

# MAAX Plays Defense



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Portfolio Manager

## MAAX

### VanEck Muni Allocation ETF

#### Overview

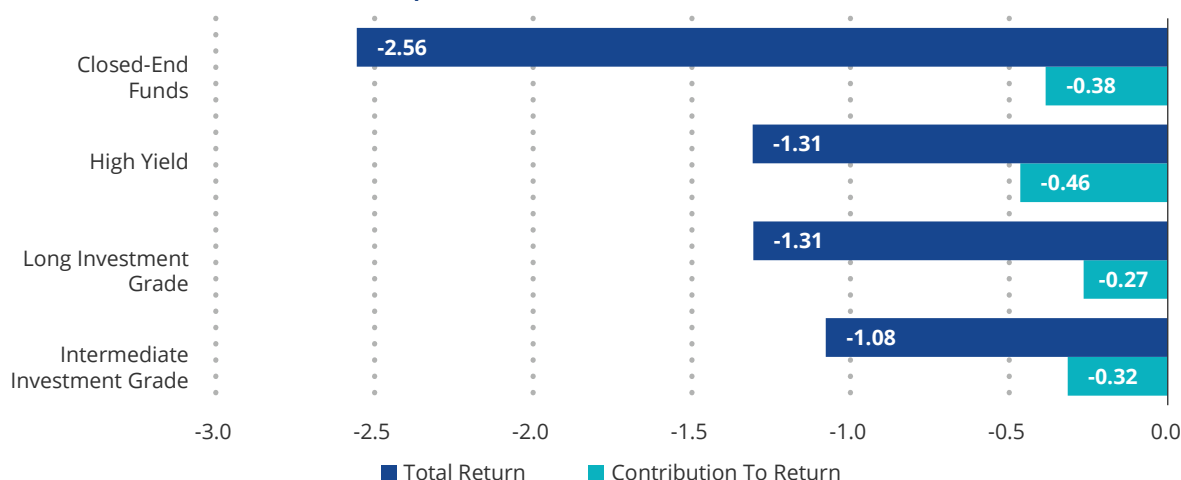
The **VanEck Muni Allocation ETF (MAAX)** tactically allocates among VanEck municipal bond ETFs based on interest rate and credit opportunities to seek capital appreciation plus tax-exempt income. It uses a data-driven, rules-based process that leverages technical and macroeconomic indicators to guide credit and duration exposure, seeking to avoid market risks when appropriate. **The expanded PDF version of this commentary can be downloaded [here](#).**

For the month of September, the VanEck Muni Allocation ETF ("MAAX") had a NAV total return of negative 1.44% versus negative 0.72% for its benchmark, the Bloomberg Barclays Municipal Bond Index. Over the past 12 months, MAAX is up 4.31% versus 2.63% for its benchmark. MAAX's taxable equivalent 30-Day SEC yield, based on a 37% federal tax rate, was 4.48% as of September 30, 2021.

Municipal bonds, across the board, were under pressure last month. The largest detractors from performance were holdings with the longest durations, such as high yield, closed-end funds and long-duration investment grade bonds. The higher yields from these investments helped to cushion the price declines, but did not offset them completely.

**The chart below illustrates the performance and contribution to performance for each segment of the portfolio during the month of September:**

#### VanEck Muni Allocation ETF - Return September 2021



Source: Factset

### Quarter-End Total Returns (%) as of September 30, 2021

	1 Mo <sup>†</sup>	YTD <sup>†</sup>	1 Yr	Life (05/15/19)
MAAX (NAV)	-1.44	1.43	4.31	2.20
MAAX (Share Price)	-1.33	1.65	4.37	2.30
Bloomberg Barclays Municipal Bond Index*	-0.72	0.79	2.63	3.85

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**Expenses: Gross 0.35%; Net 0.35%.** Van Eck Associates Corporation (the “Adviser”) will pay all expenses of the Fund, except for the fee payment under the investment management agreement, acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses. Expenses are based on estimated amounts for the current fiscal year. Cap excludes acquired fund fees and expenses, interest expense, trading expenses, taxes and extraordinary expenses.

The "Net Asset Value" (NAV) of a VanEck Exchange Traded Fund (ETF) is determined at the close of each business day, and represents the dollar value of one share of the fund; it is calculated by taking the total assets of the fund, subtracting total liabilities, and dividing by the total number of shares outstanding. The NAV is not necessarily the same as the ETF's intraday trading value. VanEck ETF investors should not expect to buy or sell shares at NAV.

\*Bloomberg Barclays Municipal Bond Index is considered representative of the broad market for investment grade, tax-exempt municipal bonds with a maturity of at least one year.

September was all about interest rates. The month started with the U.S. 10-Year Treasury note yielding 1.31% and ended with it yielding 1.49%. Here we are now, in October, and that rate is hovering around 1.60%. Let's explore what has driven rates higher recently and where we think rates are going.

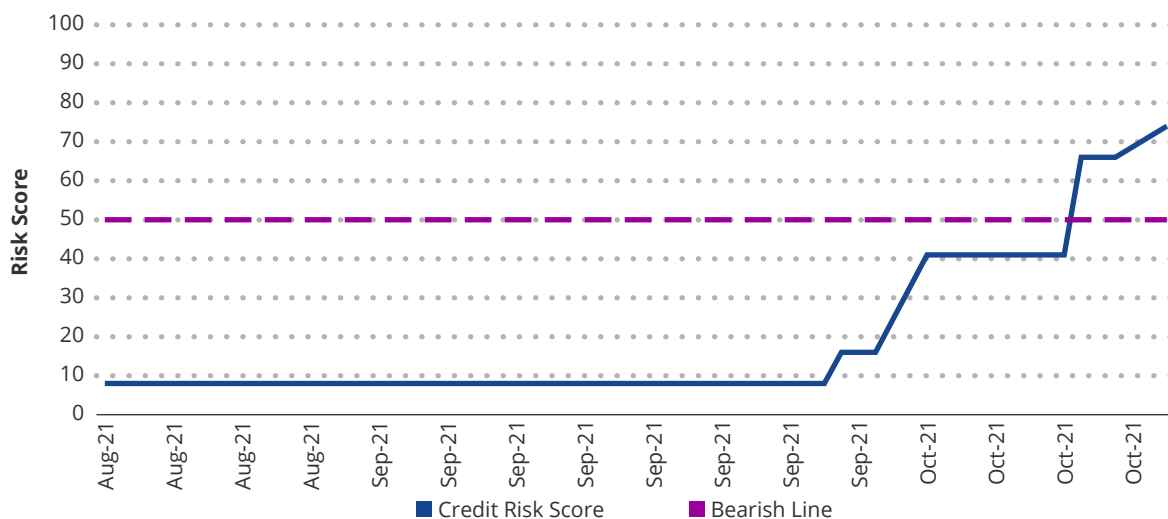
There were two notable forces pushing interest rates higher: the first, the anticipated U.S. Federal Reserve (Fed) taper, and the second, high inflation. The Fed has been purchasing \$120 billion in Treasuries and mortgage-backed securities each month to support the economy to help dig it out of the hole opened up by the pandemic. The Fed may begin slowing the rate of those purchases as soon as November, which would

put upward pressure on yields. The other force pushing yields up is inflation. The perception of transitory inflation has helped to keep yields muted, but persistently high inflation prints is challenging that narrative.

On October 14, MAAX increased its credit quality and reduced its overall risk exposure due to falling bond prices and widening credit spreads. One of our momentum signals, which compares the performance of high yield to investment grade bonds, began to warn of trouble brewing on September 29. This was further confirmed by falling price trends on high yield bonds on October 4. Then, on October 13, the model verified that credit spreads were widening.

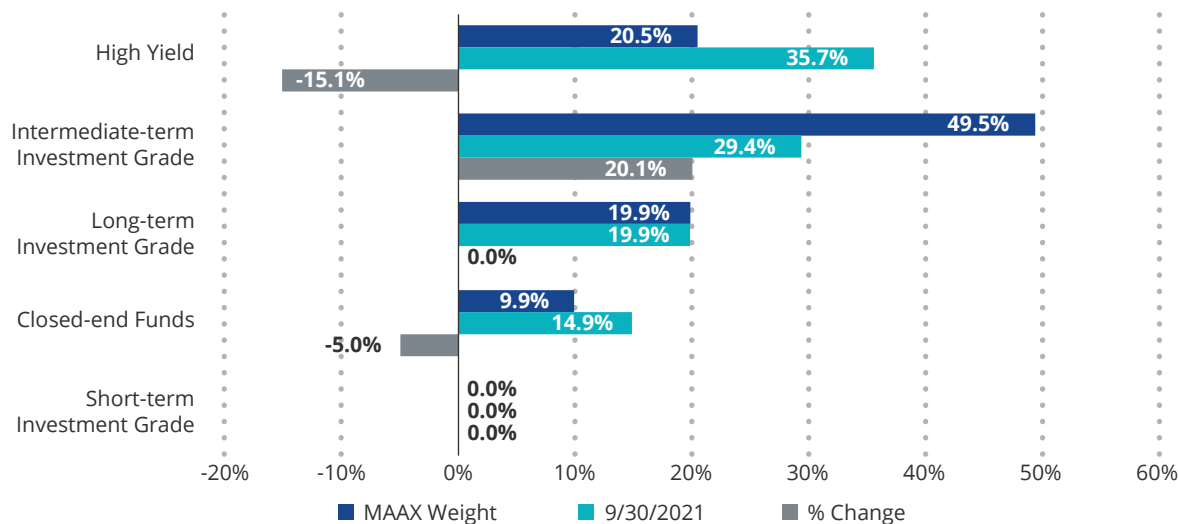
The chart below illustrates the credit risk score, which turned bearish once the risk score reached 50.

### Credit Total Risk Score



Source: VanEck

MAAX reduced its exposure to high yield by 15% and to closed-end bond funds by 5% and re-allocated the proceeds to intermediate-duration investment grade bonds. **The chart below illustrates current weightings and recent changes:**



Source: VanEck as of 10/18/2021

If rates continue higher, which is certainly a possibility, then it is plausible that we may see more significant market stress. At that time, in our view, it would be appropriate to take further defensive actions. At this point, however, we believe that the current allocation leaves the fund well positioned to balance both the risks and rewards in the municipal bond market.

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Bloomberg Barclays Municipal Bond Index is considered representative of the broad market for investment grade, tax-exempt municipal bonds with a maturity of at least one year.

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