Karpus Investment Management
Market Update & Outlook

July 2018

To Our Clients,

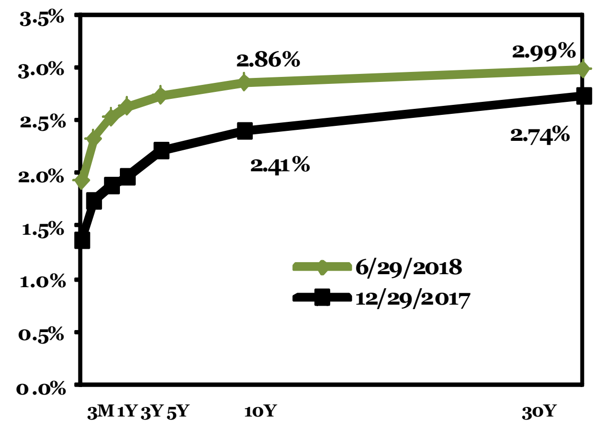
As the Fed continues to raise rates, the unemployment rate continues to improve, and the economy continues to forge forward (most recently at a 2.0% pace through the first quarter of 2018), domestic equity markets have risen amid periods of volatility and despite elevated conventional valuation metrics.

Unlike domestic equity markets, foreign equity markets, the overall taxable bond market, and municipal bonds were down on a year-to-date basis, with municipal bonds ending the second quarter slightly positive.

As the yield curve remains flat (i.e., the yield differential between the 10 and 30 year bonds for instances is currently just 13 basis points), this means that treasury owners are only getting compensated marginally for taking on additional risk in longer maturity bonds. Historically, a flattened yield curve predicts a slower growth economy. However, with the economy moving along and showing signs of strength, they key questions are whether momentum will shift and when.

Key here, too, is to remember that although over the short-term higher rates may be painful, over the long run, higher rates are bond investors' friends because the higher income acts as a cushion if bond prices decline and because income comprises over 90% of a bond investors' total return.

Chart 1: U.S. Treasury Yield Curve - Yields Rise but Curve Remains Flat
(12/29/2017 vs/ 6/29/2018)



Source: Bloomberg Finance, L.P.

With respect to closed-end funds in particular, discounts to net asset value on closed-end bond funds are historically wide, with the widest being on the tax-sensitive (muni) closed-end funds. In our firm's 30 plus years of existence in studying these funds, today's wide discounts are generally associated with peaks in interest rates. If this is true, bond investors should experience exceptional total returns over the next one to two years, with our municipal bond portfolios potentially producing +5% to +12% total returns over the next year and +6% to +12% annualized over the next two years.

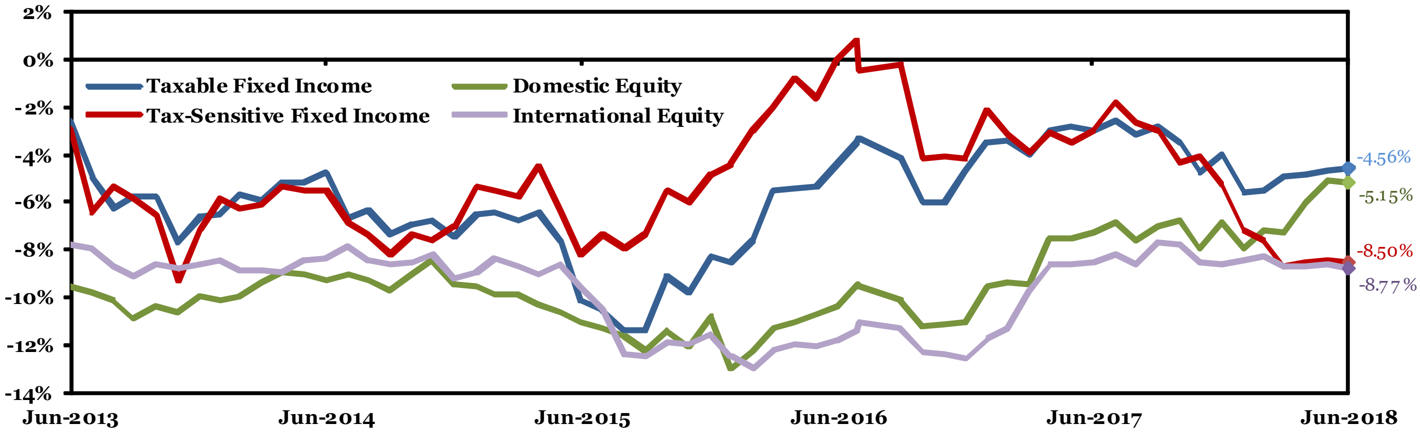
With equity portfolios, international equity discounts are wide on an absolute basis, but at almost the exact average levels compared to the last 10 years. Looking at the same time frame, domestic equity discounts are quite narrow. As discount cycles continue to play out in each of the major categories and as the economy mires its way

Table 1: Major Indices' Performance

	Q2, 2018	YTD	1 Yr.	3 Yrs.	5 Yrs.
Bloomberg Barclays U.S. Gov't/Credit	-0.33%	-1.90%	-0.63%	1.83%	2.29%
Bloomberg Barclays Municipal Bond	0.88%	-0.25%	1.56%	2.85%	3.53%
S&P 500	3.44%	2.64%	14.36%	11.93%	13.42%
MSCI ACWI ex. U.S.	-2.47%	-3.77%	7.27%	5.07%	5.99%

Source: Bloomberg Finance, L.P. Periods greater than 1 year are annualized.

Chart 2: Closed-End Fund Discounts



Source: Bloomberg Finance, L.P.

through periods of market volatility, it is important to remember that not only do we invest in closed-end funds when discounts are wide and then invest in index-like securities when they are narrow, but we also actively monitor clients' holdings to help ensure that shareholder value is continually maximized.

If discounts remain wide for a long time, we sometimes will accumulate large percentages of ownership in funds and use shareholder activism to unlock value and hold managers' accountable for poor net asset value performance or persistently wide discounts. We look at shareholder activism as something we are required to engage in because of our fiduciary duty to you, our clients.

Although mainstream media may sometimes characterize activists as villains that are focused only on short-term returns, this is not how we look at it. We see shareholder activism as an enhanced due diligence process. Any good manager will go in and kick the tires on new investments to review the portfolio, managers, and structure of the company or fund they are investing in on behalf of their clients. However, where we are different is that we will not necessarily sell out of positions if we believe there is something management or a Fund's Board can do to address poor net asset value performance, persistently wide discounts, or other concerns.

We will engage in dialogue with management to see if there is something that can be done. Sometimes our process involves repeated conversations to find an agreeable solution. Other times, it results in filing letters, proposals, or waging a full-fledged proxy contest. Whatever the solution winds up being, we see activism as a tool to help ensure that the right things are being done to address shareholders' concerns.

With this background, so far in 2018, we've enjoyed successes in 2 municipal closed-end funds, as well as two domestic equity closed-end funds. Shareholder activism is just one of the many ways that Karpus is different from other managers. It not only generates added value but also holds managers and Boards of your holdings accountable if they are not doing their jobs to maximize shareholder value.

Following is a more in depth discussion of what's been happening in the major asset classes.

Equities

The stock market has been range-bound for the past few months. We continue to see strong earnings growth through the second quarter and expected to continue through year end. In fact, such growth has actually caused P/E (price-to-earnings) ratios to compress from extremely high levels to start the year to moderately expensive levels today.

To date, we have witnessed two dips and a moderate correction; characterized as a drop of 10% from the peak. The Dow Jones Industrials Index is slightly down –0.73%, but despite the volatility the S&P 500 Index is up 2.64%. It is "normal" for the market to experience on average 3 dips (5% or more) per year going back to 1928. 2017 was an aberration with none, causing investors to prevision that environment and become complacent. If the stock market makes it to the end of August this year without a 20% correction (considered a bear market), this will be the longest bull market in history surpassing the 1990s.

The economy has been flourishing this year with solid fundamentals. Noteworthy, the consumer confidence index hit the highest level since 2000, the National Federation of Independent Business (NFIB) shows small business optimism at its highest since 1983, the U.S. unemployment rate just hit the lowest rate in 50 years at 3.8%, and the S&P 500 just posted one of the largest quarterly earnings growths in the first quarter.

Despite the favorable economic news, stocks have been volatile. Its key to remember the stock market is typically six to twelve months ahead of the economy. Volatility has been prevalent for two primary reasons: (1) the U.S. Fed has increased short-term rates; and (2) trade tensions have been escalating in many areas. For example, trade talks have intensified between the U.S. and China, North American Free Trade Agreement (NAFTA) talks have deteriorated, and the U.S.-European Union have had battles over steel, aluminum, and autos. The trade tensions that picked up in early May have caused foreign markets (which were outperforming the U.S. market) to fall behind as investors went for U.S. dollar assets.

In periods of volatility we emphasize remaining selective and cautious. Given the trade tensions, we have shifted from overweight to neutral with international stocks relative to U.S. stocks. A recent large tender offer on an international position at 99% Net Asset Value (NAV) where purchases were 87% NAV provided us such liquidity. In addition, sticking true to strategy we have reduced closed-end funds to below 20% as we have not witnessed discounts this narrow since 2007.

In the market environment like we have recently experienced, the preferred stock sleeve of clients' portfolios will prove to be a risk-off stabilizer to dampen volatility in equity portfolios. To this point, we have put together a portfolio of preferreds with an average maturity of 6 years and a 6.5% yield with over 300% asset coverage. Going forward, we will remain vigilant in our pursuit of providing you the best risk-adjusted returns in this ever aging bull market.

Taxable Fixed Income

The bond market continued its 2018 roller coaster ride into the second quarter. After entering the quarter with a 10 year U.S. Treasury yield just below 2.75%, yields marched steadily higher, peaking to over 3.10%, before retreating back down to 2.86%. After a somewhat tepid first quarter, signs of opportunity began to emerge in our taxable fixed income portfolios.

Buoyed by both wide discounts and attractive yields, we have added an allocation to municipal-focused closed-end funds in our taxable fixed income portfolios. As bond market yields rose, investors fled longer-duration municipal-focused funds, causing discounts to widen to comparably attractive levels relative to taxable fixed income closed-end funds. Further, yields on longer-dated municipal bonds are generally the same yields on equivalent maturity Treasuries. This is atypical, as municipal bonds often trade at lower yields because they carry tax advantages not found with Treasuries. Coupled together, these two reasons make municipal closed-end funds a compelling addition to our portfolios.

As the Federal Reserve increases the Fed funds rate, comparable short-term rates often rise in-step. The penalty rates on our Auction Rate Preferred securities (ARPs) pay are tied to these short-term rates. As fund companies try to mitigate their leverage costs, they are continuing to refinance their ARPs. During the quarter, one of our largest holdings announced a total redemption while another fund family announced a substantial tender offer. ARPs purchased at a discount continue to be an outstanding investment with a three pronged return. ARPs earn above market coupons, maintain little to no duration, and are poised for capital appreciation on a redemption or tender announcement.

As for discounts within taxable fixed income closed-end funds, although we've been able to selectively buy a handful of closed-end funds, we've largely been unable to find significant value on a broad spectrum. This is resulting in us continuing to patiently await future periods of volatility, which we believe will unlock opportunities going forward.

While we wait, we also continue to find special purpose acquisition companies (pre-acquisition) (SPACs) attractive. The market's continued appetite for SPACs led to further new issuance into the second quarter. While we don't often participate in a new SPAC initial public offerings, the exceptional amount of issuance should translate into continued success for our "cash at a discount" SPAC investment strategy.

Going into the second half of the year, we will continue in our efforts to maximize safety, while simultaneously finding pockets of opportunity to add value.

Tax-Sensitive Fixed Income

The 2nd quarter of 2018 continued to provide us with one of the best buying opportunities of municipal bond closed-end funds (CEFs) that we have ever seen. We have been accumulating shares in our clients' accounts for all of 2018, and we are confident that returns will be exceptional going forward.

Our research shows that historically the discounts on these funds do not go to levels wider than their current levels for any extended period of time. Even without considering this historically wide discount, the closed-end fund structure alone provides superior performance versus comparable open end funds (source: BlackRock). When we layer in the fact we are buying these high quality funds at 12% discounts to their net-asset-values, there is a high likelihood of tremendous returns going forward.

We believe discounts have widened in anticipation of rising interest rates, and our strategy of buying these funds at deep discounts affords us the luxury of buying ***after*** much of the interest rate risk has been removed. This ongoing opportunity has allowed us to increase our holdings to now over 60% in each client account from 25% near the end of last year. And we continue to have ample "dry powder" to add to our holdings should this opportunity persist.

As discounts widen, our performance typically lags in the short-run as we wait for discounts to return to more average levels. However, we are very pleased that we have kept up with the overall municipal bond market despite the discount widening cycle that we are in. This is due to our defensive positioning going into 2018 as interest rates rose, and also due to the incredible performance on some of our short-term and variable rate holdings. Indeed, some of our ARPs are now paying rates of 3% to 5%, which is far superior to any alternative we have found.

As bond investors, we welcome rising bond yields as we now expect to earn higher levels of income going forward. And we are confident that once again, our contrarian strategy of buying closed end funds at deep discounts will drive our performance to levels that cannot be beaten.

Closing Thoughts

As always, we are extremely appreciative of your continued confidence and look forward to working as your partner and consultant by helping you achieve your long-term financial goals.

The opinions expressed in this newsletter are those of the Karpus Investment Management staff, are subject to change, and are not guarantees of future performance.

Table 2: Morningstar Universe Rankings

Periods Ended 3/31/2018
for
KARPUS INVESTMENT MANAGEMENT

Category	Time Period	# of Mgrs.	Position in Category
EQUITY			
Domestic Equity	10 Yrs.	1,048	Top 3%
	7 Yrs.	1,118	Top 48%
	5 Yrs.	1,184	Top 53%
Int'l Equity	10 Yrs.	495	Top 5%
	7 Yrs.	580	Top 9%
	5 Yrs.	630	Top 8%
FIXED INCOME			
Taxable	10 Yrs.	804	Top 1%
	7 Yrs.	879	Top 1%
	5 Yrs.	918	Top 1%
Municipal	10 Yrs.	213	Top 1%
	7 Yrs.	236	Top 2%
	5 Yrs.	270	Top 1%
BALANCED			
Conservative Balanced	10 Yrs.	348	Top 3%
	7 Yrs.	359	Top 4%
	5 Yrs.	405	Top 4%
Growth Balanced	10 Yrs.	583	Top 2%
	7 Yrs.	637	Top 25%
	5 Yrs.	723	Top 17%

Past performance is no guarantee of future results.
Data Source: Zephyr StyleADVISOR Morningstar Universe Rankings