

Western Asset Current Market Muni Portfolios

Commentary | as of September 30, 2025

Key Takeaways

- **Markets:** During the third quarter, volatility in both equity and Treasury markets remained relatively subdued. The U.S. Treasury yield curve bull-steepened, reflecting market expectations for slower growth, moderation in economic data and potential rate cuts. Risk assets performed well, with the S&P 500 Index reaching new highs and credit spreads tightening. Municipal supply conditions continue at a record pace as municipal issuance reached \$155 billion in 3Q25, up 12% from 3Q24 levels. Tax-exempt issuance fell 2% quarter-over-quarter (QoQ) to \$145 billion and taxable issuance fell 40% QoQ to \$10 billion. Year-to-date new-issue supply of \$439 billion is 18% higher than the prior year, with tax-exempt issuance up 19% year-over-year and taxable issuance in line with prior year levels.
- **Contributors:** Duration positioning contributed to performance.
- **Detractors:** Security selection within the local GO sector detracted from performance.
- **Outlook:** Muni fundamentals remained resilient. While strong revenue collections are indicative of credit resiliency in the muni market, the pace of credit rating improvement from the three major rating agencies has slowed so far this year.

Performance Review

- Duration positioning contributed to performance.
- Overweight to the housing sector contributed to performance.
- Security selection within the transportation sector contributed to performance.
- Security selection within the local GO sector detracted from performance.
- Underweight to CA detracted from performance.

Outlook

- Municipal fundamentals remained resilient. In June, the Census released first quarter 2025 state and local tax collection estimates, which indicated continued revenue growth for state and local governments. Twelve-month trailing collections increased 5% year-over-year to \$2.1 trillion, marking a record high level.
- Western Asset believes longer maturities continue to offer attractive relative value for long-term investors, considering elevated absolute muni yield levels and rolldown opportunities from the curve which remains relatively steep versus taxable fixed income markets.
- We anticipate that a strong labor market and consumer spending will support tax collections and municipal credit conditions over the medium term. However, we expect the potential for tax collections to be more critical for budgets if federal spending reductions extend more broadly to state and local budgets.

Average annual total returns (%) - as of September 30, 2025

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	1.86	2.31	2.05	0.85	2.17	-0.54	0.23	0.39	1.14	1.50	1.86	12/31/1993
Pure Gross of Fees	2.23	3.07	3.19	2.36	3.70	0.95	1.74	1.90	2.66	3.02	3.38	12/31/1993
Benchmark	2.43	3.79	4.29	2.89	4.08	0.95	1.87	2.17	2.97	3.40	3.68	—

*Cumulative total returns

Benchmark(s)

Benchmark = Index Mix

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Glossary

The **Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

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The **Index Mix** is made up of the Bloomberg US Government (1-3 Year) Index and the FTSE 3-Month U.S. Treasury Bill Index. **FTSE 3-Month U.S. Treasury Bill Index** tracks the performance of three-month U.S. Treasury bills. Source: FTSE. The **Bloomberg US Government (1-3 Year) Index** includes public obligations of the U.S. Treasury with at least one year up to, but not including, three years to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government. Source: Bloomberg Indices.

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