June 30, 2020

Dear Shareholder:

The first half of this year was in a word: tumultuous. The dictionary defines "tumultuous" as marked by violent or overwhelming turbulence or upheaval. With turbulence and upheaval on many fronts, the first six months of 2020 met that definition. Financial markets were not spared. A sell-off of historic proportions in mid-March caused prices of stocks, commodities, and bonds to plummet as a mysterious respiratory illness caused by a novel coronavirus (COVID-19) evolved into a full-fledged global pandemic. Stock and bond prices bottomed out on March 23, and the rout then reversed itself just as quickly as it started.

COVID-19 has exposed the fragility of our economy. Halfway through this year, 20 million are unemployed in the U.S., entire industries and sectors are shut down or are operating at minimal capacity, and global trade relations are reaching a new low point. It's not a pretty picture. Nonetheless, financial markets have exhibited a remarkable degree of resiliency over the past few months.

What shape the economic recovery will take is an unresolved question. This is complicated by the fact that many areas are now experiencing a surge in COVID-19 cases. As we have discovered, reopening the economy will not be a linear process, and each city and state will have to make decisions based on its own particular circumstances.

Economists generally describe different types of recessions and recoveries as V-shaped, U-shaped, W-shaped, or L-shaped. While some economists are calling for a V-shaped recovery (a sharp but brief decline with a clearly defined trough, followed by a strong recovery), we tend to think that the recovery will be a long and slow process more akin to a U-shaped recovery. One noted economist described a U-shaped recession/recovery as being like a bathtub: "You go in. You stay in. The sides are slippery. You know, maybe there's some bumpy stuff in the bottom, but you don't come out of the bathtub for a long time."

Cities and states are climbing out of a deep hole. Fortunately, most municipalities and states were in excellent fiscal shape before the crisis. Federal funding under the CARES Act and the ability of states and cities to borrow under the Federal Reserve's municipal lending facility should help most jurisdictions cover current fiscal year deficits. However, addressing next year's budget gaps will be a more difficult task. Moody's Analytics estimates that states and local governments will need approximately $500 billion in additional aid over the next two fiscal years to avoid major damage to the economy. We think additional federal assistance is likely, but it is not a given.

As I pointed out in the March shareholder letter, we are staying busy evaluating the impact of recent events on our individual bond holdings. The fallout from COVID-19 is being felt in many sectors, but some sectors may be impacted more than others. Bonds issued to finance hospitals, nursing homes, airports, convention centers, museums, sporting facilities, small private colleges, and industrial projects are examples of credits that face an increased risk of a credit downgrade and/or default.

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Lower-rated bonds (i.e., high-yield) issued to finance these types of projects (which represent only a small share of the $3.9 trillion municipal bond market) have the greatest risk of default.

It is important to understand that the municipal bond market is bifurcated into investment grade credits and high-yield credits. Historically, the vast majority of municipal bond defaults have occurred in the high-yield space. We expect that this pattern will repeat itself. Forecasters at Barclays predict that in 2020 default rates for high-yield municipal bonds will be between 2% and 4%, up from about 1% in January. That compares to the historic default rate of approximately 0.18% for investment grade municipal bonds and 1.74% for corporate debt.

All of the bonds we hold in our investment portfolios are investment grade credits. While we do own a small number of hospital, airport, convention center, and stadium facility bonds in several of our funds, they represent a very small percentage of each portfolio's overall holdings. Our portfolio managers have carefully reviewed (and will continue to monitor) each issuer's financial statements to ensure that we remain comfortable holding these credits. If we identify any credits with which we are not comfortable, we will not hesitate to make adjustments to our investment portfolios.

At our core, we are risk managers. Frankly, that is where we add value for investors. In times like this, careful security selection and continuous oversight of investments have never been more important. Please know that we are staying very busy actively managing your investments.

Retirement Account Update

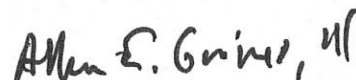
President Trump recently signed into law a measure that suspends for 2020 the required minimum distributions, or RMDs, many retirees must take from tax-deferred 401(k) and individual retirement accounts. The Internal Revenue Service recently issued updated guidance that allows people who took RMDs from retirement accounts this year to put the money back in their IRAs. Please note that the deadline to return RMD's taken in 2020 is August 31, 2020.

Retirement of William A. Combs, Jr.

I would like to formally acknowledge the retirement of Bill Combs from our Board of Trustees. Bill joined the Dupree Mutual Funds board in 1988. His steady and strong leadership, sound judgment, and calm demeanor have been a tremendous asset to Dupree Mutual Funds and its shareholders over the years. All of us here at Dupree would like to thank Bill for his dedication and longstanding service to the Funds.

As always, we appreciate the confidence and trust that you have placed in us.

Sincerely,



Allen E. Grimes, III
President