

# Western Asset Managed Municipals 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 slightly detracted from returns mainly due to an overweight to the industrial revenue sector.
- Issue selection was additive to performance, led by issue selection within the hospital and transportation 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	1.20	3.87	2.35	2.35	2.38	-0.40	1.02	2.46	2.59	2.90	3.48	5/31/1994
Pure Gross of Fees	1.58	4.64	3.88	3.88	3.91	1.09	2.54	3.99	4.13	4.44	5.03	5/31/1994
Benchmark	1.56	4.61	4.25	4.25	3.88	0.80	2.34	3.34	3.52	3.93	4.52	—

\*Cumulative total returns

## Benchmark(s)

Benchmark = Bloomberg Municipal Bond Index

**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. Investments in **underlying funds** are subject to the same risks as, and indirectly bear the fees and expenses of, the underlying funds. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

## 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.

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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.

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Source: Bloomberg Indices.

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