

# Western Asset Municipal Bond Ladders (1-15 Years)

Commentary | as of March 31, 2026

## Key Takeaways

- The first quarter of 2026 was characterized by elevated geopolitical risk and accelerating AI-driven disruption across the software sector and its incumbent business models. The period was shaped by a series of international developments, including the capture and indictment of Nicolás Maduro, escalating diplomatic tensions between the US and European NATO allies over Greenland, and a US-Israeli military operation against Iran.
- Municipal technicals remained challenged in the first quarter of 2026 following a record supply year in 2025. Total municipal issuance reached \$130 billion (+8% year-over-year (YoY)), driven by \$123 billion in tax exempt issuance (+10% YoY), while taxable issuance declined to \$6.8 billion (-23% YoY).
- Municipal demand has remained resilient year to date, as investors increasingly capitalized on relatively attractive municipal valuations. According to ICI, municipal bond funds recorded \$28 billion in inflows, representing a 19% increase quarter-over-quarter and 159% growth YoY.
- Municipal credit fundamentals continued to show support for the overall credit stability and the historically high quality of the asset class. The U.S. Census Bureau released its 4Q25 state and local tax collection data, effectively closing out full-year 2025 results. In the fourth quarter, total state and local tax collections reached \$671 billion, representing a 6.2% YoY increase. Among major revenue sources, individual income taxes led growth, rising 10.8%, followed by corporate income taxes (+9.0%) and sales taxes (+5.7%). Property taxes, the primary revenue source for local governments, increased 4.2% YoY. The strong tax collections, building on already elevated levels, underscore the resilience of state and local credit and their capacity to manage potential budgetary pressures.

## Performance Review

- The Bloomberg U.S. Municipal Index returned -0.18% in the first quarter.
- The 1-year to 15-year municipal yield curve steepened by 36 basis points (bps) to 118 bps.
- BBB munis outperformed the overall index by 10 bps, returning -0.08%.

## Outlook

- In the US, policy tailwinds and deregulation continue to support activity despite signs of softer labor conditions.
- Europe and the United Kingdom face trade and labor-market challenges but easing inflation and selective fiscal measures offer stabilization.
- China's recovery remains policy-driven amid structural constraints, while Japan's persistent inflation supports further policy normalization.
- Credit markets remain supported by strong fundamentals and healthy demand, with issuance elevated by AI-related capex, M&A and refinancing needs.

## Average annual total returns (%) - as of March 31, 2026

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	-0.66	0.44	-0.66	2.99	1.26	-0.39	0.75	—	—	—	0.93	3/31/2015
Pure Gross of Fees	-0.29	1.19	-0.29	4.53	2.78	1.11	2.26	—	—	—	2.44	3/31/2015

\*Cumulative total returns

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### Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

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

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