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RAPID MUNICIPAL MARKET EVOLUTION IS SHIFTING TRADITIONAL ADVISOR ROLES

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Key Takeaways

- Higher yields could encourage higher fixed income allocations, even as market volatility increases.
- Financial advisors are addressing a widening array of client needs in a competitive marketplace that demands high-touch client service and institutional investment management capabilities.
- What once may have made sense for advisors who seek to manage investments and client service demands in-house, may not be reasonable any longer, given the changing landscape.
- With robust institutional capabilities, competitive fees, and accessible minimums, we believe Breckinridge is the partner of choice for advisors seeking bespoke outsourced solutions.



AN IMPROVED FIXED INCOME OUTLOOK

Bonds are back. Today's higher yields make allocating to bonds more compelling than at any time in the last 20 years, while reinforcing fixed income's historical portfolio diversification benefits.

At the same time, bond investing — and particularly municipal bond investing — grows more complex with every new turn in the paths of investment technology and client demands.

For investment managers today, maintaining consistent market presence and persistent surveillance enabled by technological prowess — long the hallmarks of the biggest institutional players — are exerting greater influence over ultimate investing success.

A CHANGED MARKET PROFILE

Over the last decade, as municipal bond ownership shifted from open-end mutual funds, banks and insurance companies, investments through separately managed accounts (SMA) and exchange traded funds (ETF) gained a more pervasive influence in daily municipal bond trading. The changing ownership dynamics mean investors have had to develop new ways to manage their muni portfolios.

In this evolving environment, financial advisors are being asked to go beyond simply mirroring an index. The landscape demands that advisors adapt to market shifts and partner with forward-thinking investment managers who can respond to a new paradigm.

"Clients expect managers to find opportunities to add value by making incremental changes to portfolios day-to-day that take advantage of market uncertainty," explained Matt Buscone, Co-Chief Investment Officer at Breckinridge Capital Advisors.

Investment managers confronting challenges of a more complex and competitive municipal bond trading environment must develop, deploy and continually refine new tools and technologies.

Technology enables investment managers to exploit alternative trading platforms, execute algorithmic trading strategies, proactively address tax loss harvesting (TLH) needs and strengthen security research and selection.

In addition, technology allows managers to maintain market surveillance and execute trading opportunities that emerge each day in the primary and secondary municipal bond markets, where limited growth in recent years¹ is intensifying competition for the most suitable bonds.

EVOLVING RELATIONSHIPS AMONG ADVISORS, THEIR CLIENTS, INVESTMENT MANAGERS & THE MARKET

As a result, financial advisors who manage fixed income portfolios in-house face obstacles to trading success and client satisfaction, even as client service expectations grow more demanding.

Continued growth in the power and sophistication of institutional investment operations is outpacing the ability of individual investors and many traditional broker/dealers to implement the new capabilities demanded by the municipal market. The human and financial resource commitments required by internal infrastructure can be prohibitive and constitute a long-term business risk.

1. While the municipal bond market overall grew significantly since 2004 (about 47 percent from about \$2.8 trillion to about \$4.1 trillion as of the end of March 2022) the market's growth slowed substantially in recent years. Over the past decade, the market has grown only \$74 billion, an annual growth rate of 0.3 percent, including the market's \$300 billion or 6.8 percent decline in the first quarter of 2022, which was the sharpest quarterly market decline since tracking of the municipal market began in 1945.



Instead, financial advisors engage investment managers who have dedicated operational and financial capacity to maintain robust investment technology platforms that are essential to today's client solutions, including, for example:

- Multi-sleeved portfolios that simultaneously and seamlessly blend investment goals into a singular custodial account
- After-tax yield strategies that factor in a client's federal tax rate and state of residence when building customized portfolio solutions

"We believe that fixed income is a key component of a client portfolio," Breckinridge Chief Executive Officer Oggie Sosa said. "Our approach is to relentlessly deliver on the fundamental expectations of capital preservation and income, while pursuing higher relative values over time."

Developed and maintained by the firm's tech and trading teams, Breckinridge's proprietary technology platform systematically integrates and supports every aspect of the firm's operations.

With Breckinridge focusing on investment management and client service support, advisors are regaining the capacity they need to support, advance and achieve their clients' investment goals.

The content is intended for investment professionals and institutional investors.

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