



## Jonathan Mondillo, Head of US Fixed Income @ abrdn on municipal bonds and the current opportunity

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Jonathan Mondillo sat down with Jane King on July 19, 2023 for a NAVigator interview and



discussed the fixed income landscape especially for Municipal Bonds and the current opportunities in Closed-end Funds.

Jonathan Mondillo

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**Jane King:** Jon Mondillo is the head of North American fixed income for ABRDN. ABRDN is a global investment company, they help their clients plan, save, and invest for the future, and with me is Jon Mondillo. Great to have you here.

**Jonathan Mondillo:** Jane, pleasure to be here, thank you.

**Jane King:** So let’s lay the groundwork, tell me about ABRDN.

**Jonathan Mondillo:** Yeah, so ABRDN is a global asset manager, we manage about half a trillion dollars in assets globally for both large and small, so discretionary and non-discretionary mandates on behalf of both institutional clients as well as mom and pop retail investors.

**Jane King:** Okay, and then what are you telling clients right now?

**Jonathan Mondillo:** Yeah, so I think it's important for investors to realize that while we might be getting to the latter stages of this Fed hike cycle and the economy looks rather resilient, that it's important to be positioning their portfolios for what's to come next. So maybe six months ago it was looking like it was strong indications of recessionary environment, as that continues to get kicked forward, it's about maintaining those investments within existing portfolios. And then again repositioning around the margins for when we do see that economy start to slow, our expectations as we get into 2024, certainly the first half of 2024.

**Jane King:** Okay, so you do think that we'll see a slowdown at some point here?

**Jonathan Mondillo:** Yeah, absolutely. I think we've spent the better part of the last 12 months talking with investors about what their asset allocations look like, the traditional 60-40 split, should it be flipped, right? And I think that's still a conversation that's being had with investors just given how attractive fixed income looks at the moment. And again, I think the opportunities within fixed income, as we get into next year, as we get into corporate earnings that are maybe slowing a bit, and our expectation is that fixed income outperforms in that environment.

**Jane King:** How did you navigate this whole say, last three years? Pandemic, supply chain issues, interest rate increases, inflation, we've had a lot thrown at us over the past three years.

**Jonathan Mondillo:** Yeah, yeah. I think from a macro level and as a top-down manager, it's probably been very difficult. I think when you look at ABRDN's ethos or mantra or our philosophy just generally speaking when it comes to portfolio management, we tend to focus more on bottom-up security selection and credit fundamentals. So throughout these periods of volatility, depending upon what's driving that volatility, we're focused on issuers that have strong fundamentals, strong free cash flow growth, as well as positive outlook on a go-forward basis. So that's really what we focused on through this volatile period.

**Jane King:** Tell me about the closed-end funds. So you're working with those, give me a brief description of what they are and how they fit into a portfolio.

**Jonathan Mondillo:** Yeah, so we are the third largest manager of closed-end funds globally. Closed-end funds are basically a fund wrapper in which we do not issue or redeem shares as investors purchase those securities. As a result, the share price in which investors buy those funds at can trade at or above or below what the underlying assets are within that portfolio, a premium or a discount to the NAV of that portfolio.

**Jane King:** Okay, and how do they fit? Do people like to use them as protection or how do they fit into a portfolio?

**Jonathan Mondillo:** So the fixed income side, you tend to find a lot of coupon clippers, so investors that are living on a fixed income, they like to clip a coupon, and I think that's for a number of different reasons. One, is a closed-end fund vehicle, generally speaking, allows the

manager to add things such as leverage, to buy maybe a little bit less liquid securities than you might find in an ETF or in a traditional mutual fund, so that bodes well for investors that are looking for a little bit extra yield.

I think when we look at just broad fixed-income closed-end funds at the moment, of which we manage a good number of which, we just took over a municipal national income strategy, ticker VFL. When we look at the marketplace right now, you're looking at fixed-income closed-end funds at discounts to NAV north of 10%, extremely attractive yields. And then in terms of that leverage cost, as we get to sort of peak Fed Funds levels, that's expected to come down, so you should start to see those dividend yields to investors creep up. So extremely attractive place to be investing and deploying.

**Jane King:** Interesting. So I just want to get your take on the economy. You mentioned you expect maybe a slowdown coming, how do you see things playing out? We've been through so much, we've been resilient, we just heard all these bank earnings and almost all the CEOs said how resilient things were, and the consumers are resilient. Where do you think we're headed? What should we watch out for?

**Jonathan Mondillo:** You know, we continue to see cracks in certain areas of the economy, there's no doubt about it that things are slowing. That being said, I think despite the criticism that the Federal Reserve has faced, they've had a tough task and it's starting to look like maybe they have threaded the needle.

**Jane King:** It does, doesn't it? Yeah.

**Jonathan Mondillo:** Right?

**Jane King:** The soft landing.

**Jonathan Mondillo:** Exactly, exactly. So if you're an economist, of which I'm not, you certainly I think have increased those expectations of a potential soft landing, if you will. That's not our base case at ABRDN, but it's certainly over the last month or two as we've seen most recent economic prints, as we've seen inflation obviously starting to come down and more in line with where we'd like to see things going, certainly a soft landing has increased in terms of probability.

**Jane King:** Yeah. Jon, thank you so much for your insight.

**Jonathan Mondillo:** Thank you, Jane. Pleasure.

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