

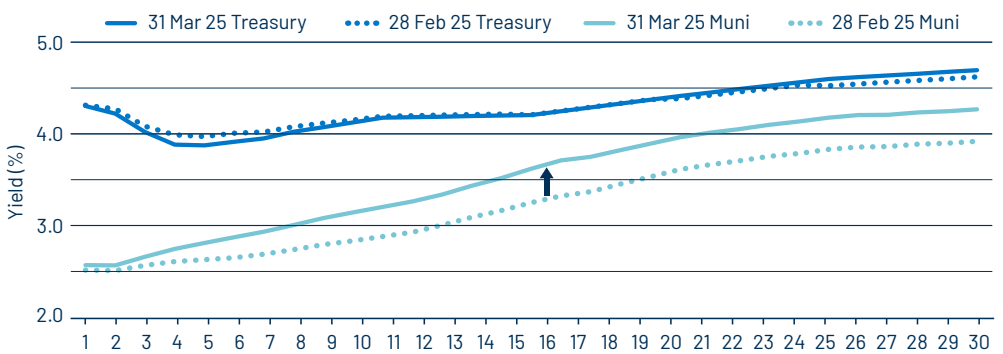
Muni Monthly

Performance Overview

Municipals posted negative returns and underperformed taxable fixed-income in March.

Market volatility was heightened in March amid the Trump administration's tariff rhetoric ahead of an imposed April 2 deadline when sweeping tariffs of at least 10% slated were to go into effect on most goods coming into the US. Meanwhile, weaker economic data was released during the month, including lower-than-expected nonfarm payrolls, inflation and consumer confidence data;—all of which came in below expectations. The Federal Reserve kept rates steady, but revised growth forecasts lower. All told, Treasury yields remained relatively steady, while municipal yields moved higher across the curve, underperforming amid weaker supply and demand technical conditions.

Exhibit 1: Municipal and Treasury Yield Curves



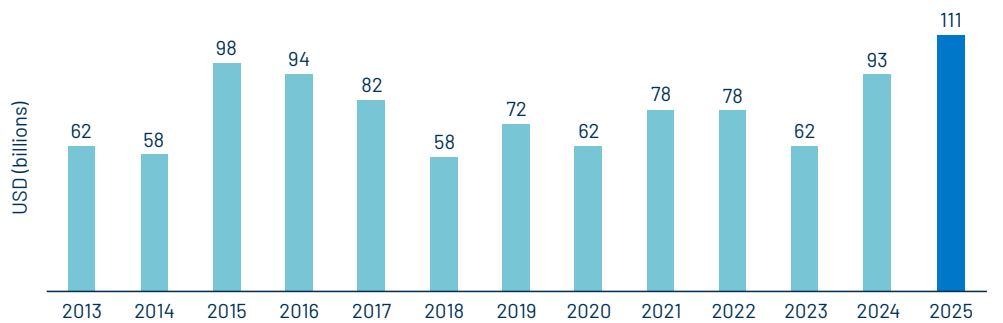
Source: Bloomberg. As of 31 Mar 25. AAA Callable Municipal Yield Curve and US On-/Off-the-Run Sovereign Curve.

Supply and Demand Technicals

Supply continued at a record pace in the first quarter.

Municipal supply remained elevated in March. Total issuance of \$43 billion in March was 15% higher than March 2024 levels. Year-to-date issuance of \$119 billion now exceeds 2023's record pace by 18%, with tax-exempt issuance 19% higher at \$93 billion, and taxable issuance 14% higher at \$7.6 billion. Municipal demand softened during the month of March due to seasonal tax-related selling pressures. The Investment Company Institute (ICI) reported that March fund flows slowed to \$252 million, including outflows toward month-end, down from \$5.8 billion in February.

Exhibit 2: First Quarter Tax-Exempt Municipal Issuance



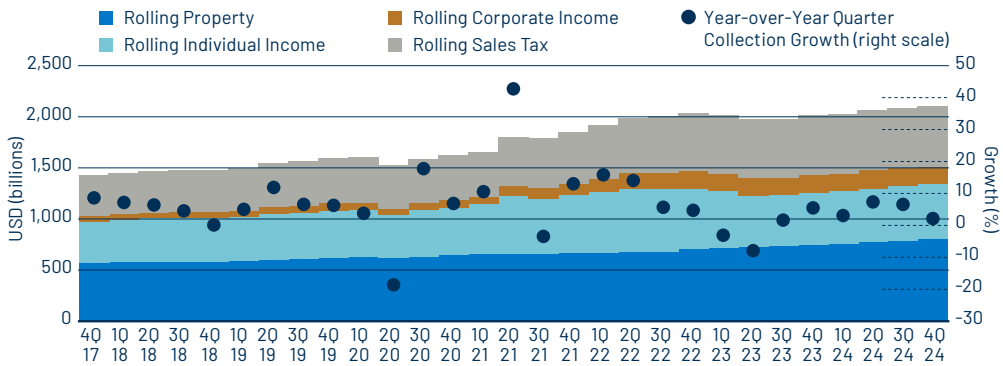
Source: Western Asset, Bloomberg. As of 31 Mar 25.

Fundamentals/Outlook

State and local revenue collections remain near record levels.

Municipal fundamentals remained strong and support an attractive risk-adjusted value proposition for the asset class. The Census released updated state and local tax collection estimates, which indicated continued revenue growth for traditional municipalities. Calendar-year 2024 collections increased 4.5% to \$2.1 trillion year-over-year (YoY), marking a record high level according to the Census data. Individual income tax collections increased 4.9% YoY, corporate income tax collections declined 0.4% YoY and sales tax collections increased 1.5% YoY. Property tax collections also recorded a strong trend higher, growing 7.7% YoY. We expect that a strong labor market and consumer spending should support tax collections and municipal credit conditions over the medium term. We also anticipate these direct revenue sources will play a more critical role in state and local budgets, particularly if federal spending reductions extend more broadly to municipal credit.

Exhibit 3: 12-Month Trailing State and Local Revenue Collections



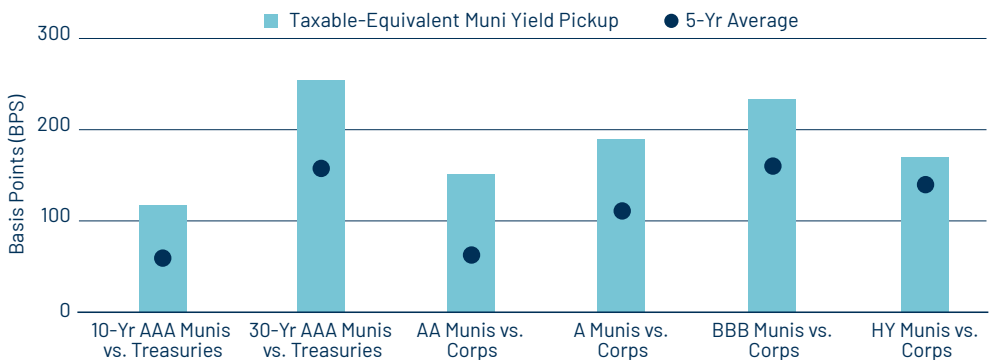
Source: Western Asset, Census NSA major state and local tax revenue. As of 13 Mar 25 (4Q24 data).

Valuations

Tax-exempt municipals offer above-average after-tax yield pickup versus taxable counterparts.

Elevated supply conditions contributed to higher income opportunities and improved relative valuations in the municipal market. The Bloomberg Municipal Bond Index average yield-to-worst (YTW) ended the year at 3.85%, up over 50 basis points from the start of the year and equivalent to 6.50% on a taxable-equivalent basis. The municipal yield curve has steepened meaningfully this year, offering more attractive opportunities in intermediate and longer maturities. These attractive tax-exempt income levels, along with favorable fundamentals, underscore the risk-adjusted value proposition of tax-exempt munis amid broader economic uncertainty in 2025.

Exhibit 4: Taxable-Equivalent Municipal Yield Pickup vs. the Five-Year Average



Source: Bloomberg, Western Asset. As of 31 Mar 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 or yield-to-call across all known call dates.

Munis and the Macro¹

	Prior Month (Revised From)	Consensus	Actual
GDP Annualized QoQ (4Q24)	3.10%	2.30%	2.40%
CPI YoY	3.00%	2.90%	2.80%
PCE	2.50%	2.50%	2.50%
Unemployment Rate	4.00%	4.00%	4.10%
Change in Nonfarm Payrolls	125k (143k)	160k	151k

Yield and Curve Changes – AAA Munis vs. Treasuries³

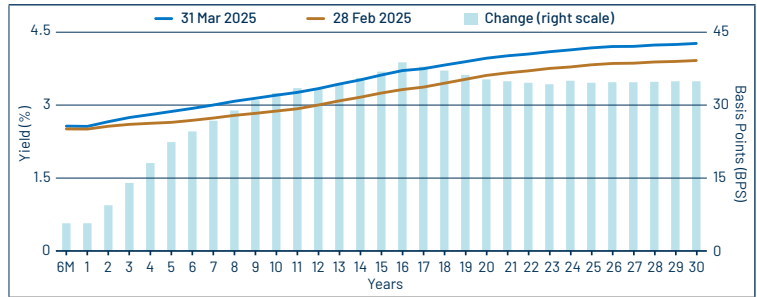
	2-Yr	5-Yr	10-Yr	30-Yr
02/28/2025				
AAA Muni	2.75%	2.86%	3.26%	4.24%
Treasury	3.89%	3.95%	4.21%	4.57%
M/T Ratio	71%	72%	77%	93%
Change				
Muni Δ (bps)	▲ 21	▲ 23	▲ 40	▲ 31
Treasury Δ (bps)	▼ -11	▼ -71	—	▲ 8
Ratio Δ (%)	▲ 7	▲ 7	▲ 10	▲ 5
10-Yr Average				
AAA Muni	1.42%	1.60%	2.01%	3%
Treasury	2.09%	2.27%	2.54%	3%
Ratio	68%	70%	79%	93%

After Tax Yield Pickup⁵

Quality/Maturity Segment	Muni YTW	Taxable Equivalent YTW	Taxable YTW	Taxable Equivalent Muni Yield Pickup	5-Yr Average
10-Yr AAA Munis vs Treasuries	3.19%	5.38%	4.21%	117	59
30Y AAA Muni vs Treasury	4.21%	7.11%	4.57%	254	157
AA Munis vs Corps	3.73%	6.30%	4.79%	151	63
A Munis vs Corps	4.08%	6.89%	5.00%	189	110
BBB Munis vs Corps	4.55%	7.69%	5.35%	234	160
HY Munis vs Corps	5.59%	9.43%	7.73%	170	140

Municipal Supply⁶

Year	\$B	Month	2024 Issuance	2025 Issuance	YoY	Calls/Maturities	Net
2018	356	January	30.0	37.1	24%	-31.0	-1.0
2019	449	February	29.8	38.8	30%	-31.0	-1.1
2020	496	March	33.4	43.3	30%	-22.8	10.6
2021	488	April	39.9				
2022	375	May	42.4				
2023	366	June	43.8				
2024	460	July	37.0				
2025 YTD	477	August	46.3				
Annualized		September	45.4				
		October	58.6				
		November	23.6				
		December	29.6				
		Total	459.9	119.3	-5%	84.7	8.5

AAA Municipal Yield Curve²Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	-1.69%	-0.22%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	0.10%	1.05%
Bloomberg Municipal Bond 5-Year Index	-0.59%	0.91%
Bloomberg Municipal Bond 10-Year Index	-1.72%	0.26%
Bloomberg Municipal Bond 20-Year Total Return Index	-2.60%	-1.29%
Bloomberg Municipal Bond Long Bond Index	-2.50%	-1.46%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	-1.88%	-0.34%
Bloomberg Municipal AA Index	-1.69%	-0.30%
Bloomberg Municipal A Index	-1.58%	-0.03%
Bloomberg Municipal BBB Index	-1.67%	0.13%
Bloomberg Muni High Yield Index	-1.18%	0.82%
Returns by Sector		
GO Bond Index	-1.73%	-0.29%
Revenue Bond Index	-1.71%	-0.22%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	-0.34%	2.99%
Bloomberg Global Aggregate Index	0.62%	2.64%
Bloomberg U.S. Treasury Index	0.23%	2.92%
Bloomberg U.S. Corporate Index	-0.29%	2.31%

Demand Technicals – Municipal Mutual Fund Flows⁷

Year	Flows (\$MM)	2025	Flows (\$MM)
2018	8,843	January	6,104
2019	102,554	February	5,826
2020	54,468	March	252
2021	105,480	April	
2022	-116,469	May	
2023	-5,695	June	
2024	45,091	July	
2025 YTD	12,182	August	
		September	
		October	
		November	
		December	

¹Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 31 Mar 25.²Source: Bloomberg, Western Asset. As of 31 Mar 25. Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve.³Source: 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.⁴Source: Bloomberg Municipal Bond Index, Bloomberg Taxable Municipal Bond Index. As of 31 Mar 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.⁵Source: Bloomberg, Western Asset. As of 31 Mar 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.⁶Source: Bloomberg. As of 31 Mar 25.⁷Source: Bloomberg, ICI. As of 31 Mar 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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