

Carret Kansas Insight



Kansas: A Resilient State at the Crossroads

Since the beginning of the year, the financial markets have been adjusting to the new political environment in Washington DC. The municipal markets have been experiencing a more stable interest rate environment, especially when compared to the chaotic period right after the presidential elections. Interest rates rose slightly at the beginning of the quarter, in anticipation of a potential Federal Reserve hike (or two) in the first few months of the new year. However, in late March (after a 25 basis point hike), yields subsided and 10 year municipal bond yields declined from 2.33% at the beginning of the year to 2.24% (AAA MMD) at quarter-end. The Kansas municipal bond market has been relatively quiet on the new issue front. With the rise in rates, the onslaught of “refundings” has slowed dramatically. Nationally, there have been sound fund flows into the market as municipal bonds remain at or above fair-value. Kansas bonds continue to trade well as demand continues to override supply at the local level.

Over the past few months, it has become more apparent that the media has become less enamored with Governor Brownback. Most of the recent news stories have taken a negative tone on the Governor and his policies. Articles with a critical bias towards the state have appeared in both local and national media outlets. During the past few months, it has been rumored that Governor Brownback is looking to leave the State to pursue other political endeavors.

In November 2014, the Governor won re-election but with a smaller margin than his first victory. The legislative bodies in Topeka have changed some with more moderate Republicans winning seats. The House overwhelmingly passed a new budget designed to balance the budget with some tax increases. However, the Governor vetoed the budget knowing that there was not enough support in the Senate to override it. At this point, the state Senate is attempting to solve the budget impasse by proposing spending cuts across the board. We believe that cuts alone will not be sufficient enough to close the current shortfall. The rating agencies have noted the budgetary problems and are biding their time to see if a positive solution will come about from the political give and take in Topeka. If Governor Brownback leaves Topeka, it is uncertain whether the Lieutenant Governor (Colyer) will have success in solving the state’s budgetary problems.

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Firm AUM

\$2.4 Billion

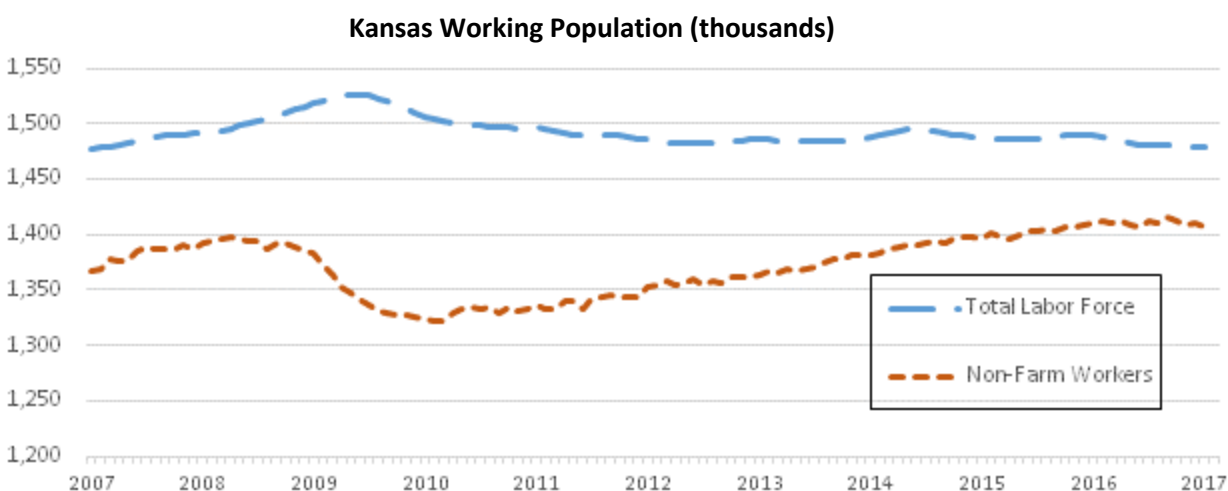
Key Interest Rates	3.31.17	12.31.16	12.31.15
5 Yr U.S. Treasury Note	1.92%	1.92%	1.76%
10 Yr U.S. Treasury Bond	2.39%	2.44%	2.27%
5 Yr AAA Municipal Bond	1.55%	1.79%	1.26%
10 Yr AAA Municipal Bond	2.24%	2.33%	1.93%
5 Yr AA Municipal Bond	1.64%	1.91%	1.38%
10 Yr AA Municipal Bond	2.44%	2.53%	2.12%

Source: Municipal Market Data (MMD), FactSet

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Economically, Kansas appears to be lagging according to a recent report from the Federal Reserve Bank in Kansas City. Weak oil prices continue to erode the state's economy and Kansas (along with 5 other "oil states") may be on the threshold of a local recession. Over the last 10 years, the Kansas labor force has remained quite stable, although its working population is down 2.5% from its peak in 2009. Today, non-farm workers exceed their 2007 figures although their numbers are down. In 2016, there were about 10,000 people working on farms. In 2007, that number was about 35,000. Most of those displaced workers seem to have found jobs in the non-farm categories.

During the quarter, we have retained our defensive posture with a focus on premium-coupon bonds. We still see good value in essential service revenue bonds and selective GO bond issuers from around the state. The average credit rating is little changed and sits at AA while the duration exposure is just under 4 years. In the future, as reinvestment needs appear, we will look to maintain value while lengthening the portfolio slightly and adding incremental yield.



Source: Bureau of Labor Statistics

Separately Managed Account Strategies:

Kansas Municipal: Carret's Municipal Bond Strategy is designed to maximize tax efficiency through opportunistic portfolio management while preserving principal through practical portfolio structuring and fundamental credit analysis. We actively manage investment-grade portfolios with a diversified blend of issuers, sectors and maturities aimed at delivering consistent, risk-adjusted total return with an emphasis on tax-free current income.

Mutual Fund Strategies:

American Independence Kansas Tax-Exempt Bond Fund: The Fund's investment objective is to preserve capital while producing current income for the investor that is subject to both Federal and Kansas state income taxes. This Fund is intended for investors seeking investment income exempt from Federal taxes and Kansas state tax. The Fund seeks to generate monthly income focusing on investment-grade intermediate duration bonds.

For more complete information on the American Independence Funds and Rx Funds, you can obtain a prospectus containing complete information for the Funds by calling 866.410.2006 or by visiting www.americanindependence.com. You should consider the Fund's investment objectives, risks, charges, and expenses, carefully before you invest or send money. Information about these and other important subjects is in the Fund's prospectus. The prospectus and, if available, the summary prospectus should be read carefully before investing. Shares of the American Independence Funds and Rx Funds are distributed by Matrix Capital Group, Inc., which is not affiliated with RiskX Investments, LLC, or Carret Asset Management, LLC.

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