Dupree
Mutual Funds

December 31, 2023

Dear Shareholder:

For most of 2023 the performance of the municipal bond market was choppy with municipal bonds posting slightly negative total returns though the end of October. Persistent inflation and rising interest rates continued to present dual challenges for the municipal bond market. That all suddenly changed in November, however, with municipal bonds posting very strong positive total returns during that month. The Bloomberg Municipal Bond Index ("BMBI") posted a 6.35% gain during the month of November, which is the sixth-best monthly return on record and the second-best monthly return since 1981. The strong rally was fueled by a combination of factors including slowing economic growth, moderating inflation, and the Federal Reserve's (the "Fed") second consecutive pause in interest rate hikes.

The Fed's pivot to a more dovish monetary policy stance led to increased expectations that the rate tightening cycle is at an end and that interest rate cuts will begin in 2024. The Fed's updated "dot plot" was released at its December meeting and now reflects 75 basis points of easing in 2024. The market momentum which began in November continued into December and allowed municipal bonds to end the year on a strong note. For the 12-month period ended December 31, the BMBI provided a total return of 6.40%.

While the past couple of years have been difficult for fixed income investing, those investors who stayed the course were rewarded for their patience with solid returns in 2023. As we look ahead to next year, we believe the backdrop for fixed income investments has improved considerably. Even though the bond market has already experienced a significant year-end rally, we still believe it's an opportune time for investors to consider adding to their investment grade municipal bond holdings.

The approaching end to the Fed's rate tightening cycle should continue to act as a strong tailwind for the municipal bond market. Notwithstanding the recent rally, current municipal bond yields are still well above their recent lows and present an attractive opportunity to lock in rates that may not be available in the future. While today's absolute yields are attractive, tax-equivalent yields are even more compelling—especially for investors in high tax brackets. In addition to producing extra income for investors, higher yields also provide a cushion that helps offset any potential price declines.

Cash has been a good place to park money recently, but today's high rates on money markets and cash equivalents won't last forever. Investors holding cash also face significant reinvestment risk. History has demonstrated that staying fully invested in high quality bonds almost always generates higher investment returns than trying to time the market.

Strong credit quality, favorable supply and demand patterns, and historically low default rates should continue to be supportive of the municipal bond market. We remain optimistic that 2024 will be another good year for municipal bond investors.

Thank you for investing with us. Happy New Year!

Sincerely,

Allen E. Grimes, III

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President

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