Western Asset
A Franklin Templeton Company

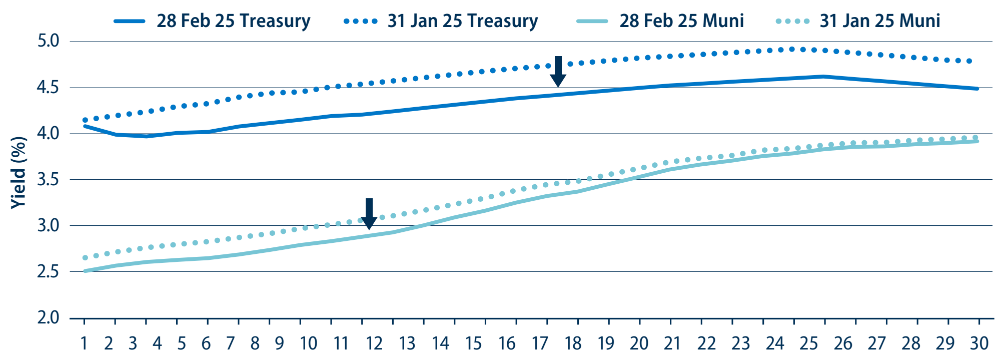
# Muni Monthly

## Performance Overview

**Muni yields moved lower alongside Treasuries in February as investors sought safety amid growth concerns.**

Fixed-income markets rallied in February and outperformed equities against a backdrop of heightened tariff rhetoric and growth concerns, which contributed to risk-off sentiment and expectations of deeper Federal Reserve cuts than previously anticipated. The Treasury yield curve bull-flattened, with short maturities moving slightly lower, while longer maturities fell by up to 33 basis points (bps). Municipal bond yields also moved lower across the curve, but generally lagged the sharp Treasury decline amid elevated supply conditions.

**Exhibit 1: Municipal and Treasury Yield Curves**




*Source: Bloomberg. As of 28 Feb 25. AAA Callable Municipal Yield Curve and US On-/Off-the-Run Sovereign Curve.*

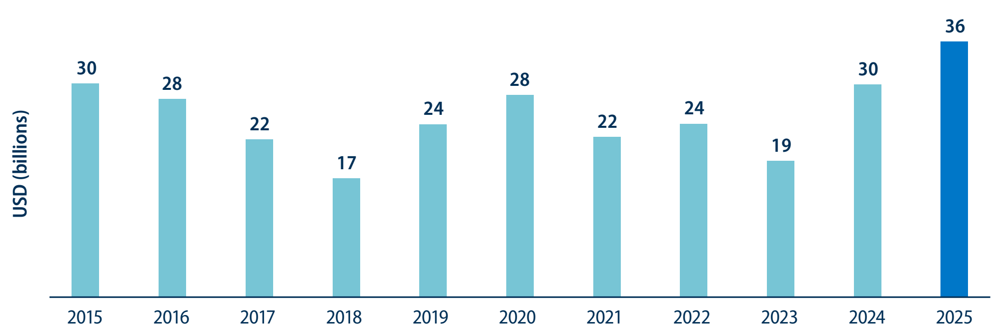
## Supply and Demand Technicals

**Tax-exempt supply for the month of February nearly reached a record high.**

This month, total municipal supply reached $39 billion, with tax-exempt issuance of $36 billion accounting for 92% of total new issuance and nearly setting a February record. Conversely, muni issuers recorded $3 billion of taxable supply in February, which fell below recent monthly averages as issuers continued to favor the tax-exempt markets in the higher rate environment. Year-to-date (YTD) total new issuance of $76 billion is 20% higher than last year's levels.

The strong pace of tax-exempt supply was well-absorbed as muni demand accelerated in February. Estimates from ICI and Lipper indicate six consecutive weeks of net inflows starting mid-January, as end-of-year tax-loss harvesting activity faded and investors sought relatively higher after-tax income opportunities further out the yield curve. Mutual funds recorded approximately $6 billion of inflows for the month through February 26, according to ICI, reversing the trend of outflows observed at the end of last year.

**Exhibit 2: February Tax-Exempt Municipal Issuance**



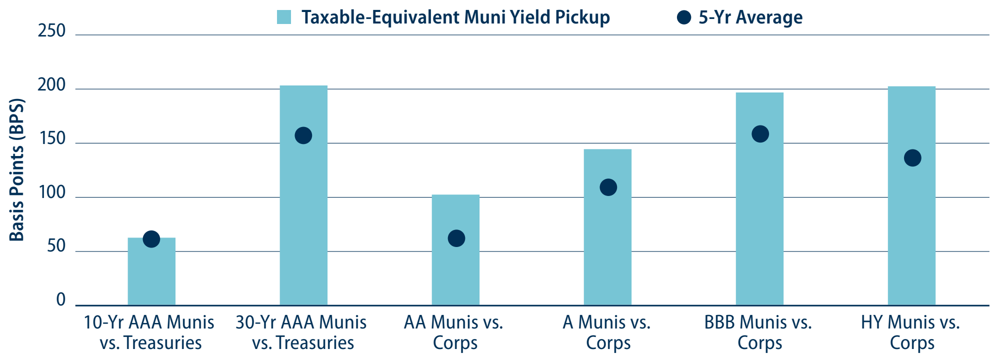

*Source: Western Asset, Bloomberg. As of 28 Feb 25.*

## Fundamentals/Outlook

### Municipals offer after-tax value versus their taxable counterparts.

Despite its strong performance in February, Western Asset believes the municipal asset class continues to offer attractive after-tax income opportunities and a compelling relative value proposition across the curve and rating cohorts. The 3.55% average yield-to-worst (YTW) of the Bloomberg Muni Bond Index remains 33 bps higher than at the start of last year, and equivalent to 6.00% on a taxable-equivalent yield basis for an investor in the highest marginal tax bracket. Compared to like-rated taxable fixed-income, municipals continue to offer a relative after-tax income advantage, particularly among longer-duration and lower-investment-grade segments.

**Exhibit 3: Taxable-Equivalent Municipal Yield Pickup vs. the Five-Year Average**



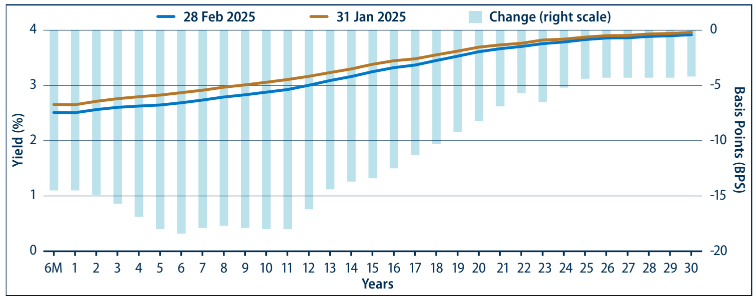

*Source: Bloomberg, Western Asset. As of 28 Feb 25. 10- and 30-year comparison reflects Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve. AA Muni reflects the Bloomberg AA Muni Bond Index. A Muni reflects the Bloomberg A Muni Bond Index. BBB Muni reflects the Bloomberg BBB Muni Bond Index. HY Muni reflects the Bloomberg High Yield Muni Bond Index. AA Corp reflects the Bloomberg AA Corporate Bond Index. A Corp reflects the Bloomberg A Corporate Bond Index. BBB Corp reflects the Bloomberg BBB Corporate Bond Index. Taxable-equivalent yield considers top marginal tax rate of 40.8%. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator or a guarantee of future results.*

***Yield-to-Worst (YTW)*** *is the lesser of yield-to-maturity (YTM) or yield-to-call (YTC) across all known call dates.*

### Munis and the Macro[1]

| | Prior Month (Revised From) | Consensus | Actual |
|---|---|---|---|
| GDP Annualized QoQ (4Q 2024) | 3.10% | 2.30% | 2.30% |
| CPI YoY | 2.90% | 2.90% | 3.00% |
| PCE | 2.60% | 2.50% | 2.50% |
| Unemployment Rate | 4.10% | 4.10% | 4.00% |
| Change in Nonfarm Payrolls (NFP) | 323k (256k) | 175k | 143k |

### AAA Municipal Yield Curve[2]




### Yield and Curve Changes - AAA Munis vs. Treasuries[3]

| | 2-Yr | 5-Yr | 10-Yr | 30-Yr |
|---|---|---|---|---|
| **02/28/2025** | | | | |
| AAA Muni | 2.54% | 2.63% | 2.86% | 3.93% |
| Treasury | 3.99% | 4.02% | 4.21% | 4.49% |
| M/T Ratio | 64% | 65% | 68% | 88% |
| **Change** | | | | |
| Muni Δ (bps) | ▼ -13 | ▼ -14 | ▼ -11 | ▼ -4 |
| Treasury Δ (bps) | ▼ -21 | ▼ -31 | ▼ -33 | ▼ -30 |
| Ratio Δ (%) | ▲ 0.1 | ▲ 1 | ▲ 3 | ▲ 5 |
| **10-Yr Average** | | | | |
| AAA Muni | 1.40% | 1.59% | 2.00% | 2.76% |
| Treasury | 2.06% | 2.25% | 2.52% | 2.96% |
| Ratio | 68% | 71% | 79% | 93% |

### Index Returns[4]

| | 1-Mo Total Return | YTD Total Return |
|---|---|---|
| Bloomberg Municipal Bond Index | 0.99% | 2.57% |
| **Returns by Maturity** | | |
| Bloomberg Municipal Bond 1-Year Index | 0.42% | 3.68% |
| Bloomberg Municipal Bond 5-Year Index | 0.86% | 2.69% |
| Bloomberg Municipal Bond 10-Year Index | 1.19% | 1.68% |
| Bloomberg Municipal Bond 20-Year Total Return Index | 1.08% | 2.73% |
| Bloomberg Municipal Bond Long Bond Index | 0.98% | 2.48% |
| **Returns by Credit Quality** | | |
| Bloomberg Municipal AAA Index | 1.01% | 1.90% |
| Bloomberg Municipal AA Index | 1.00% | 2.21% |
| Bloomberg Municipal A Index | 0.96% | 3.38% |
| Bloomberg Municipal BBB Index | 1.03% | 4.75% |
| Bloomberg Muni High Yield Index | 1.25% | 8.46% |
| **Returns by Sector** | | |
| GO Bond Index | 1.01% | 2.03% |
| Revenue Bond Index | 1.00% | 2.75% |
| **Taxable Muni Returns** | | |
| Bloomberg Taxable Municipal Bond Index | 2.85% | 4.95% |
| Bloomberg Global Aggregate Index | 1.43% | 0.28% |
| Bloomberg U.S. Treasury Index | 2.16% | 3.28% |
| Bloomberg U.S. Corporate Index | 2.04% | 4.78% |

### After Tax Yield Pickup[5]

| Quality/Maturity Segment | Muni YTW | Taxable Equivalent YTW | Taxable YTW | Taxable Equivalent Muni Yield Pickup | 5-Yr Average |
|---|---|---|---|---|---|
| **10-Yr AAA Munis v. Treasuries** | 2.86% | 4.83% | 4.21% | 62 | 61 |
| **30Y AAA Muni vs Treasury** | 3.86% | 6.52% | 4.49% | 203 | 157 |
| **AA Munis v. Corps** | 3.42% | 5.78% | 4.76% | 102 | 62 |
| **A Munis v. Corps** | 3.79% | 6.40% | 4.96% | 144 | 109 |
| **BBB Munis v. Corps** | 4.28% | 7.24% | 5.27% | 197 | 158 |
| **HY Munis v Corps** | 5.43% | 9.17% | 7.15% | 202 | 136 |

### Municipal Supply[6]

| Year | $B | Month | 2024 Issuance | 2025 Issuance | YoY | Calls/Maturities | Net |
|---|---|---|---|---|---|---|---|
| **2018** | 356 | January | 31.1 | 37.1 | 19% | -26.7 | 10.5 |
| **2019** | 449 | February | 31.9 | 38.8 | 22% | -29.4 | 9.4 |
| **2020** | 496 | March | 37.7 | | | | |
| **2021** | 488 | April | 45.0 | | | | |
| **2022** | 375 | May | 47.1 | | | | |
| **2023** | 366 | June | 47.6 | | | | |
| **2024** | 500 | July | 40.2 | | | | |
| **2025 YTD Annualized** | 456 | August | 49.0 | | | | |
| | | September | 48.9 | | | | |
| | | October | 64.5 | | | | |
| | | November | 25.1 | | | | |
| | | December | 31.7 | | | | |
| | | **Total** | **499.9** | **76.0** | **37%** | **-56.1** | **19.9** |

### Demand Technicals - Municipal Mutual Fund Flows[7]

| Year | Flows ($MM) | 2025 | Flows ($MM) |
|---|---|---|---|
| **2018** | 8,843 | January | 4,648 |
| **2019** | 102,554 | February | 5,839 |
| **2020** | 54,468 | March | |
| **2021** | 105,480 | April | |
| **2022** | -116,469 | May | |
| **2023** | -5,695 | June | |
| **2024** | 46,547 | July | |
| **2025 YTD** | 10,487 | August | |
| | | September | |
| | | October | |
| | | November | |
| | | December | |

*[1] Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 28 Feb 25.*

*[2] Source: Bloomberg, Western Asset. As of 28 Feb 25. Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve.*

*[3] Source: Muni Yields: Thomson Reuters MMD 2-Year, 5-Year, 10-Year and 30-Year AAA Scales; Treasury Yields: 2-Year, 5-Year, 10-Year, and 30-Year Tenors of the US On/Off The Run Sovereign Curve.*

*[4] Source: Bloomberg Municipal Bond Index, Bloomberg Taxable Municipal Bond Index. As of 28 Feb 25. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator or a guarantee of future results.*

*[5] Source: Bloomberg, Western Asset. As of 28 Feb 25. 10- and 30-Year comparison reflects Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve. AA Muni reflects the Bloomberg AA Muni Bond Index. A Muni reflects the Bloomberg A Muni Bond Index. BBB Muni reflects the Bloomberg BBB Muni Bond Index. HY Muni reflects the Bloomberg High Yield Muni Bond Index. AA Corp reflects the Bloomberg AA Corporate Bond Index. A Corp reflects the Bloomberg A Corporate Bond Index. BBB Corp reflects the Bloomberg BBB Corporate Bond Index. Taxable equivalent yield considers top marginal tax rate of 40.8%. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator or a guarantee of future results.*

*[6] Source: Bloomberg. As of 28 Feb 25.*

*[7] Source: Bloomberg, ICI. As of 28 Feb 25.*

## Definitions

**"AAA"** and **"AA"** (high credit quality) and **"A"** and **"BBB"** (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations (**"BB," "B," "CCC,"** etc.) are considered low credit quality and are commonly referred to as "junk bonds."

One **basis point (bps)** is one one-hundredth of one percentage point (1/100% or 0.01%).

The **Bloomberg Municipal "Muni" Bond Index** covers the USD denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.

The **Bloomberg Municipal High Yield Bond Index** is an unmanaged index made up of bonds that are non-investment grade, unrated or rated below Ba1 by Moody's Investors Service with a remaining maturity of at least one year.

The **Bloomberg Taxable Municipal Bond Index** is a rules-based, market-value-weighted index engineered for the long-term taxable bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies if all three rate the bond: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment grade.

The **Bloomberg US Corporate Bond Index** measures the performance of the investment-grade, fixed-rate, taxable corporate bond market. It includes US dollar-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The **Bloomberg US Treasury Index** measures the performance of US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with at least one year until final maturity. Treasuries, if held to maturity, offer a fixed rate of return and a fixed principal value; their interest payments and principal are guaranteed.

The **Bloomberg Valuation Service (BVAL)** provides prices on a daily basis for over 2.5 million securities across all asset classes.

The **Bloomberg AAA BVAL Callable Municipal Credit Curve** is represented by the US General Obligation AAA Muni BVAL Yield Curve. The BVAL curve is populated with pricing from uninsured AAA General Obligation bonds. The curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues and other proprietary contributed prices. The curve represents 5% couponing. The 3-month to 10-year points are bullet yields, and the 11-year to 30-year points are yields to worst for a 10-year call.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

**Yield to worst (YTW)** is the lowest potential yield that can be received on a bond without the issuer actually defaulting.

**WHAT ARE THE RISKS?**

**All investments involve risks, including possible loss of principal. Past performance is no guarantee of future results. Please note that an investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.**

**Equity** securities are subject to price fluctuation and possible loss of principal.

**Fixed-income** securities involve interest rate, credit, inflation and reinvestment risks; and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

**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.

**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.

**US Treasuries** are direct debt obligations issued and backed by the "full faith and credit" of the US government. The US government guarantees the principal and interest payments on US Treasuries when the securities are held to maturity. Unlike US Treasuries, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the US government. Even when the US government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.



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