Dupree Mutual Funds

March 31, 2024

Dear Shareholder:

The municipal bond market's performance for the majority of last year was negatively impacted by steadily rising interest rates and high inflation. However, market sentiment changed suddenly in November, and municipal bonds enjoyed a year-end rally of historic proportions.

Given the strong finish to last year, it's not surprising that the municipal bond market took a "breather" during the first quarter of this year. Despite the slow start, we think the municipal bond market is at an inflection point and that the outlook going forward looks very favorable. We have compiled a list of ten different reasons why we think you should consider including investment grade municipal bonds as a core component of your investment portfolio.

1. **Federal Tax Exemption**

The main attraction of municipal bonds is their steady stream of income which is exempt from federal income tax. Especially for higher tax bracket investors, tax-free municipal bonds offer a valuable tax shelter. The income tax provisions of the Tax Cuts and Jobs Act of 2017 (TCJA) expire at the end of 2025. Unless Congress acts, most Americans will face higher marginal tax rates in 2026. Higher federal marginal tax rates increase the value of the tax exemption.

2. **State & Local Tax Exemption**

For investors that purchase municipal bonds issued in the state in which they reside, municipal bonds also provide income exempt from state and local taxes.

3. **Safety**

Investment grade municipal bonds have a long history of timely payment of principal and interest in both up and down markets. Municipal bonds are generally considered safer than corporate bonds because they are backed by the taxing power of governmental entities. The default rate of investment grade municipal bonds continues to run at historically low levels.

4. **Municipal Market Credit Fundamentals**

States and localities have continued to enjoy very healthy tax revenue collections which has resulted in a near-record level of rainy day fund balances. In recent years, credit upgrades have outpaced downgrades by a factor of 4:1. Municipal bond issuers are well prepared to weather any potential economic downturn.

5. **Diversification**

The diversification benefits of high quality municipal bonds are often overlooked. Historically, the performance of investment grade municipal bonds has shown a low correlation with stock returns. As such, they can be effectively used to reduce the risks and volatility of stock-heavy portfolios. With equity market valuations at or near all-time highs, the diversification benefits of municipal bonds are more important than ever.

800-866-0614 ● 859-254-7741
P.O. Box 1149 ● Lexington, KY 40588
dupree-funds.com

6. The Civic Component

Buying municipal bonds is an important way to support the betterment of your local communities. Among other things, municipal bonds are used to finance critical infrastructure projects like schools, hospitals, wastewater facilities, and transportation systems. Investing in your hometown projects, while at the same time earning tax-free income, is a rare win-win situation.

7. High Short Term Money Market Yields Won't Last Forever

Approximately $6 trillion is currently parked in money market funds. High short term yields won't last much longer with the Fed poised to start cutting rates as early as June. We think it's an opportune time to consider putting some of your cash to work by buying high quality municipal bonds to lock in attractive longer-term yields. Investors are typically rewarded with the highest investment returns when they redeploy liquid assets before or at the peak of a Fed tightening cycle, rather than waiting until after rate cuts start.

8. Municipal Bonds Typically Outperform During Interest Rate Easing Cycles

The Fed last met on March 20 and affirmed its outlook for three interest rate cuts this year and for additional rate cuts to follow. A declining interest rate environment has typically steepened the yield curve which usually boosts the performance of longer duration bonds. Declining rates also offer fixed income investors the opportunity for capital appreciation as bond prices rise.

9. Technical Factors Remain Positive

Municipal bond issuance is expected to increase slightly this year but remain negative on a net basis taking into consideration bonds that are either maturing or called. Meanwhile, demand for tax-exempt bonds continues to be very strong. This supply/demand imbalance should continue to act as a support for municipal bond prices.

10. Liquidity

All (100%) of the bonds that we hold in our funds are classified as "highly liquid" assets under applicable federal laws and regulations. Plus, unlike many investments, our funds don't have minimum holding periods or redemption fees, so your money is available to you on a next business day basis.

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

Sincerely,

Allen E. Grimes, III

Allen E. Grimes, III
President