

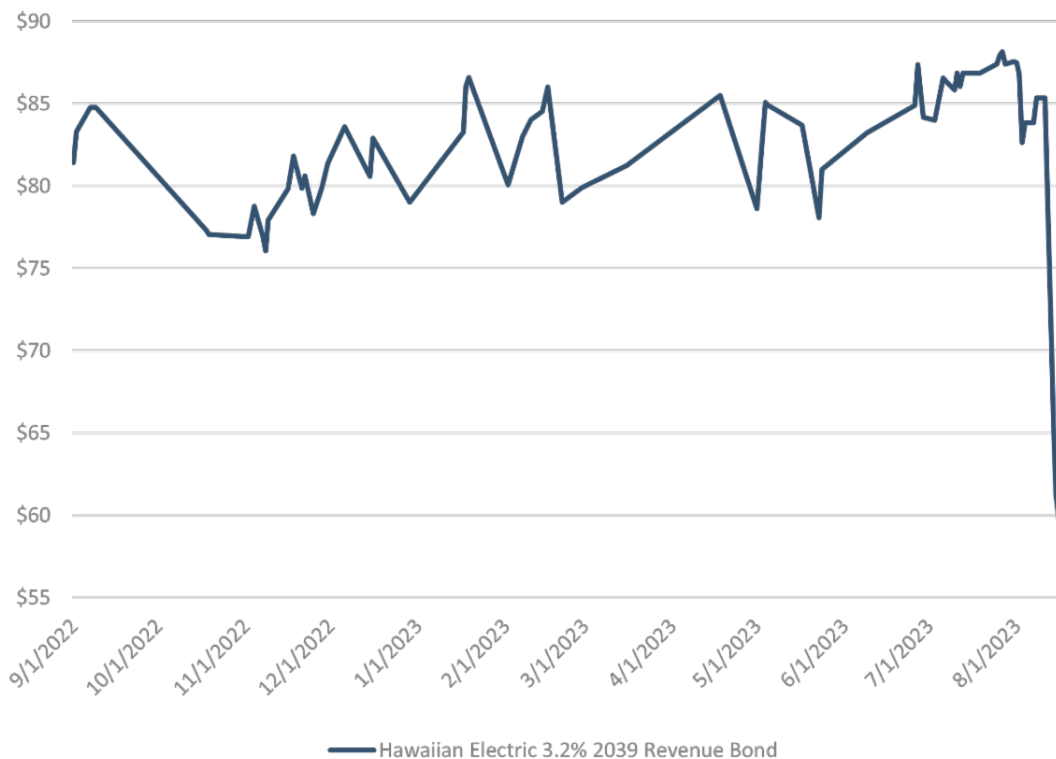
## Weekly Commentary

### Last week...

- US Treasury yields continued to rise. The 10-year Treasury yield has risen 100bps (1%) since early April.
- Real-time indicators of economic growth continue to indicate an acceleration of economic growth in the 3rd quarter. For example, industrial production increased 1% month-over-month versus an estimate of 0.3%. The Atlanta Fed GDPNow forecast for Q3 rose above 5%.
- Housing starts also surprised on the upside, rising 3.9% month-over-month against a consensus estimate of 1.1%.
- China's central bank announced a surprise interest rate cut in an effort to bolster a sagging economy and investment market declines.

### Insights from Maui Wildfires for Bond Investors

Fig. 1: Hawaiian Electric Long Duration Municipal Bond



Source: Bloomberg, Mill Creek.

Last week's tragic Maui wildfires claimed the lives of over 100 people, destroyed thousands of homes, and immediately called into question the role played by Hawaiian Electric. Initial reports suggest a failure on the part of the utility to de-energize power lines despite warnings of high wind and 'red flag' conditions. Following the news, the potential for substantial future liabilities led Hawaiian Electric's stock and bond prices to drop over -60% and -30%, respectively. Our thoughts and prayers are with all who have been impacted by this event.

From an investment perspective, we can draw two important lessons. First is the criticality of diversification across a municipal bond portfolio. The space is known for having a steady income profile and ultra-low default rates, but it is not immune to idiosyncratic events. A professionally managed bond account helps mitigate single issuer risk by holding a range of positions that differ by borrower, geography, sector, and maturity. Managers use their buying power to purchase large bond lots and allocate the exposure across client portfolios. This level of diversification is nearly impossible to execute as efficiently in a self-directed strategy.

A second takeaway is the importance of reevaluating longstanding assumptions. Deservedly, utilities are viewed as a safe sector in the municipal bond market due to the essential service nature of their business. While they remain low risk, disruptive weather events have led to credit issues for several utilities, including PG&E, PacifiCorp, and Public Service Company of Colorado. While our bond managers had no Hawaiian Electric exposure across our core intermediate strategies, they are in the process of reevaluating all utility holdings with a lens toward weather preparedness. For example, further scrutiny around the quality of a utility's distribution lines, preventative maintenance measures, and a pre-approved plan of action for high-risk events are just a few considerations.

Only time will tell how Hawaiian Electric will emerge from this disaster, but at the very least, we hope it provides valuable lessons that will help reduce the risk of loss going forward.

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## Disclosures & Important Information

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