November 2022 Live Event-AICA Fall CEF/BDC/Interval Fund Bootcamp and Roundtable Panel #4; "Investment Grade Credit in an Inflationary Environment"

Wednesday, November 16, 2022

Vadim Avdeychik, Partner with Clifford Chance US LLP, moderates the fourth panel of the AICA November 16th, 2022 live event; "Investment Grade Credit in an Inflationary Environment". Read the transcript below to hear the discussion among Mr. Avdeychik and panelists Cheryl Pate, Senior Portfolio Manager with Angel Oak Capital, Robert Amodeo, Head of Municipals with Western Asset Management, and Bradford Stone, Executive VP, CFO, and Portfolio Manager with Flaherty & Crumrine, Inc.


Vadim Avdeychik


Cheryl Pate


Robert Amodeo

No Photo Available
Bradford Stone

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Vadim Avdeychik: I primarily focus on launching unlisted closed-end funds, business-development companies. Great to be here in person. Last time I was here was 2019, which seems like so long ago, so it's nice to be able to do these things in person again. Turning it over, we can start with some introductions. Robert, maybe you can get us going.

Robert Amodeo: Yeah, good after. Robert Amodeo, Western Asset Management, head of the public finance group there. Public finance is more traditionally known as municipal bonds or municipal securities, and I think it's a highly misunderstood asset class which hopefully we'll get into today, and the opportunities that are available in the marketplace today.

But a little bit about myself, started at Salomon Brothers, Inc. on the broker-dealer side, managing the managing director's money there. Got a little lucky, got invited to join Salomon's asset management group there and ever since been at the same company. Like most of us in our careers have been bought out, spun off, merged I don't know how many times, but essentially been at the same company now for 30 plus years. Fixed-income guy through and through, been fixed income from the very start of my career until today.

Cheryl Pate: I'm Cheryl Pate, I'm a senior portfolio manager at Angel Oak Capital. Angel Oak, for those who don't know it, is a call it roughly $20 billion asset manager based out of Atlanta. And I would say we really focus on two core competencies, one being structured credit and the other side being corporate credit, which is where I focus, predominantly on financial sector credit. So we manage financial debt across a multitude of different products, including the closed-end fund which we're here to discuss today.

Previously to Angel Oak I spent a decade as a sell-side analyst on the equities side at Morgan Stanley covering financials and banks. So made the move from sell side to buy side and equity to debt, although we do still do some little pieces of some preferreds and some equity, but predominantly credit.

Bradford Stone: Hello, my name's Brad Stone, I'm a portfolio manager and oversee the credit research team at Flaherty & Crumrine. Flaherty & Crumrine is a specialty asset manager focused on preferred stock, junior subordinated debt, the preferred layer of the capital structure across all of the industries that issue in that market but it has evolved to be primarily financial services at this point, and so that is largely our focus.

We're an independent shop, we've been in business for almost 40 years now doing just this strategy. And we manage five US closed-end funds, a US open-end fund, a Canadian ETF, and some separately managed accounts. Again, all in this strategy. So I'll leave it there and we'll get started.

Vadim Avdeychik: Thanks for that, the introductions. So coming out of Covid and the current environment, inflation, heightened volatility, geopolitical risk, all of the things that active managers have to do, and on top of that obviously cost optimization and generating alpha for the clients.

Cheryl, I'm curious to hear from you in terms of how you are reacting to those things in your strategies, and what you're seeing in the market and the current environment.

Cheryl Pate: Yeah, absolutely. So we focus, as I said, on the financial sector and from a credit perspective. Typically where we have found excess value or excess yield really has been down the size spectrum in terms of the banking sector, and for a lot of reasons the sector has changed very dramatically since the Financial Crisis. The regulatory regime has heightened fairly significantly, capital levels have increased, balance sheets have de-risked, so we feel really good about the health of the banking sector overall.

It is actually a sector that does well in a rising rate environment, one of the very few. So we have seen margin expansion over the course of this year. There is a lagged effect to that, so that is a nice tailwind that we expect to continue into 2023. And loan growth has been robust coming out of the Covid pandemic. I think what we've seen a little bit more recently in the third quarter specifically is you're seeing a bit of a mean reversion in terms of liquidity, whereas the banks had been flush with all this excess liquidity coming from PPP loans and stimulus checks, that's starting to right size and so you're seeing loan to deposit ratios move back to sort of historical averages.

So you've got a lot of, I think, nice tailwinds when we look at the sector. Obviously our number one concern is always credit quality, we're not seeing really any signs of deterioration there in any of the forward-looking metrics that we track. We did see provisions increase in third quarter earnings, but that is I would say a function of two things. One is the loan growth, and then secondly I think there's a bit of a proactive reserve build going on in that you're increasing your reserve ratios. Charge-offs have not been what's driving the higher credit losses at this point. But we're always mindful of where credit costs go and that's clearly the key consideration.

Where we're seeing a relative preference I would say, is to the regional and community banks over the money center banks in this environment, and it comes down to a couple of things really. Number one, regional and community banks are you pure play on interest rates, they are spread-based lenders, that's 90% of their business model, that's where you get the most bang for your buck in terms of a lot of the tailwinds I've talked about. But secondly, you also don't have the exposure to capital markets where you've seen huge declines in investment banking and M&A, wealth management businesses which have suffered lower AUMs. So you sort of have both of those factors working positively for you.

And really the third thing I would say there is there is a premium for size, an inverse premium really. You get a higher coupon on a smaller bank, typically it's less geographically diversified relative to some of the really big players in the space. But the other thing that we're playing on here is M&A, and we do think there will be a resurgence in M&A activity in 2023. We're starting to see that pipeline fill up, and really where the benefit to the banking sector overall is this consolidation theme has been a nice tailwind for a number of years. But what that does in terms of our investments on the credit side is we see a lot of spread tightening and price appreciation, so it's a nice alpha generation.

Vadim Avdeychik: Thanks for that. Brad, how about yourself in terms of your strategies?

Bradford Stone: Our fundamental view is really I would echo Cheryl on those points. I think the banking system is very strong for all of the reasons that she mentioned, but other financial companies also benefit from these rising rates. If you think about insurers as an example, they've been waiting for years for yields to move up, and it's finally happened. So they take some marked to market hits to capital, some reserve charges as a result of that, but the long-term income prospects for them are very favorable from this rise in rates.

Similarly with finance companies and other financial businesses really do benefit from rising rates. The potential downside of that of course is credit risk and credit losses. So you have to be concerned about the depth of any recession that comes along, which we do expect, though we think it will be a relatively mild recession here in the US, a little worse in Europe and the UK. So we're mindful of those risks, but when you think about banks in particular, everything they've done since the financial crisis has prepared them for where we're headed. And so we feel very comfortable with the risks that are on the balance sheet.

The opportunity that we see is really that yields have risen very rapidly, spreads have widened despite the still favorable credit outlook, and so at the preferred layer of the capital structure those spreads have widened really significantly. And so we see a combination of higher yields and higher spreads bringing us back to yields that we haven't seen in a very long time. Asset class yields for the preferred market overall around 7.25% right now with very large, strong issuers coming recently within 9% or higher. BNP issued at 9.25% last week, Société Générale at 9 ⅜ yesterday, and Lincoln National at 9.25%. So we do see a lot of opportunity in the market, and you have to be able to navigate around there but we think overall it's a good opportunity.

Vadim Avdeychik: One follow up to that on the financials, we have seen in the last month or so at least one bank out there go out and try to raise capital or do some additional cost cutting in certain areas. It does sound to me like you believe those type of incidents will be isolated going forward because of what was done after the Great Financial Crisis. Anything you would add to that in terms of those isolated incidents? Do you foresee that happening in a smaller bank, regional bank sector or is that really a one-off thing that happened?

Cheryl Pate: So we look at bank failure rates all the time as a proxy for potential defaults within the sector, especially where we focus. If you look all the way back to the Great Depression, the annualized bank failure rate is less than 40 basis points, so very, very low. And if you strip out institutions that are below $500 million in assets, that's about 85% of bank failures. So that's an area that we self-select out of. We think those type of institutions typically don't have the scale, the sophistication of management teams, et cetera, to be what we would look for in an investment opportunity.

But even just looking recently, Covid through today, there's been four bank failures in 2020, none in '21, none in '22. So I would say it is fairly isolated and tends to be more one-off in nature than pervasive to the industry.

Bradford Stone: Yeah, and I think I would just say in the Credit Suisse, which I think is what you were referring to.

Vadim Avdeychik: I didn't want to call anybody out by name.

Bradford Stone: That really is institution-specific. No doubt investment banking firms and universal banks with big investment banking operations have seen revenues decline. So everyone is feeling the pinch from that but Credit Suisse has particular problems around that and a somewhat less diversified business model. So we really think that while others are feeling some pain from that, it's well managed. It's very manageable within their other earnings streams.

Vadim Avdeychik: Some are feeling the pain and others are using it as an opportunity. Robert, how about yourself? What's happening in the muni space that this market is playing it out?

Robert Amodeo: Yeah, so you talk about the low liquidity, the uncertainty, elevated volatility, it's put the market on sale. Where do you see opportunity? I hate to be so callous, but everywhere. There's really an opportunity for indiscriminate acceptance of risk in this marketplace. As you're hearing from the other panelists, no one at the moment is fearful of credits or fundamentals. If anything credits continue to improve. Okay, look on out and then you're either in the camp of recession, mild recession, no recession, there's all different camps that are forming just like there were in inflation. Now we're seeing inflation downshift a little bit.

Yeah, again, everything has been beaten to a pulp in our marketplace because of the low liquidity and uncertainty. There's not a fundamental crisis afoot. I've been doing this 30 plus years and you can't point to a time where the fundamentals were any stronger than they are today. Tax receipts continue to come in strong, property sales, corporate, any tax receipt you call out is coming in stronger today, and most likely depending on which revenue stream you point out, stronger than where it was pre-Covid. And the fundamentals just continue to improve.

One bit of caution is in a part of the marketplace where you see, as we talk about ES&G and it becomes a bigger part of everyone's portfolio, or at least their impact objective is trying to align it to their investment objective and vice versa, look out in a public finance marketplace because everything is green and it's been self-labeled as green. So for example, a waste to energy project. It's fantastic from the social perspective, it's a disaster from an economic perspective. So be careful which projects you select, and those type of project finance loans which are financing questionable economics. There can be positive social aspect but questionable economics.

Malls in New Jersey nearing default. Basically CCRCs, used to call them old age homes, continuing care retirement communities, notable for the high level of defaults. So I think in this environment where everything is cheap you see less of those taking the headlines where in a 2021, summer especially of '21, where there's less opportunities you start seeing those march to the forefront. So as this indiscriminate acceptance of risk, a mantra that we have, and we're adding a lot of leverage to our portfolios in the current marketplace, just still be careful of the fundamentals and some questionable economic programs.

Vadim Avdeychik: Thanks for that. And just sticking with the current economic environment, curious to hear from you all how that's playing out in terms of leverage for your portfolios and what you see in that space. Maybe we'll stay with you, Robert.

Robert Amodeo: Yeah, we're leveraging as fast as we can. We started in October. To give you just a bit of background, really the investor fatigue settled into the marketplace in the summer of '21. I know we all point to a '22 event, but it was over in the summer of '21. Rates were near zero, credit spreads were ridiculously low if not historically low, we were financing questionable projects just because you couldn't find anything else. That's the environment where you just pull the throttles back.

So we sat on our cash, we let our cash build. By the end of the year '21, we ended up with 16-17% cash, which by itself is absurd when you're an active manager it's not that crazy. Like Western, we're an active manager, so we're not bound to a benchmark. So we raised between 15- 20% cash, and we sat in cash up until just about a month and a half ago and we started deploying it October, mid-October. Beginning of October there was kind of a tailwind, then it kind of gave up, then we kind of peaked in rates mid-month, we started leveraging into pretty much everything we can find. So we're down to zero cash and we continue to leverage even today.

Vadim Avdeychik: Yeah, that seems to be consistent with other panels as well. Cheryl, how about yourself?

Cheryl Pate: Yeah, so I would say we've always taken a balanced approach from a risk management perspective and how we've thought about leverage on the fund. Historically a combination of repo leverage and some longer dated bank lines. What we did in the summer of '21 was we tapped the market and we raised $85 million in two tranches, a five-year and a seven-year, to lock in some long-term financing at incredibly attractive rates in retrospect. So the all-in cost for that is just under 2.6%.

So it's turned out to be very fortuitous in terms of the opportunity set that we see today. And so I'd say we typically try to run around 30% leverage, but the opportunity set that we're seeing in terms of investment opportunities, that spread between our financing rate and our investment rate has widened out very nicely this year.

Vadim Avdeychik: And Brad?

Bradford Stone: We also employ leverage in the closed-end funds. Our philosophy has been maybe a little more stable, we tend to not be particularly dynamic with it. We generally have around a third of the fund levered, given declines in asset values that has moved up to around 40%, and we finance it all on the short end of the market. So for most of the post-financial crisis period, that's been a great place to be. We think that overall managing or borrowing on the short end of the curve is the cheapest place to borrow, and so that's where we've done it.

We have very long-term assets and we think very strong credit quality, so we're taking a little more risk on the leverage side in terms of the impact on income. That's obviously hurt us in 2022, as rates have moved up quite substantially, and so we've reduced dividends as a result. We would expect that those will be going back up, both as portfolio income increases from the higher rates that we've seen but also when the Fed eventually gets to cutting rates. Probably not until 2024, but we'll see what happens. So that's our view, we just think that in general we manage that leverage around mid-30 kind of benchmark and do it on the short end to capture as much of the yield curve benefit as possible.

Vadim Avdeychik: And Brad, sticking with you on the preferred securities side, my understanding is that preferred securities pay a QDI, a qualified dividend income, which is subject to a lower tax and interest. Are QDIs a big part of your portfolio?

Bradford Stone: Yes, the QDI income is taxed at the capital gains rate for a US taxable investor, currently a max of 20% compared to 37% maximum rate for an individual investor. And at today's yields, at a 7.25% yield, that converts to about a 9.3% yield on a taxable equivalent basis. So it adds an incremental 200 basis points or so to yield on a taxable equivalent basis, so it's significant.

And our funds currently have, the closed-end funds, roughly 70% of the holdings are QDI eligible. And since our leverage cost and other expenses comes out of taxable income before QDI income, it means our distributions are higher of QDI are higher than 70%. I can't give you a specific number yet, we haven't calculated those for the year, but it will be higher than that as a result of that tax cut.

Vadim Avdeychik: Thanks, that's helpful. I want to make sure that we get any questions. I'll pause here before moving on to see if there are any questions.

Okay, in terms of going forward, just curious to hear what you all are seeing in terms of launching new products, existing products, how do you see the market developing? The panel before talked about BDCs and potential reorganizations, acquisitions. Cheryl, I know you reorganized one of your funds into another fund during the summertime. Could you talk about that and how that will play in any future products that you think of launching?

Cheryl Pate: Yeah, so had previously had two standalone closed-end funds that we merged together this summer, FINS is the surviving entity, that was our first launch in 2019 and the larger fund. So we did launch another fund, ticker was DYFN in the summer of 2020. It was the first post-Covid raise, it was a virtual roadshow, it was incredibly difficult and ended up being a subscale fund on our platform. It was a little bit broader investment mandate than what we had in FINS which was more specifically focused on the banking sector, this was a more broad financial sector fund.

So what we did was we mirrored the investment strategy of DYFN into FINS, we ended up merging the funds together. It was a NAV for NAV exchange, no shareholder dilution. And really the rationale there is there was a clear correlation in the closed-end fund market in terms of the size of the fund and how it trades, the bid-ask spreads, institutional coverage, so for a multitude of reasons it made sense to combine it and get that bigger scale and broader notice frankly. That has gone off without a hitch and the investments in both funds were very much in line.

Vadim Avdeychik: Thanks for that. And Robert, in terms of the muni space, I feel like I get at least one question from a client about interval funds or tender offer funds. Obviously listed products are also a big topic. Some of them have not been super successful this year, but how do you see in the muni space the different vehicle structures sit alongside each other?

Robert Amodeo: I think it's evolving. The closed-end fund arena has been a go-to for a lot of different managers to lock in great value during troubled markets. Well, the couple of funds that have tried to launch this year have been lackluster in demand, even though great timing in terms of buying cheap assets, no one seems to be buying it. I think you can make the argument that there's just great value in the secondary market.

You look at the dividends that have been paid out by existing funds. Okay, they didn't buy the current market yields, but they have historically high book yields in their portfolio combined with lower book yields. And then they can reset, that's what we're doing in our portfolios, it's called tax swapping. And we've been tax swapping for a year and a half now, or at least a year plus, where you sell what you already own at, let's say 1-2%, and you replace it with 6 or 7%. So the secondary market is filled with steep discounts, high-quality securities, and these funds are now keeping pace with a new product which is buying into a cheap marketplace. I think it's a tougher sale in the closed-end fund arena today than prior challenged markets.

On the interval fund, I find that a fascinating field, and I do think closed-end funds will be competing with more interval funds, meaning the interval funds will take more shelf space away from closed-end funds in a new launch. And the reason is you're going to be including these type of securities in the municipal closed-end interval funds, where if we started an interval fund today, I have 20% of my portfolio in a bank qualified, deferred dividend type security. That's how powerful, that's how attractive they look to us today. We're not doing that in our existing closed-end fund.

So I think the other part is the dynamic leverage in interval funds, you can bring it up and you can bring it down. Where the traditional closed-end funds, it's more set, it's more stable. There are some changes but there's more dynamics in an interval fund in terms of asset allocation and then a use of leverage. I think the existing closed-end funds and the new closed-end funds are going to be competing against interval funds.

Vadim Avdeychik: Yeah, and I also like the tender offer wrapper, and I'll just add my two cents to it. Having the liquidity rule proposal that's come out in the last few weeks, in addition with swing pricing, I think launching these type of products in an open-end mutual fund wrapper is going to be super challenging, especially if this rule comes to adopt. Certain asset classes I think will not be able to exist in a mutual fund wrapper.

Now that presents an issue in terms of tapping the 401(k)s, but I do believe the investors have demand for that asset class and they will seek it out whether it's a mutual fund or an interval fund. And I think the industry will continue to grow toward those products such as interval funds and tender offer funds. I don't know, Brad, if you have any additional thoughts in terms of structure.

Bradford Stone: You know, we're kind of a closed-end fund shop, so I guess the only thing that we've added in recent years to raise assets through the cycle is an at-the-market program for the funds. Because we've generally traded at premiums and so that's allowed us to accrete some additional value to shareholders by selling at a premium to NAV and gradually push down the expense ratio of the fund by growing it a little bit, but that's where we've raised incremental funds in this market.

Audience: I have two questions. One for Brad about the mix of US, non-US in the preferred market, if that's pretty stable or if you're allocating more to US preferreds? And then the next question, if you could just elaborate more on swing pricing. Because I guess my initial impression was it was only going to impact money market funds, but it sounds like it might be more sweeping than that.

Bradford Stone: On the risk side of it first, we do think that the US economy will fare better over the next 18 months than most foreign markets, UK and Europe in particular, which are large issuers of additional tier-one securities, contingent capital securities, which we do invest in. And we do think there's significant opportunity in some of the European and UK names. We're very selective in those markets.

Whereas when you look at the US banking system it's hard to find a bad bank. You can find them but most of them are very solid at this point. In Europe you don't have to look very far. So we really do think that there's some great opportunity at current yield levels to add exposure to Europe and UK, and we've been doing that. Though it's in a very selective way with who we think are the largest and strongest institutions in those countries.

Vadim Avdeychik: And on the swing pricing liquidity, so correct, money market funds, there's a proposal out there that would impact money market funds. On November 2nd there was a separate proposal that would apply to open-end funds, not ETFs, not mutual funds, that would change many things. One, institute a mandatory swing pricing for all mutual funds, which if you talk to some service providers, I'm not sure that's even possible because of the way the plumbing works. A lot of mutual funds do not receive their orders from intermediaries until after they strike the NAV, so query how you set that.

But to me what's more problematic in that proposal is the changes that they're proposing for the liquidity bucketing. Not to bore anyone here but as you know for mutual funds there's four buckets right now, they're proposing to get rid of one bucket, which is the less liquid bucket, which would specifically in my opinion impact mutual funds that pursue bank loan strategies.

And as a matter of fact, if you read the proposal, the SEC's pretty clear that there's going to be competitive pressures for mutual funds, and managers should think about launching interval funds, tender offer funds. They specifically say that. So I think there's a tremendous opportunity in the closed-end fund space, especially those closed-end funds that provide that quarterly liquidity if you will. Again, it's only a proposal, so we'll see what happens. But if it comes to pass in its current form, I think it's problematic.

Audience: Just a quick muni question. If you could speculate looking out six months or so, obviously cost of financing has gone, yields have gone up too, but the spread, we've seen distributions get cut. Things are kind of crazy now, what do things look like in six months if rates are roughly where they are [inaudible]?

Robert Amodeo: Difficult question to answer, but let's take the parts, let's take it apart. So the first is the coast of borrowing, and it's been skyrocketing because the curve has been flattening and the Fed has been on a tear and tightening. The market has been pricing in, everyone's been racing to price in a higher end point as to where the Fed is going to go or needs to go.

I think last week into this week, the conversation has changed. We're now at the fulcrum of, okay, inflation seems to be receding, hopefully it is not just two data points, doesn't make a trend, hopefully that's a trend. Let's just say inflation settles in at 3.5-4.5%; 3.5% would be optimistic at this point but say 4.5%, 4-5% just to make it more interesting. That means cost of borrowing is about where it is today, so I don't expect cost of borrowing to increase dramatically from where it is today for two reasons.

One, the Fed begins to slow down its tightening phase, and then two, there's a lot of cash on the sidelines. Three, they're not minting a lot of short-term securities at the moment, so you're not seeing more closed-end funds, interval funds are not really as robust as they will be in the upcoming year. So you're not seeing a lot of supply in the short-term marketplace. And there's still short-term yields, now they're very attractive versus say the one to five-year part of the curve, so investors don't have to go out and buy the one to five year. So a lot of cash stays in the very short part of the curve, keeping borrowing costs somewhat manageable, closely aligned to where they are today.

I think you can make the case that municipal securities trading today, we bought a AA, specialties stay close to 5%, that's a 7.5% taxable equivalent. If inflation is at 4.5% and treasuries say are even at 5%, even higher than where they are today, the bond is lower than 4%, munis at 85-90%, they're about where they should be.

So I'm optimistic that a lot of the pain that we're likely to experience is not behind us. Knowing that we may not get paid for taking the risk on today, but I think within six months the market will settle in, steeper curve, favorable borrowing costs, the long end of the curve has already priced in a lot of damage, fundamentals remain stable. I think the cost of borrowing remains favorable relative to the opportunities at the longer end of the curve.

Vadim Avdeychik: Any other questions? Okay, so mindful of the time, any final thoughts? Brad, we can start with you.

Bradford Stone: You know, I would just reiterate a couple of key points, and that is that within credit quality in the preferred market remains very strong given its dominance by financials. With most of the rest of the businesses, utilities and pipelines and so on, are regulated entities that earn regulated rates of return, so relatively stable businesses. So we think credit-wise things look really good, the question mark has really been what's going to happen? Where do rates end and where do spreads stabilize?

And as Robert mentioned, we're starting to see a change in tone on that which we think will be durable. We really do think inflation is peaking and should start to come down. Already good inflation is very visibly slowing. Services is probably going to be stickier, but it will follow. And I think the question is how much further the Fed goes over the near term, at least another 50 basis points, perhaps another 100 or 125. But that means the cost of leverage is getting close to an end point, and yet we have yields on new securities that are coming to market at levels that we haven't seen in many years. So we think that leverage will continue to produce positive returns, probably not going to see those coming down near term but by 2024, I think that will happen.

We think the next year or so we're still likely to see net interest margin squeezed a little bit on closed-end funds, but improving thereafter, and yet over that period we're locking in very high yields. And then final point is because the market is at a discount at this point, in addition to those high yields, there's potential for capital appreciation as securities move back from levels in the 60s, 70s, and 80s depending on their coupon back up to par.

Vadim Avdeychik: Cheryl?

Cheryl Pate: Yeah, I would echo a lot of those thoughts as well. We feel really strongly about the fundamentals, as we've discussed. I think what we've seen in our market, and it is a bit of a nichier market, community and regional bank subordinated debt, is there are market inefficiencies. The secondary market has been where the opportunity set has been greater for us over the last six months or so, and I think we are starting to get to that point where primary market is catching back up.

It's been slow, banks have been hesitant to come to market with the sticker shock of coming out and raising at a 7%+ type coupon on debt. And I think we're starting to see that move back towards a little bit more normalization. So the opportunity set today remains really robust, where we can put capital to work is 7%+. And to Brad's point, we have closed-end funds trading at a discount, they're in a term trust structure that are going to accrete back to NAV over the remaining life of the fund, that over and above the distribution rates you've got that accretion that I think is not being taken into account today.

Robert Amodeo: I would say expect elevated volatility to continue as we're confronting arguably the tail end of the Fed tightening cycle, but they're still tightening. And with that conversation will shift away from inflation, at least the inflation sentiment will be a bit more mild, downshifting of inflation. But now we're going to turn the conversation to soft landing versus mild recession versus something deeper, and so that'll impact the outlook in terms of fundamentals. So with that expect elevated volatility.

In today's market, because it hasn't been a fundamental stress, there's really little if any credit fundamental problems out there, separate those securities that price has been absolutely decimated because of low liquidity uncertainty and buy the heck out of it, because they're probably just too darn cheap. But separate that from the potential credit problems like those crazy financings for CCRCs, or a mall or something that has questionable economics behind it, just not throttles up indiscriminate acceptance of risk but the potential for fundamental credit stress. But other than that, buy as many securities as you can find that have just been absolutely decimated because of liquidity concerns, because generally the fundamentals are solid.

Vadim Avdeychik: That's great. Unless there are any other questions, we can wrap it up. I'll thank you for AICA for putting on this event today. It's great to see everyone in person and enjoy lunch

Recorded on November 16, 2022.

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