

Western Asset Current Market Muni Portfolios

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** Fixed-income market volatility persisted in the fourth quarter of 2025 as investors and policymakers navigated mixed economic signals. The longest US government shutdown, which restricted data availability, ended in November after 43 days. The US Treasury (UST) yield curve steepened, with short and intermediate UST yields finishing the quarter lower, while long-term yields increased. Equities performed well, with the S&P 500 Index reaching new highs, while credit spreads were mixed. Tax-exempt munis outperformed taxable fixed-income as supply and demand technicals improved during the quarter. Longer-duration and lower-quality municipals generally outperformed.
- **Contributors:** Rates positioning contributed to performance.
- **Detractors:** Sector and issue selection detracted from performance.
- **Outlook:** Western Asset's outlook remains constructive, though we recognize that growth momentum is tempered by uncertainty in areas such as geopolitics and fiscal sustainability. U.S. financial conditions are largely supportive, which, alongside proposed fiscal loosening and solid household balance sheets, points toward a positive foundation for growth in 2026. Headwinds remain, including doubts over the state of the U.S. labor market, core inflation lingering above target and the potential lagged impact of tariffs. We expect that attractive relative value, along with the likelihood for the Federal Reserve (Fed) to continue to move front-end rates lower, will support municipal demand and after-tax total return potential in 2026.

Performance Review

- Rates positioning contributed to performance as municipal yields fell.
- Sector allocation detracted from returns mainly due to an underweight to state general obligation (GO) bonds.
- Issue selection was the largest contributor to performance, led by issuer selection within the local GO, transportation and special tax sectors.

Outlook

- Western Asset's outlook remains constructive, though we recognize that growth momentum is tempered by uncertainty in areas such as inflation, central bank policy, geopolitics and fiscal sustainability.
- Having cut rates at three successive meetings since September, the Fed may now moderate its pace of easing and await further signals from the post-shutdown data releases. Fiscal vulnerabilities and persistent inflation may see the yield curve steepen further.
- We continue to focus on disciplined, fundamental, relative value investing, seeking pockets of opportunity in fixed income while remaining mindful of technical and macroeconomic risks.

Average annual total returns (%) - as of December 31, 2025-PRELIMINARY

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	1.05	2.93	3.12	3.12	1.71	-0.39	0.32	0.60	1.19	1.42	1.88	12/31/1993
Pure Gross of Fees	1.43	3.69	4.67	4.67	3.23	1.11	1.83	2.11	2.71	2.94	3.40	12/31/1993
Benchmark	0.90	3.36	5.24	5.24	3.15	0.98	1.89	2.34	3.00	3.32	3.68	-

*Cumulative total returns

Benchmark(s)

Benchmark =Index Mix

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

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What are the Risks?

All investments involve risks, including 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. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. Portfolios focused on a **single state** are subject to greater risk of adverse economic and regulatory changes than a geographically diversified portfolio.

Glossary

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

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

A **general obligation bond (GO)** is a municipal bond backed by the credit and taxing power of the issuing jurisdiction rather than the revenue from a given project.

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Source: Bloomberg Indices. Source: FTSE.

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