



CLOSED-END FUND REVIEW

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FIRST QUARTER 2024 OVERVIEW

After a year in which the average closed-end fund (CEF) increased 10.55%, CEFs continued to perform very well in 1Q24. Indeed, the average CEF was up 5.86% during the quarter. It was a broad rally with equity CEFs up 7.50%, taxable fixed-income CEFs up 5.75%, and municipal CEFs increasing 3.18% for the quarter. With the exception of the single country equity category, which was lower by only -0.24% for the quarter, every category tracked by Morningstar posted a positive total return. The best performing category for the first quarter was the master limited partnership (MLP) category which returned +15.18%. (Source: Morningstar. All data is share price total return)

During the first quarter, equity CEFs benefitted from the 10.56% gain in the S&P 500 Index and the 4.66% gain in the MSCI ACWI ex USA Index. Taxable fixed-income CEFs benefitted from positive 1Q24 returns in several key fixed income indices including the 1.49% return in the ICE BofA US High Yield Constrained Index, the 2.43% return in the Morningstar LSTA US Leveraged Loan Index and the 4.51% return in the ICE BofA Fixed Rate Preferred Securities Index. MLP CEFs benefitted from the 13.83% return in the Alerian MLP Index. (Source: Bloomberg).

Average Discounts to Net Asset Value finally begin to narrow

Average discounts to net asset value (NAV) for CEFs narrowed during 1Q24 to -7.51% from the -9.62% level they ended 2023. Even with the noticeable narrowing of discounts to NAV during 1Q24, average discounts remain wider than the 10-year average discount of -5.91%. It has been my contention that once the Federal Reserve (Fed) indicates they are finished raising short-term interest rates for this cycle that we would see average discounts to NAV begin to narrow. The narrowing of discounts to NAV during the first quarter indicates the process has begun, in my view. While it was encouraging to see average discounts to NAV narrow during 1Q24, average discounts remain wider than historical averages, and I reiterate my view that these wider average discounts to NAV can potentially create compelling long-term total return opportunities for investors who are patient and take advantage of these discounts to NAV. Furthermore, if the Fed is indeed finished raising short-term interest rates for this cycle and potentially reduces short-term interest rates in 2024, I believe we could continue to see average discounts to NAV narrow meaningfully in 2024, particularly in longer duration fixed income CEFs, including municipal, preferred and investment grade corporate bond CEFs.

Average discounts to NAV for equity CEFs narrowed during 1Q24 to -6.92% from the -10.83% level they ended 2023. Average discounts to NAV for equity CEFs are now slightly narrower than the 10-year average discount of -7.19%. Average discounts to NAV for taxable bond CEFs narrowed during 1Q24 to -3.10% from the -5.60% level they ended 2023. Average discounts to NAV for taxable bond CEFs are narrower than the 10-year average discount of -4.91%. Among these broad categories, the widest discrepancy between current discounts to NAV relative to the long-term average remains in the municipal CEF category where average discounts to NAV ended 1Q24 at -9.88%. While average discounts for municipal CEFs did narrow during 1Q24 from the -12.41% level they ended 2023, they still remain far wider than the 10-year average discount of -5.05%. (Source: CEFData.com)

Backdrop for many CEF categories continues to improve

As the second quarter of 2024 commences, the backdrop for many CEFs continues to improve. The Fed indicating they are finished raising short-term rates for this cycle (and could potentially begin cutting rates in 2024) has provided an initial catalyst for investors to begin to take advantage of the wider than average discounts to NAV available in the secondary market as they likely no longer fear higher leverage cost. It has been very encouraging to see CEF investors who were dollar cost averaging during the challenging periods of 2022 and part of 2023 benefit from the discipline of having purchased CEFs when average discounts to NAV were high single and low double-digit levels as average total return performance for many CEFs was quite strong during 4Q23 and 1Q24. My message for CEF investors remains consistent with prior commentary pieces and I continue to encourage CEF investors to remain patient, disciplined and to take advantage of the wide average discounts to NAV by dollar cost averaging across several different categories of the CEF marketplace. I believe valuations remain compelling for many CEFs as many trade at discounts to NAV which are wider than their historical averages. If the Fed is indeed finished raising short-term interest rates for this cycle or even begins cutting interest rates later this year, I believe the backdrop for many CEFs- particularly leveraged fixed income CEFs including municipal and preferred CEFs- would continue to improve throughout 2024 and discounts will likely continue to narrow. I continue to believe this remains a compelling time for CEF investors to dollar cost average across many categories including but not limited to diversified equity CEFs, municipal CEFs, preferred CEFs, and high yield CEFs.

Source for CEF performance: Morningstar. All performance is based on share price total return.

Past performance is not a guarantee of future results.

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