

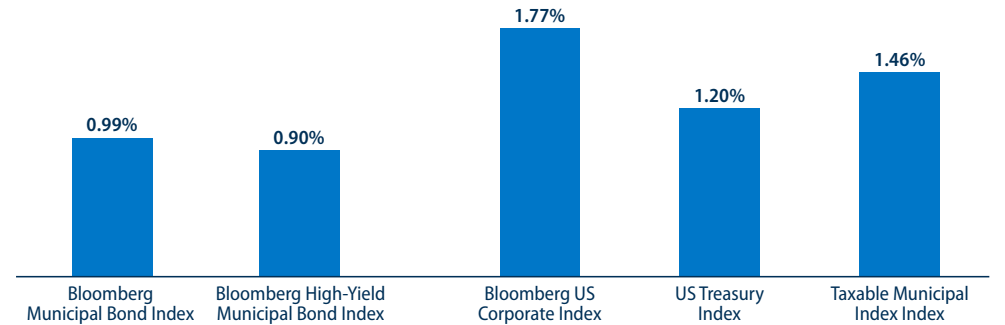
Muni Monthly

Performance Overview

Municipals posted positive returns along with other fixed-income asset classes as the Fed reduced the fed funds rate by 50 bps.

The investment-grade municipal market posted positive returns in September, as the Bloomberg Municipal Bond Index returned 0.99%. This marks the fourth consecutive month of positive returns, leading year-to-date (YTD) returns higher to 2.30%. Long-maturity municipals outperformed during the month, as sentiment around a lower rate environment improved following the Federal Reserve’s (Fed) 50-basis-point (bp) rate cut. Quality returns were mixed across the board, and high-yield municipal debt underperformed following the significant outperformance recorded earlier this year. The Bloomberg High Yield Municipal Index returned 0.90% in September, leading YTD returns higher to 7.48%. Municipals continued to underperform other high-quality fixed-income asset classes, in part due to elevated supply conditions.

Exhibit 1: September Municipal vs. Taxable Fixed-Income Returns



Sources: Bloomberg, Western Asset. Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve. 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. As of 30 September 24.

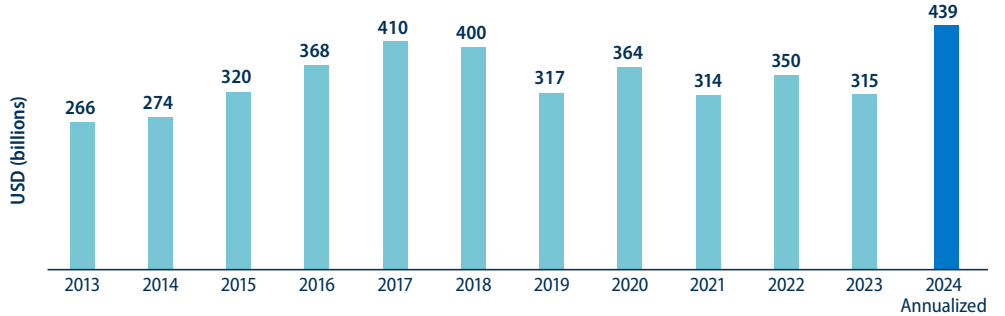
Supply and Demand Technicals

Tax-exempt muni supply is on pace for a record year.

Municipal underperformance versus other fixed-income asset classes continued to be driven by elevated supply conditions. Total municipal supply of \$47 billion was 63% higher than last year’s September issuance level, leading total YTD issuance to \$376 billion. Through three quarters of the year, tax-exempt issuance increased \$100 billion (+44%) from the prior year to \$347 billion, and taxable issuance increased 9% year-over-year (YoY) to \$30 billion.

Municipal demand improved during the month, as weekly data from Lipper and ICI indicate over \$6 billion of municipal fund inflows during the month, leading YTD inflows higher to \$30 billion. Long-term category flows recorded the largest proportion of fund flows during the month, consistent with market returns.

Exhibit 2: Tax-Exempt Supply History



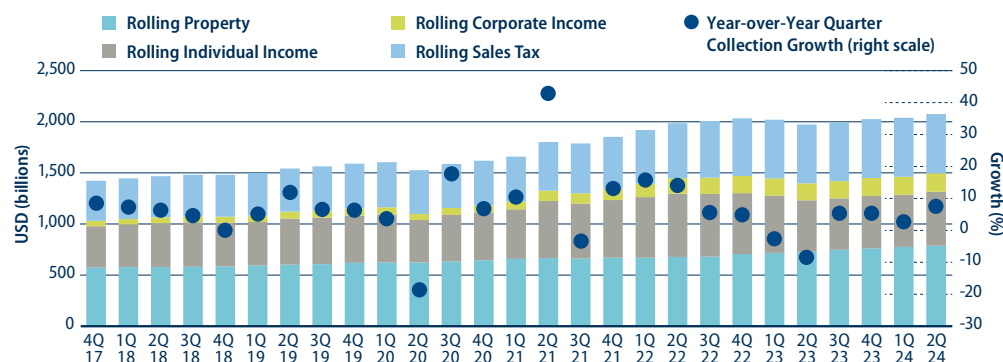
Sources: Western Asset, Bond Buyer. As of 30 September 24.

Fundamentals

State and local revenue collections remain near record levels.

In September, the Census released 2Q24 state and local tax collection estimates, which coincide with the fiscal year-end for many municipalities. Second quarter major state and local government tax collections grew 7.4% from 2Q23 levels. Among the major state revenue sources, individual income taxes increased 11.9%, corporate income tax collections increased 7.2% and sales tax collections increased 2.6% YoY. Property tax collections, the primary source of revenues for local governments, increased 8.1% YoY to \$146 billion. The continued growth of tax collections highlights the strength of municipal credit, and we expect a strong labor market and consumer to support tax collections and municipal credit conditions over the medium term.

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



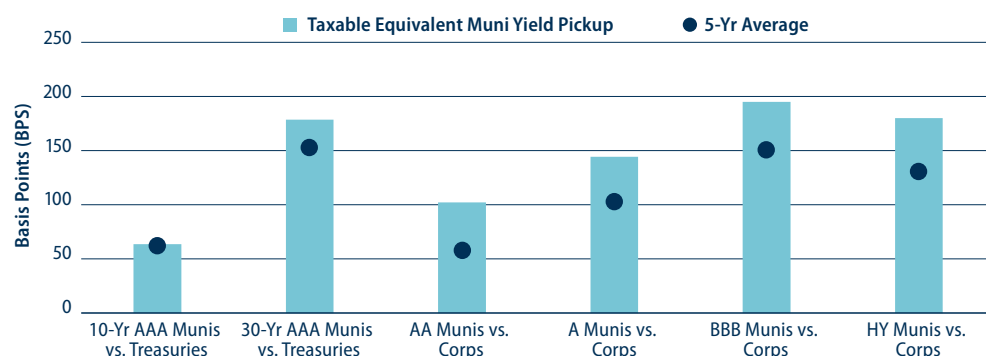
Sources: Western Asset, Census NSA major state and local tax revenue. As of 11 September 24 (2Q24 data).

Valuations

Municipals offer above-average after-tax yield pickup versus most taxable counterparts.

Despite the fourth consecutive month of positive municipal returns, elevated supply and relative underperformance versus other investment-grade fixed-income assets have contributed to an attractive relative value proposition for municipal debt. The 3.32% average yield-to-worst of the Bloomberg Muni Bond Index remains 10 bps higher than at the start of the year, and equivalent to 5.61% on a taxable-equivalent yield basis for an investor in the highest marginal tax bracket. Comparing municipals to like-rated taxable fixed-income, longer and lower intermediate-grade after-tax spreads remain above five-year averages across most of the curve and credit spectrum.

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



Sources: Bloomberg, Western Asset. 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. As of 30 September 24.

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 (2Q 2024)	3.00%	2.90%	3.00%
CPI YoY	2.90%	2.50%	2.50%
PCE	2.50%	2.30%	2.20%
Unemployment Rate	4.30%	4.20%	4.20%
Change in Nonfarm Payrolls (NFP)	89k (114k)	165k	142k

Yield and Curve Changes - AAA Munis vs. Treasuries³

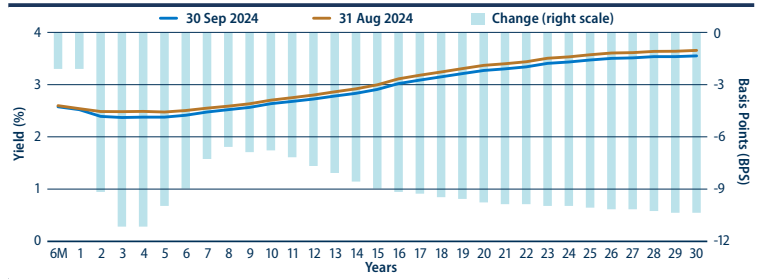
9/30/2024				
	2-Yr	5-Yr	10-Yr	30-Yr
AAA Muni	2.30%	2.31%	2.60%	3.52%
Treasury	3.64%	3.56%	3.78%	4.12%
M/T Ratio	63%	65%	69%	85%
Change				
Muni Δ (bps)	▼ -15	▼ -11	▼ -11	▼ -8
Treasury Δ (bps)	▼ -28	▼ -15	▼ -13	▼ -8
Ratio Δ	▲ 1	▼ -0.4	▼ -1	▼ -0.4
10-Yr Average				
AAA Muni	1.31%	1.53%	1.96%	3%
Treasury	1.91%	2.14%	2.43%	3%
Ratio	69%	71%	81%	94%

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 v. Treasuries	2.61%	4.41%	3.78%	63	61
30Y AAA Muni vs Treasury	3.49%	5.90%	4.12%	178	152
AA Munis v. Corps	3.18%	5.38%	4.36%	102	57
A Munis v. Corps	3.56%	6.01%	4.56%	145	102
BBB Munis v. Corps	4.08%	6.89%	4.94%	195	150
HY Munis v Corps	5.20%	8.78%	6.99%	179	130

Municipal Supply⁶

Year	\$B	Month	2023 Issuance	2024 Issuance	YoY	Calls/Maturities	Net
2018	356	January	21.8	31.1	43%	-25.6	5.6
2019	449	February	19.9	32.0	61%	-27.5	4.5
2020	496	March	32.8	38.0	16%	-26.5	11.5
2021	488	April	34.6	45.0	30%	-27.6	17.4
2022	375	May	28.9	47.4	64%	-28.1	19.3
2023	366	June	36.8	47.6	29%	-44.4	3.2
2024 YTD	503	July	27.3	39.4	44%	-47.2	-5.5
		August	38.2	49.1	28%	-53.7	-4.5
		September	28.7	47.9	67%	-24.2	1.4
		October	38.7				
		November	35.9				
		December	22.7				
		Total	366.5	377.0	40%	-268.3	61.2

AAA Municipal Yield Curve²Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	0.99%	2.30%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	0.31%	2.59%
Bloomberg Municipal Bond 5-Year Index	0.70%	2.23%
Bloomberg Municipal Bond 10-Year Index	0.90%	1.02%
Bloomberg Municipal Bond 20-Year Total Return Index	1.23%	2.69%
Bloomberg Municipal Bond Long Bond Index	1.38%	3.11%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	1.01%	1.67%
Bloomberg Municipal AA Index	0.97%	1.99%
Bloomberg Municipal A Index	1.01%	3.01%
Bloomberg Municipal BBB Index	0.99%	4.24%
Bloomberg Muni High Yield Index	0.90%	7.48%
Returns by Sector		
GO Bond Index	0.94%	1.75%
Revenue Bond Index	1.02%	2.50%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	1.46%	5.33%
Bloomberg Global Aggregate Index	1.70%	3.60%
Bloomberg U.S. Treasury Index	1.20%	3.84%
Bloomberg U.S. Corporate Index	1.77%	5.32%

Demand Technicals - Municipal Mutual Fund Flows⁷

Year	Flows (\$)	2024	Flows (\$)
2018	8,843	January	4,026
2019	102,554	February	2,753
2020	54,468	March	4,087
2021	105,480	April	289
2022	-116,469	May	2,216
2023	-5,695	June	649
2024 YTD	24,926	July	4,885
		August	6,021
		September	6,633
		October	
		November	
		December	

¹ Sources: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 30 Sep 24.² Sources: Bloomberg, Western Asset. As of 30 Sep 24: Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve.³ Sources: 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 Sources: Bloomberg Municipal Bond Index, Bloomberg Taxable Municipal Bond Index. 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 Sources: Bloomberg, Western Asset. As of 30 Sep 24. 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 30 Sep 24.⁷ Source: Bloomberg. As of 30 Sep 24.

Fundamentals

“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 prerefunded 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 U.S. 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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