

Why Munis Now

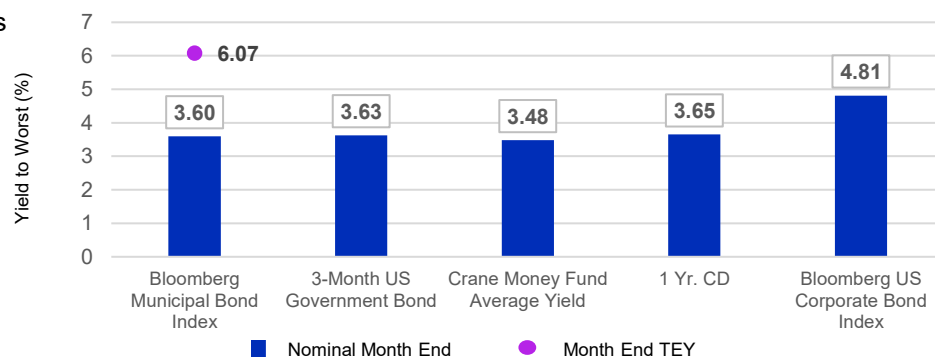
Franklin Templeton Fixed Income

December 2025

Taxable Equivalent Yield Spread over Taxable Bond Offerings

Chart: Municipal Taxable Equivalent Yield vs. Taxable Alternatives

- A key factor in assessing municipal bonds (munis) compared to other taxable investments is the Taxable Equivalent Yield (TEY).
- The municipal bond TEY remains appealing when compared to other fixed income sectors.

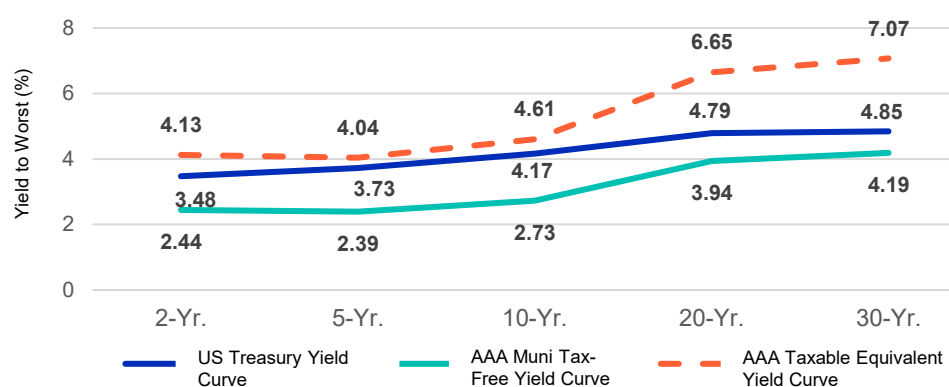


1. Source: Bloomberg, Crane Data as of 12/31/2025.

A Long-Term View

Chart: Muni Curve vs. US Treasury Curve vs. AAA Muni Taxable Equivalent Yields

- Recognizing the effect of taxes on potential returns is crucial, especially when evaluating yields between fully taxable securities and municipal bonds.
- The interest from munis is exempt from federal income tax.*

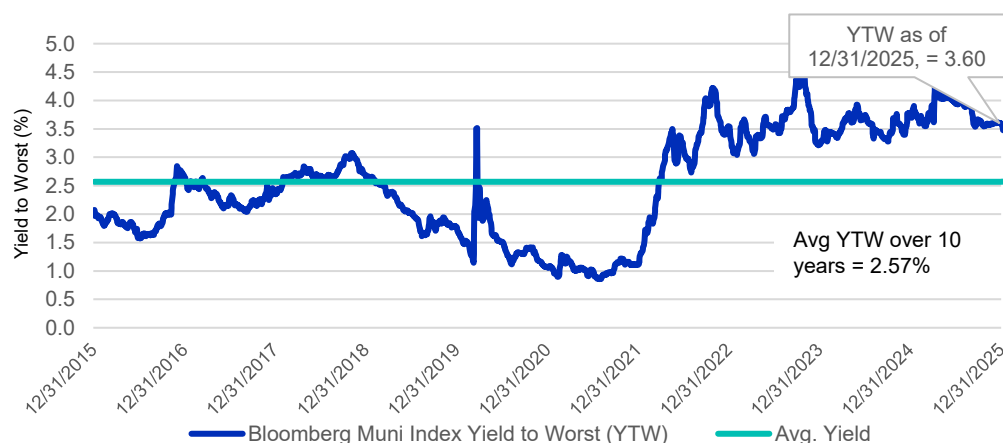


2. Source: Bloomberg as of 12/31/2025.

Yields are Attractive Relative to Historical Averages

Chart: Bloomberg Municipal Index Historical Yield

- At the end of December 2025, the yield to worst (YTW) on the Bloomberg Muni Bond Index was over 100 basis points (bps) higher than its 10-year average.
- It was also 270 bps higher than the lowest yield recorded over the past 10 years.



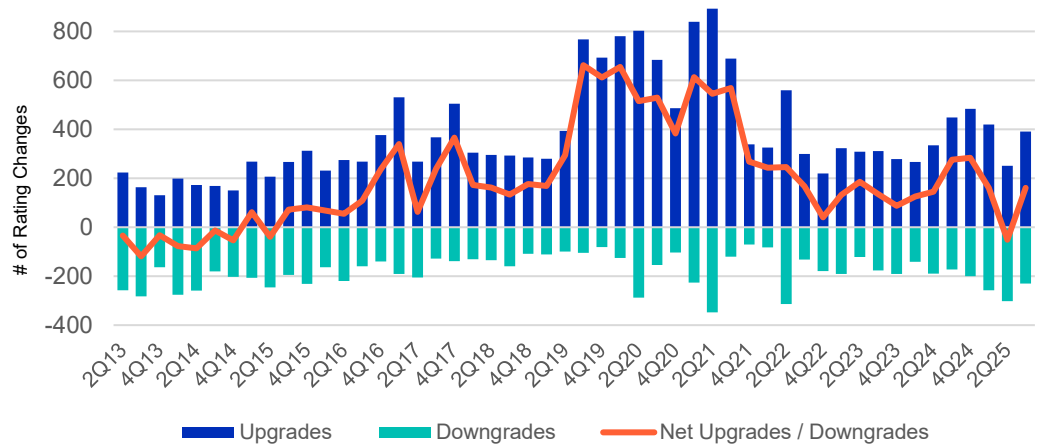
3. Source: Bloomberg. As of 12/31/2025.

* In some cases, interest paid on munis is also exempt from state and local income taxes as well.

Seeing Past The Headline Risk: Fundamentals Remain Strong

Chart: Moody's & S&P Ratings Upgrades vs Downgrades

- Fundamentals remain stable as default expectations remain low; however, slower economic growth will limit growth in revenues across many sectors, in particular tax revenues.
- Rainy day funds remain healthy at the state and local government levels which should help manage continued growth in expenses.



4. Sources: Moody's and S&P as of 12/31/2025.

Our Three Guiding Beliefs



Active Research Matters

An active, research-driven approach is in our view critical given the vast size and complexity of the municipal bond market. Our deep team of research analysts conduct comprehensive analysis of every opportunity across all sectors in the municipal bond universe, covering the quality spectrum in both primary and secondary markets.



Seek to Take Advantage of Relative Value Opportunities

We seek to identify and capture attractive relative value opportunities across the municipal bond landscape by carefully analyzing and managing yield curve positioning, credit spreads, coupon structures and call structures to help deliver tax-efficient portfolios, while aiming to provide attractive risk-adjusted returns.



Emphasis on Risk Management

Our team places a premium on risk management which is incorporated fully within our deep credit research process, portfolio construction process and with an independent risk management team, enabling us to better understand, quantify and optimize where we allocate risk across our portfolios.

Past performance is not necessarily indicative nor a guarantee of future performance.

Index definitions:

The **Bloomberg Municipal Bond Index** measures the performance of the publicly traded municipal bond that cover the USD-denominated tax-exempt bond market.

The **Bloomberg U.S. Corporate Bond Index** measures the investment-grade, fixed-rate, taxable corporate market.

WHAT ARE THE RISKS?

All investments are subject to certain risks, including possible loss of principal. Generally, investments offering the potential for higher returns are accompanied by a higher degree of risk. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in a portfolio adjust to a rise in interest rates, the portfolio's value may decline. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. High-yield, lower-rated (junk) bonds generally have greater price swings and higher default risks. Municipal income may be subject to state and local taxes. Some income may be subject to the federal alternative minimum tax for certain investors. Capital gains, if any, are taxable.



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