

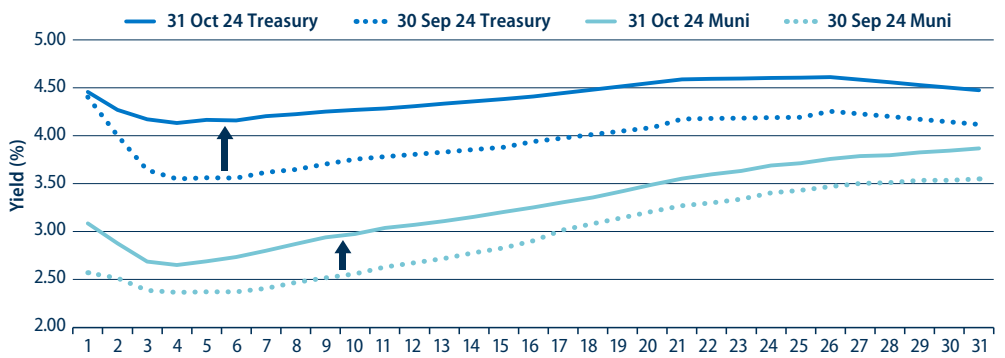
Muni Monthly

Performance Overview

Municipal yields moved higher in sympathy with Treasuries.

Fixed-income markets sold off in October as employment, inflation and consumer sentiment data all came in above expectations and pressured rates higher. The Treasury yield curve moved 30 to 60 basis points (bps) higher across the curve during the month. Muni market yields trailed Treasuries higher but generally outperformed due to relatively strong demand and better valuations following relative underperformance observed earlier in the year. All told, the Bloomberg Municipal Bond Index returned -1.46%. Longer-duration securities outperformed amid the rate selloff, while lower investment-grade securities outperformed as credit spreads continued to contract.

Exhibit 1: Municipal and Treasury Yield Curves



Source: Bloomberg. As of 30 September 24.

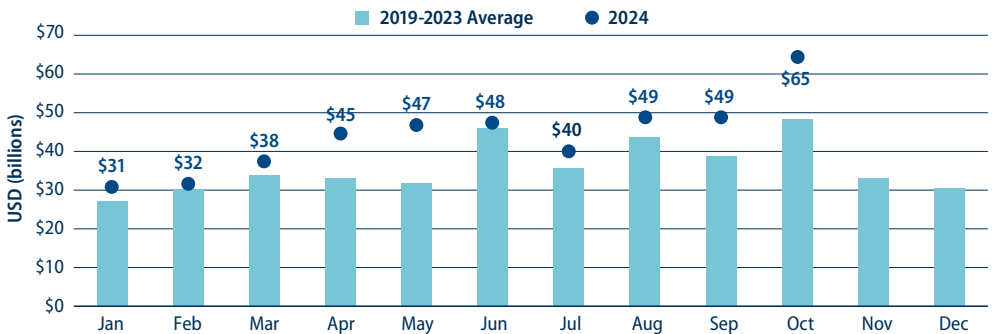
Supply and Demand Technicals

October municipal supply reached the highest level of the year.

Municipal supply continued at a record pace in October. Total new issuance of \$65 billion was up 68% from October 2023 levels and marked the highest level of issuance recorded this year. Total year-to-date (YTD) supply of \$444 billion is up 44% year-over-year (YoY). Tax-exempt supply comprised 92% of new-issue supply, increasing 48% to \$408 billion, while taxable new-issue supply increased 13% to \$36 billion.

Demand for municipals increased in October, following the Federal Reserve rate cut the prior month. Municipal mutual funds recorded an estimated \$10 billion of net inflows, according to ICI, representing the highest month of inflows this year and extending YTD inflows past \$40 billion. Long-term and high-yield category flows recorded the largest proportion of fund flows during the year.

Exhibit 2: 2024 Muni Supply Trends



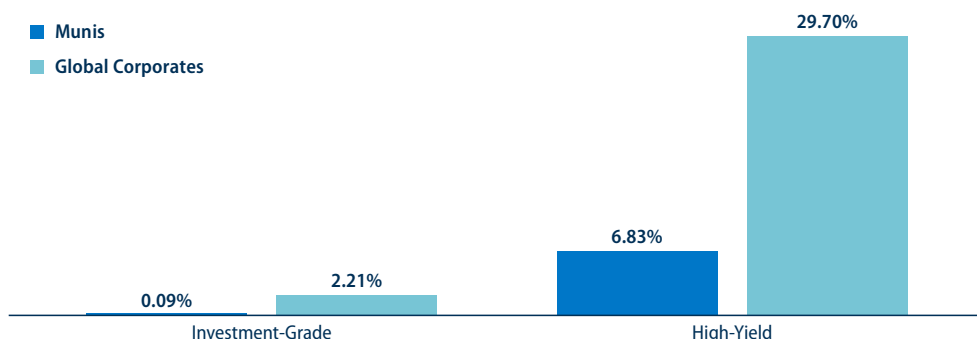
Source: Western Asset, Bloomberg. As of 31 October 24.

Fundamentals

Municipal default rates remain low and below corporates.

Strong economic data reported in the month of October should continue to support municipal revenues and credit fundamentals. Last month, Moody's published its annual municipal default and recovery study, which highlighted a significant drop-off in Moody's-rated defaults since Puerto Rico's defaults in 2016 and 2017. A single Moody's-rated issuer defaulted in 2023, continuing a trend of relatively low default rates for the municipal asset class versus corporates. While defaults remain low, the report highlights credit challenges of lower growth rates, higher labor costs and a potential reduction of federal aid.

Exhibit 3: Munis vs. Corporates—10-Year Cumulative Default Rates



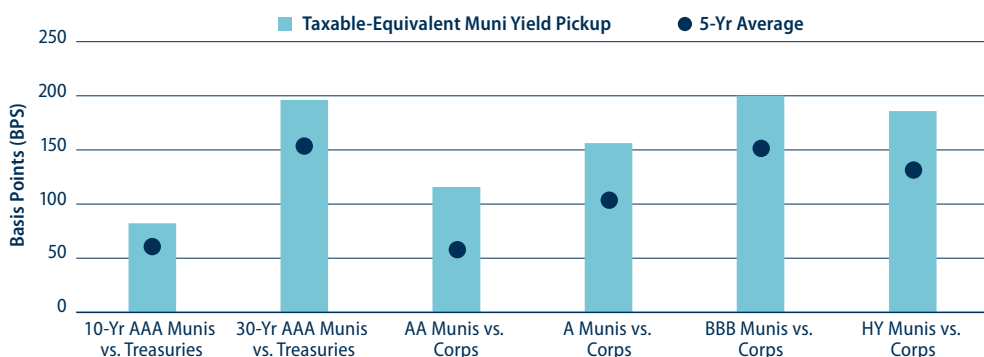
Source: Moody's Investor Services US Public Finance US Municipal Bond Defaults and Recoveries, 1970-2023. As of 24 October 24.

Valuations

Municipals offer above-average after-tax yield pickup versus taxable counterparts.

Despite the outperformance in October, our view is that municipals continue to offer attractive after-tax income opportunities and a compelling relative value proposition across rating cohorts. The 3.66% average yield-to-worst of the Bloomberg Muni Bond Index remains 44 bps higher than at the start of the year, and equivalent to 6.18% on a taxable-equivalent yield basis for an investor in the highest marginal tax bracket. Comparing municipals to like-rated taxable fixed-income, longer and lower intermediate-grade after-tax spreads remain above five-year averages across most of the yield curve and credit spectrum.

Exhibit 4: Taxable-Equivalent Municipal Yield Pickup vs. the Five-Year Average



Source: Bloomberg, Western Asset. 10- and 30-year comparison reflects Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve. AA Muni reflects the Bloomberg AA Muni Bond Index. A Muni reflects the Bloomberg A Muni Bond Index. BBB Muni reflects the Bloomberg BBB Muni Bond Index. HY Muni reflects the Bloomberg High Yield Muni Bond Index. AA Corp reflects the Bloomberg AA Corporate Bond Index. A Corp reflects the Bloomberg A Corporate Bond Index. BBB Corp reflects the Bloomberg BBB Corporate Bond Index. Taxable-equivalent yield considers top marginal tax rate of 40.8%. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator or a guarantee of future results. As of 31 May 24.

Yield-to-Worst (YTW) is the lesser of yield-to-maturity or yield-to-call across all known call dates.

Munis and the Macro¹

	Prior Month (Revised From)	Consensus	Actual
GDP Annualized QoQ (3Q 2024)	3.00%	2.90%	2.80%
CPI YoY	2.50%	2.30%	2.40%
PCE	2.30%	2.10%	2.10%
Unemployment Rate	4.20%	4.20%	4.10%
Change in Nonfarm Payrolls (NFP)	78k (142k)	150k	223k

Yield and Curve Changes - AAA Munis vs. Treasuries³

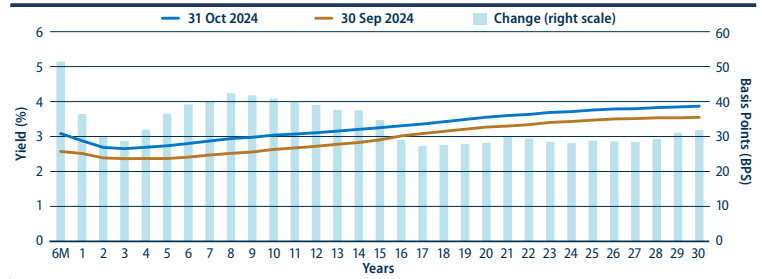
10/31/2024				
	2-Yr	5-Yr	10-Yr	30-Yr
AAA Muni	2.69%	2.68%	3.01%	3.87%
Treasury	4.17%	4.16%	4.29%	4.48%
M/T Ratio	64%	64%	70%	86%
Change				
Muni Δ (bps)	▲ 39	▲ 37	▲ 41	▲ 35
Treasury Δ (bps)	▲ 53	▲ 60	▲ 50	▲ 36
Ratio Δ	▲ 1	▼ -0.4	▲ 2	▲ 1
10-Yr Average				
AAA Muni	1.33%	1.54%	1.97%	3%
Treasury	1.94%	2.16%	2.44%	3%
Ratio	68%	71%	80%	94%

After Tax Yield Pickup⁵

Quality/Maturity Segment	Muni YTW	Taxable Equivalent YTW	Taxable YTW	Taxable Equivalent Muni Yield Pickup	5-Yr Average
10-Yr AAA Munis v. Treasuries	3.02%	5.10%	4.29%	82	61
30Y AAA Muni vs Treasury	3.81%	6.44%	4.48%	196	153
AA Munis v. Corps	3.53%	5.96%	4.81%	115	57
A Munis v. Corps	3.89%	6.57%	5.01%	156	103
BBB Munis v. Corps	4.35%	7.35%	5.35%	200	151
HY Munis v Corps	5.44%	9.19%	7.33%	186	131

Municipal Supply⁶

Year	\$B	Month	2023 Issuance	2024 Issuance	YoY	Calls/Maturities	Net
2018	356	January	21.8	31.1	43%	-25.5	5.7
2019	449	February	19.9	31.9	60%	-27.5	4.4
2020	496	March	32.8	37.7	15%	-26.5	11.2
2021	488	April	34.6	45.0	30%	-27.6	17.4
2022	375	May	28.9	47.1	63%	-28.2	19.0
2023	366	June	36.8	47.9	30%	-44.4	3.5
2024 YTD Annualized	533	July	27.3	40.2	47%	-41.0	-0.9
		August	38.2	49.0	28%	-47.7	1.3
		September	28.7	48.9	70%	-24.2	24.7
		October	38.7	65.1	68%	-38.6	26.5
		November	35.4				
		December	22.7				
		Total	366.0	444.0	44%	-331.1	112.9

AAA Municipal Yield Curve²Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	-1.46%	0.81%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	-0.25%	2.33%
Bloomberg Municipal Bond 5-Year Index	-1.04%	1.17%
Bloomberg Municipal Bond 10-Year Index	-1.65%	-0.65%
Bloomberg Municipal Bond 20-Year Total Return Index	-1.61%	1.04%
Bloomberg Municipal Bond Long Bond Index	-1.95%	1.10%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	-1.56%	0.09%
Bloomberg Municipal AA Index	-1.47%	0.49%
Bloomberg Municipal A Index	-1.41%	1.55%
Bloomberg Municipal BBB Index	-1.25%	2.94%
Bloomberg Muni High Yield Index	-1.52%	5.84%
Returns by Sector		
GO Bond Index	-1.49%	0.24%
Revenue Bond Index	-1.47%	0.99%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	-2.76%	2.42%
Bloomberg Global Aggregate Index	-3.35%	0.12%
Bloomberg U.S. Treasury Index	-2.38%	1.36%
Bloomberg U.S. Corporate Index	-2.43%	2.77%

Demand Technicals - Municipal Mutual Fund Flows⁷

Year	Flows (\$)	2024	Flows (\$)
2018	8,843	January	4,026
2019	102,554	February	2,753
2020	54,468	March	4,087
2021	105,480	April	289
2022	-116,469	May	2,216
2023	-5,695	June	649
2024 YTD	40,651	July	4,885
		August	6,019
		September	6,041
		October	9,686
		November	
		December	

¹ Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 31 Oct 24.² Source: Bloomberg, Western Asset. As of 31 Oct 24: Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve.³ Source: Muni Yields: Thomson Reuters MMD 2-Year, 5-Year, 10-Year and 30-Year AAA Scales; Treasury Yields: 2-Year, 5-Year, 10-Year, and 30-Year Tenors of the US On/Off The Run Sovereign Curve.⁴ Source: Bloomberg Municipal Bond Index, Bloomberg Taxable Municipal Bond Index. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator or a guarantee of future results.⁵ Source: Bloomberg, Western Asset. As of 31 Oct 24. 10- and 30-Year comparison reflects Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve. AA Muni reflects the Bloomberg AA Muni Bond Index. A Muni reflects the Bloomberg A Muni Bond Index. BBB Muni reflects the Bloomberg BBB Muni Bond Index. HY Muni reflects the Bloomberg High Yield Muni Bond Index. AA Corp reflects the Bloomberg AA Corporate Bond Index. A Corp reflects the Bloomberg A Corporate Bond Index. BBB Corp reflects the Bloomberg BBB Corporate Bond Index. Taxable equivalent yield considers top marginal tax rate of 40.8%. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator or a guarantee of future results.⁶ Source: Bloomberg. As of 31 Oct 24.⁷ Source: Bloomberg. As of 31 Oct 24.



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