

Western Asset Managed Municipals Portfolios

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** 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.
- **Contributors:** Rates positioning as well as sector allocation and selection contributed to performance.
- **Detractors:** None.
- **Outlook:** Geopolitical tensions remain a defining feature of the outlook, with the Middle East conflict introducing ongoing uncertainty and contributing to oil price volatility as supply routes face occasional disruption. Even with these pressures, the global economic backdrop is gradually improving as fiscal support, easier financial conditions and moderating inflation help strengthen the 2026 outlook.

Performance Review

- Rates positioning contributed to performance as the yield curve bear-flattened.
- Sector allocation contributed to performance largely due to overweights to the industrial revenue and transportation sectors.
- Issue selection also contributed to performance led by issue selection within the local general obligation (GO) bond and industrial revenue sectors.

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	-0.58	0.61	-0.58	2.54	1.42	-0.43	0.85	2.46	2.57	2.81	3.43	5/31/1994
Pure Gross of Fees	-0.21	1.37	-0.21	4.08	2.93	1.07	2.36	4.00	4.11	4.35	4.98	5/31/1994
Benchmark	-0.18	1.38	-0.18	4.29	2.87	0.84	2.16	3.29	3.50	3.83	4.47	—

*Cumulative total returns

Benchmark(s)

Benchmark = Bloomberg Municipal Bond Index

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Glossary

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

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The **Bloomberg Municipal Bond Index** is a broad measure of the municipal bond market with maturities of at least one year.

Source: Bloomberg Indices.

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