

Western Asset Municipal Bond Ladders (1-15 Years)

Commentary | as of December 31, 2025

Key Takeaways

- 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.
- Municipal supply conditions continue at a record pace as municipal issuance reached \$148 billion in 4Q25, up 22% from 4Q24 levels. Tax-exempt issuance fell 10% quarter-over-quarter (QoQ) to \$130 billion and taxable issuance rose 78% QoQ to \$18 billion. 2025 new-issue supply of \$588 billion is 17% higher than the prior year, with tax-exempt issuance up 16% year-over-year (YoY) and taxable issuance up 34% YoY.
- Municipal demand fluctuated throughout the year but improved steadily toward year-end 2025. Muni mutual fund flows were limited in the first half of the year amid choppy economic data and policy uncertainty but strengthened in the second half as it became clear that the Federal Reserve (Fed) would continue its rate-cutting cycle and as prior underperformance contributed to more attractive valuations. Overall, municipal mutual funds recorded \$51 billion of net inflows in 2025, up 21% YoY, extending cumulative net inflows from early 2024 to \$93 billion, according to Lipper.
- Municipal credit fundamentals continued to show resilience despite slowing growth trends. Census-reported 2Q25 state and local tax collection estimates, which capture fiscal year-end results for most governments, showed 12-month trailing collections increased 4% YoY to \$2.1 trillion, a record high. Twelve-month trailing individual income tax collections rose 8% YoY, sales tax collections increased 2% YoY while corporate income tax collections were relatively flat. Rolling 12-month property tax collections, the primary revenue source for local governments, increased 2% YoY.

Performance Review

- The Bloomberg U.S. Municipal Bond Index returned 1.56% in the fourth quarter.
- The 1-year to 15-year muni yield curve flattened by 46 basis points (bps) to 83 bps.
- BBB munis outperformed the index by 21 bps, returning 1.77%.

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 Federal Reserve (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 expect that attractive relative value, along with the likelihood for the Fed to continue to move front-end rates lower, will support municipal demand and after-tax total return potential in 2026.
- 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	1.11	2.99	3.58	3.58	2.03	-0.42	0.95	—	—	—	1.01	3/31/2015
Pure Gross of Fees	1.49	3.75	5.13	5.13	3.56	1.07	2.46	—	—	—	2.52	3/31/2015

*Cumulative total returns

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

Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please visit www.franklintempleton.com for the latest performance figures. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Fees: Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (1.5% is the maximum anticipated wrap fee for fixed income portfolios) which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.

For fee schedules, contact your financial professional, or if you enter into an agreement directly with Franklin Templeton Private Portfolio Group, LLC ("FTPPG"), refer to FTPPG's Form ADV Part 2A disclosure document. Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

Western Asset Management Company, LLC claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

To obtain specific information on available products and services or a GIPS Report, contact your Franklin Templeton separately managed account sales team at (800) DIAL BEN/342-5236.

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

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

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.

Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or portfolio. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the portfolio's selection process. Holdings are subject to change.

These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these materials be preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Professional or contact your sponsor firm.

Franklin Templeton (FT) is not undertaking to provide impartial advice. Nothing herein is intended to provide fiduciary advice. FT has a financial interest.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Separately Managed Accounts (SMAs) are investment services provided by Franklin Templeton Private Portfolio Group, LLC (FTPPG), a federally registered investment advisor. Client portfolios are managed based on investment instructions or advice provided by one or more of the following Franklin Templeton affiliated sub-advisors: Western Asset Management Company, LLC. Management is implemented by FTPPG, the designated sub-advisor or, in the case of certain programs, the program sponsor or its designee.

Western Asset Management Company, LLC is a Franklin Templeton affiliated company.

© Franklin Templeton. All rights reserved.