Dupree
Mutual Funds

March 31, 2026

Dear Shareholder:

The municipal bond market got off to a solid start during the first two months of this year. Geopolitical shockwaves, caused by the Middle East conflict, then hit financial markets hard. The outbreak of the Iranian war led to a selloff in almost all asset classes, driven primarily by fears that surging crude oil prices pose a serious new inflation threat.

The selloff has been indiscriminate and has impacted equities, fixed-income, and even gold. U.S. Treasury and tax-exempt yields have surged (prices lower) to their highest levels in months. While haven assets, including municipal bonds, typically benefit from a "flight-to-safety" trade when geopolitical tensions spike, that hasn't happened this time. Instead, significantly higher crude oil prices have rekindled inflation fears which have taken center stage. Fixed-income markets have responded by repricing to reflect the possibility of a "stagflation" scenario with high inflation, stagnant growth, and elevated unemployment.

The turmoil in the Middle East has managed to entirely flip the script for fixed-income investments. Prior to the outbreak of the conflict, the prevailing market view was that the Fed would cut interest rates twice this year; however, the consensus is now that the Fed will keep rates on hold for an extended period. Citing increasing levels of uncertainty, the Fed not surprisingly decided to leave the fed funds target rate unchanged at 3.50-3.75% at its March 18 meeting.

The macroeconomic impact and market fallout from the oil supply shock remain fluid and highly uncertain. It's impossible to predict how things will unfold from here. If the conflict winds down in the short term, crude oil prices should quickly retreat, and inflation fears should quickly ease. Conversely, a prolonged conflict could cause higher energy prices to become entrenched. This would likely create ripple effects for the economy and cause Fed policy to remain restrictive for longer.

On a slightly more upbeat note, it's important to note that this selloff has <u>not</u> been a credit-driven event. This means that, even though their underlying credit fundamentals have not deteriorated, high-quality municipal bonds have cheapened substantially. From our perspective as a municipal bond manager, we view this disconnect as an opportunity to buy attractive tax-free yields at discounted prices.

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

Sincerely,

Allen E. Grimes, III

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President

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