUT WILSON

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## MEMO

To: Investment Committee  
From: Brian Fioretti, Dodd Williams and Ray Thompson  
Date: July 29, 2020  
Subject: Relative Risk Profiles of Municipal Sectors

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Attached are two graphs prepared by Fidelity Investments that illustrate the market-perceived relative “riskiness” of municipal bond sectors based on required market spreads.

Of note, general obligation bonds, water/sewer revenue bonds and tax revenue bonds are the safest sectors by this measure. Education bonds are also deemed in the “safe” category, but with the ongoing uncertainties surrounding the reopening and future financial status of colleges and universities, we currently shy away from this sector.

Interestingly, to the right of the upper graph, taxable bonds are showing a relatively wide spread relative to their 24-month historical average. This is due largely to supply and demand factors, not broad-based credit factors, as the elimination of advance refundings via tax-exempt bond issuance under the Tax Cuts and Jobs Act has resulted in a surge in taxable bond issuance as the only mechanism allowed under current law for issuers to execute advance refundings.

The graph suggests that airport, toll and turnpike, hospital, tobacco, housing and corporate-backed municipal bonds are among the riskiest sectors in today’s environment.

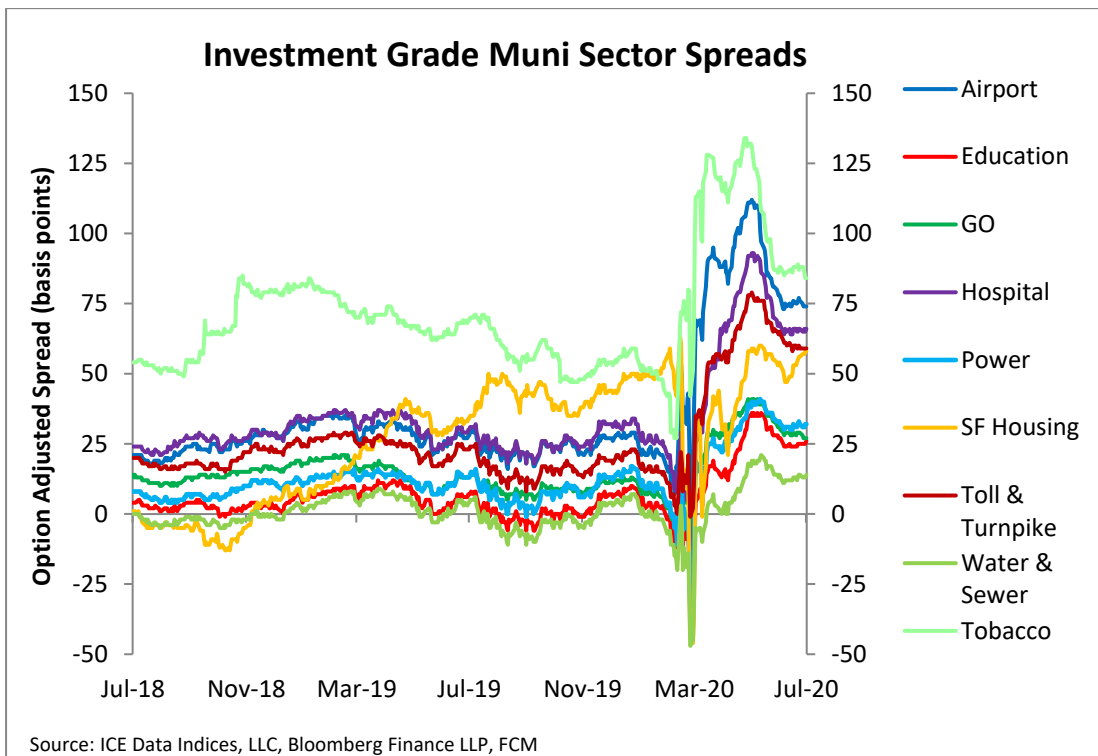
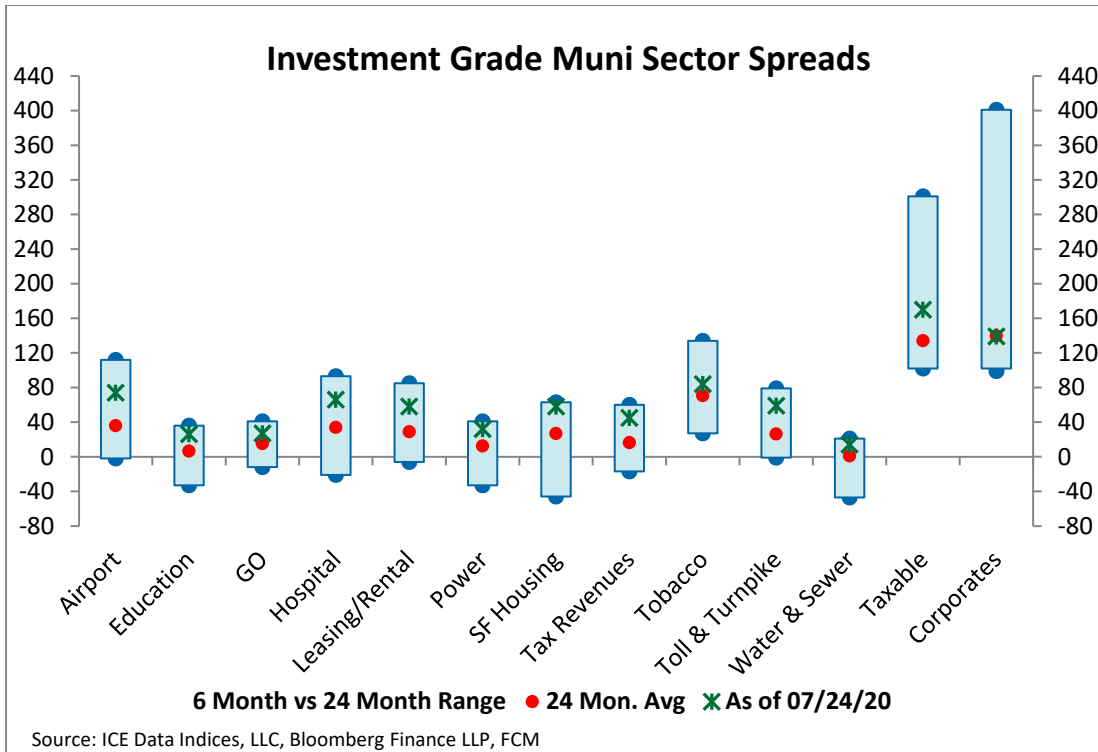
Source for this write-up Fidelity Investments.

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