

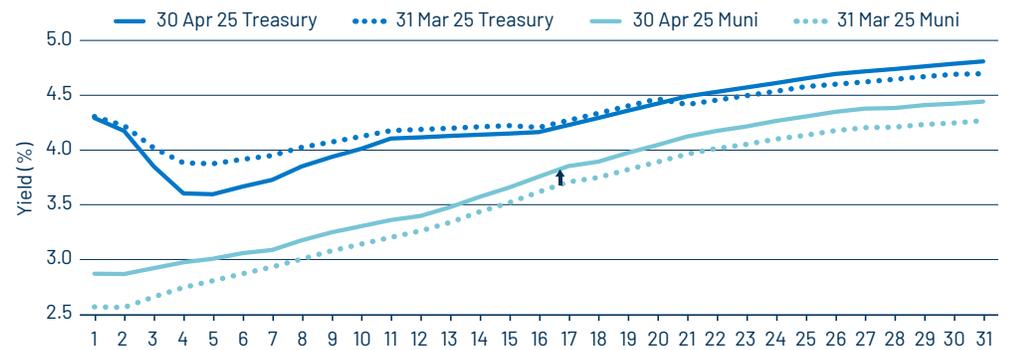
Muni Monthly

Performance Overview

Municipals posted negative returns and underperformed taxable fixed-income in April.

Market volatility accelerated in April as President Trump's tariff announcements drove uncertainty around the path of growth and inflation. Meanwhile, economic data generally came in weaker than expected and inflation maintained a downward trajectory. All told, equities moved sharply lower early in the month before rebounding toward month-end on hopes of tariff concessions. Similarly, Treasury yields initially moved lower before retracing that decline in the latter half of the month. Municipals sold off amid the volatility, significantly underperforming due to fraught liquidity conditions associated with elevated supply and seasonally weak demand technicals, which were further compounded by broader market volatility.

Exhibit 1: Municipal and Treasury Yield Curves



Source: Bloomberg. As of 30 Apr 25. AAA Callable Municipal Yield Curve and US On-/Off-the-Run Sovereign Curve.

Supply and Demand Technicals

Muni fund flows turned sharply lower in April.

Municipal supply remained elevated. Total April issuance of \$51 billion marked the highest level of issuance in six months and was 14% higher than April 2024 levels. Year-to-date (YTD) issuance of \$170 billion is tracking above the prior record year's levels by 17%. Issuance for taxable and tax-exempt municipals is higher year-over-year, though tax-exempt offerings continue to comprise the vast majority of total issuance. Municipal demand moved sharply lower in April, driven by seasonal tax-related selling and compounded by broader market volatility. This contributed to a flight to quality—specifically, increased exposure to cash equivalents and a shift away from fixed-income within model allocations. The Investment Company Institute (ICI) reported that municipal mutual funds recorded \$6 billion of net outflows, leading YTD inflows lower to \$6 billion.

Exhibit 2: YTD Municipal Mutual Fund Flows



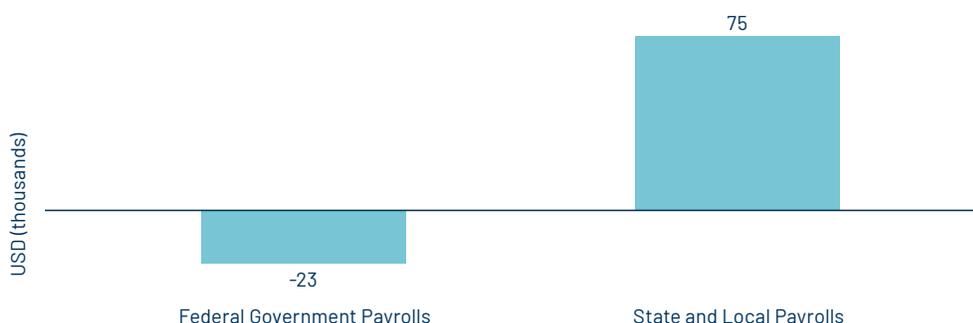
Source: ICI, Western Asset, Bloomberg. As of 30 Apr 25.

Fundamentals/Outlook

Despite federal funding reductions impacting federal government employment, state and local government employment continues to grow.

Municipal credit fundamentals have continued to demonstrate resilience amid concerns about the scope of federal funding. The April nonfarm payroll report indicated that, while federal employment has declined by 23,000 jobs YTD, state and local employment has increased by 75,000 jobs. From year-end 2022 through the first quarter of 2025, state and local payrolls have also exceeded the pace of national employment growth. As federal funding concerns filter down to the state and local levels and several large issuers record budget gaps, Western Asset anticipates that the growth of municipal payrolls could slow going forward.

Exhibit 3: YTD Change in Government Payrolls



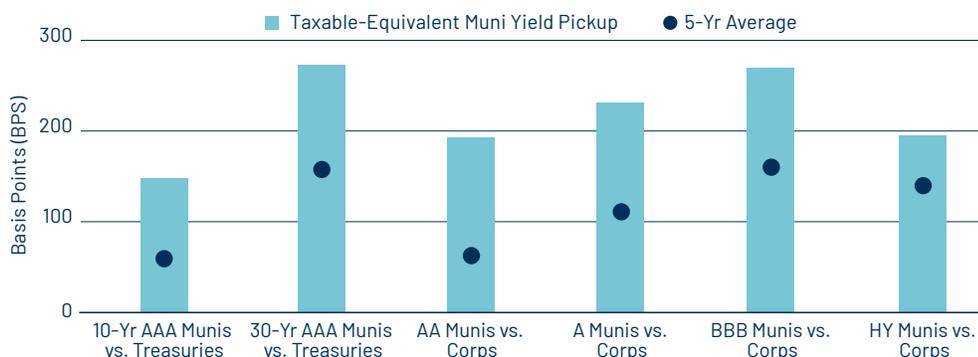
Source: BLS, Bloomberg, Western Asset. As of 2 May 25.

Valuations

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

Significant municipal underperformance, despite lower Treasury yields and strong credit fundamentals, highlights the strong influence that weaker supply and demand technicals can have on the municipal market. These conditions have improved income opportunities and the relative value of the asset class. The Bloomberg Municipal Bond Index average yield-to-worst ended the month at 4.06%, up over 25 basis points from the start of the year and equivalent to 6.86% on a taxable equivalent basis. Considering the positive performance recorded in taxable fixed-income sectors in April, the after-tax yield pickup has improved and underscores the enduring relative value opportunity of the muni asset class.

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



Source: Bloomberg, Western Asset. As of 30 Apr 25. 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.

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 (1Q25)	2.40%	-0.20%	-0.30%
CPI YoY	2.80%	2.50%	2.40%
PCE	2.50%	2.20%	2.30%
Unemployment Rate	4.10%	4.10%	4.20%
Change in Nonfarm Payrolls	102k (151k)	140k	185k

Yield and Curve Changes - AAA Munis vs. Treasuries³

	2-Yr	5-Yr	10-Yr	30-Yr
04/30/2025				
AAA Muni	2.92%	3.02%	3.34%	4.38%
Treasury	3.61%	3.73%	4.16%	4.68%
M/T Ratio	81%	81%	80%	94%
Change				
Muni Δ (bps)	▲ 17	▲ 16	▲ 8	▲ 14
Treasury Δ (bps)	▼ -28	▼ -22	▼ -4	▲ 11
Ratio Δ (%)	▲ 10	▲ 9	▲ 3	▲ 1
10-Yr Average				
AAA Muni	1.44%	1.62%	2.02%	3%
Treasury	2.12%	2.30%	2.56%	3%
Ratio	68%	70%	79%	93%

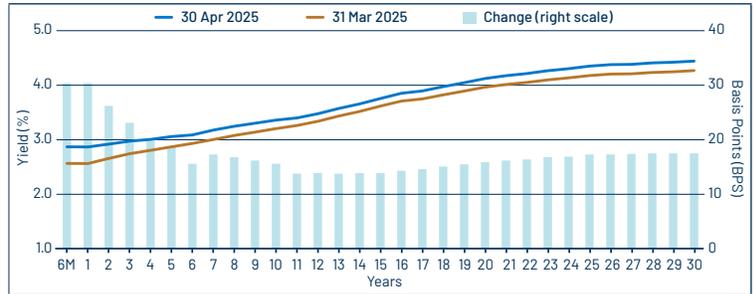
After Tax Yield Pickup⁵

Quality/Maturity Segment	Muni YTW	Taxable Equivalent YTW	Taxable YTW	Taxable Equivalent Muni Yield Pickup	5-Yr Average
10-Yr AAA Munis vs Treasuries	3.34%	5.64%	4.16%	148	59
30Y AAA Muni vs Treasury	4.39%	7.41%	4.68%	273	158
AA Munis vs Corps	3.94%	6.66%	4.74%	192	64
A Munis vs Corps	4.31%	7.29%	4.96%	233	111
BBB Munis vs Corps	4.80%	8.11%	5.40%	271	160
HY Munis vs Corps	5.84%	9.86%	7.90%	196	142

Municipal Supply⁶

Year	\$B	Month	2024 Issuance	2025 Issuance	YoY	Calls/Maturities	Net
2018	356	January	31.1	37.1	19%	-31.0	0.2
2019	449	February	31.9	38.8	22%	-31.0	1.0
2020	496	March	37.7	43.3	15%	-22.8	14.9
2021	488	April	45.0	51.2	14%	-18.5	32.6
2022	375	May	47.1				
2023	366	June	47.6				
2024	500	July	40.2				
2025 YTD	511	August	49.0				
Annualized		September	48.9				
		October	64.5				
		November	25.1				
		December	31.7				
		Total	499.9	170.4	37%	-103.2	48.8

AAA Municipal Yield Curve²



Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	-0.81%	-1.03%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	-0.18%	0.88%
Bloomberg Municipal Bond 5-Year Index	-0.51%	0.40%
Bloomberg Municipal Bond 10-Year Index	-0.73%	-0.47%
Bloomberg Municipal Bond 20-Year Total Return Index	-1.03%	-2.31%
Bloomberg Municipal Bond Long Bond Index	-1.27%	-2.72%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	-0.63%	-0.96%
Bloomberg Municipal AA Index	-0.74%	-1.04%
Bloomberg Municipal A Index	-0.98%	-1.01%
Bloomberg Municipal BBB Index	-1.30%	-1.16%
Bloomberg Muni High Yield Index	-1.78%	-0.98%
Returns by Sector		
GO Bond Index	-0.69%	-0.97%
Revenue Bond Index	-0.86%	-1.07%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	-0.08%	2.91%
Bloomberg Global Aggregate Index	2.94%	5.65%
Bloomberg U.S. Treasury Index	0.63%	3.57%
Bloomberg U.S. Corporate Index	-0.03%	2.27%

Demand Technicals - Municipal Mutual Fund Flows⁷

Year	Flows (\$MM)	2025	Flows (\$MM)
2018	8,843	January	6,104
2019	102,554	February	5,826
2020	54,468	March	264
2021	105,480	April	-6,078
2022	-116,469	May	
2023	-5,695	June	
2024	45,091	July	
2025 YTD	6,116	August	
		September	
		October	
		November	
		December	

¹Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 30 Apr 25.

²Source: Bloomberg, Western Asset. As of 30 Apr 25. Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve.

³Source: 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.

⁴Source: Bloomberg Municipal Bond Index, Bloomberg Taxable Municipal Bond Index. As of 30 Apr 25. 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.

⁵Source: Bloomberg, Western Asset. As of 30 Apr 25. 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.

⁶Source: Bloomberg. As of 30 Apr 25.

⁷Source: Bloomberg, ICI. As of 30 Apr 25.



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