**MEDIA: Television**

**STATION: CNBC**

**MARKET: National**

**DATE: 2024-04-09**

**TIME: 01:30 PM ET**

**PROGRAM: The Exchange**

**SUBJECT: David Hammer - Muni Markets**

**PAGE COUNT: 3**

**RICK SANTELLI, CNBC:**

Yes, Tyler, Muni money indeed, and we have a special guest today, David Hammer. He's PIMCO Head of Muni Portfolio, and I'd like to welcome David Hammer. David, how are you doing today?

**DAVID HAMMER, PIMCO:**

I'm doing great, Rick, thanks for having me.

**SANTELLI:**

All right, so as we heard Deirde (Bosa) point out, one of the best landscapes in the Muni space in 20 years, you've talked many times as we've discussed today that many players are starting to step away for a variety of reasons like banks and high interest rates and what it's doing to their portfolios in different ways. So as they step away, is this void worth stepping into?

**HAMMER:**

Yeah, it is. The best credit conditions in 20 years. It's driven by expectations a few years ago during the pandemic that tax collections would decline by 10 to 20%. Federal relief was crafted based on that expectation, but in reality, tax collections, sales tax, property tax income taxes, they're up 25 to 30%. It's been a big improvement to muni credit, but while fundamentals have improved, many investors to your point have really stepped back from the market. 2022 and 2023 and combined a record outflow period. Very little of that money has come back to the muni market, a different story than investment grade corporate credit or high yield corporate credit or institutional investors have been quick to come back. US investors have been slower and that means higher yields and wider spreads than other markets.

**SANTELLI:**

Now, we have April 15th coming up, David, and everybody understands that's tax time. Does that mean anything special for muni investing? Is it some type of seasonal anomaly that occurs when people liquidate parts of their portfolios to pay their taxes?

**HAMMER:**

Yeah, this is typically a seasonally very weak time of the year. Investors pull money out of their muni allocation to go pay their federal tax bill coming up in a week or so here. And at the same time, we tend to see a big increase in supply. And that's what happened this year. It's pushed spreads a little bit wider. In addition to just interest rates going higher. So relative to the peak of a few months ago, major indices are down about one and a half to 2%. This tends to be a pretty good time to allocate to munis. And I think tax efficiency, it's top of mind for investors today. Another thing that we're really recommending our clients do is look at their median allocations and think about harvesting tax losses. It's a good time to consider locking in some of those losses, moving up in tax for yield. And we see a lot of opportunities to do that in today's market, especially more active strategies that have more actively managed their dividends relative to passive law.

**SANTELLI:**

It's always about risk reward, David. It's always about risk reward. You're telling me how to get some better reward. How does that risk parameter? And just go over it superficially. But if you had to look at taxable securities versus muni securities, and a risk profile when you want to step up maybe to a lower rate of investment grade, how does that fare?

**HAMMER:**

Yes, we really like allocations that take advantage of the steep yield curve and not rated bonds that we consider higher quality high yield, a well-structured portfolio. You can earn about 5% tax free with a low investment grade rating today. An investor would have to earn about 8 and a quarter percent pre-tax to get the same after-tax return. And outside of the muni market, that means taking a lot more risk. So we like the return profile, we like the yield. We also like the downside in the event that the economy does slow more than what's expected. Investors are better protected in asset classes that historically have much lower default rates.

**SANTELLI:**

Now, real quickly, we're almost out of time. Passive portfolios are easy. You know, you buy an ETF, it's on autopilot. But if you have an active portfolio manager that you like, you usually get better results. What do you like? What do you prefer? And what are the opportunities in more of an active approach?

**HAMMER:**

Yeah, I'd start with the curve. The muni curve is upward sloping about 125 basis points of additional yield moving out from 10 years to 30 years. Very different from other asset classes where yield curves are flat to inverted. So we like a barbell strategy where investors run a lot of shorter term munis, marry that with a longer term allocation, get about the same duration profile as a more passive index with a pickup of 50 to 100 basis points in tax free yield. In addition to that, some of the not rated segments of the market that I mentioned, specifically assets that are repaid through property taxes. There's been a big increase in house price appreciation over the last few years. That's just starting to flow through to assess values in property taxes. So we really see a multi-year tailwind in some of those credits.

**SANTELLI:**

Excellent, David. Thank you for joining me today. I definitely look at the yield curve and I try to weigh all investments as many viewers do. And there's definitely opportunities in the muni space, the taxable side of it versus more tax-free munis certainly presents a big opportunity. Thank you for joining us today. Deirdre, back to you.