

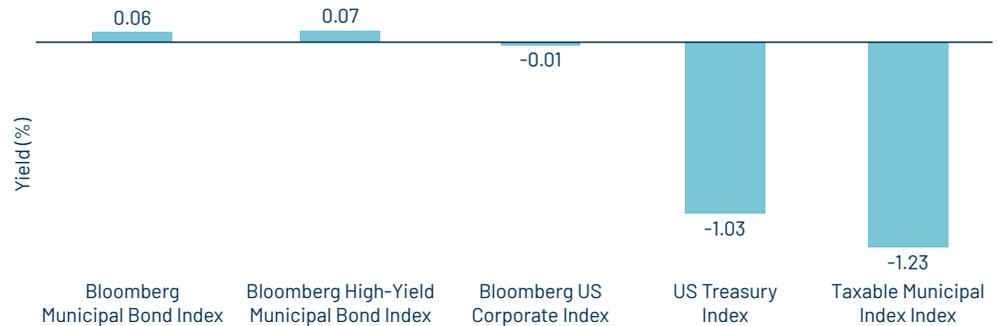
Muni Monthly

Performance Overview

Municipals posted modestly positive returns as Treasuries sold off in May.

In May, global government bond market volatility subsided as improved economic data and lower US-China trade tariffs led investors to reduce the perceived risk of a global downturn. The municipal market retraced some of the year-to-date (YTD) underperformance observed during the first four months of the year, with municipal indices posting modestly positive returns, while Treasuries and corporates recorded negative returns. A rebound in demand despite a consistently elevated supply level contributed to the relative outperformance of municipals.

Exhibit 1: May Bloomberg Index Returns



Source: Bloomberg, Western Asset. As of 31 May 25.

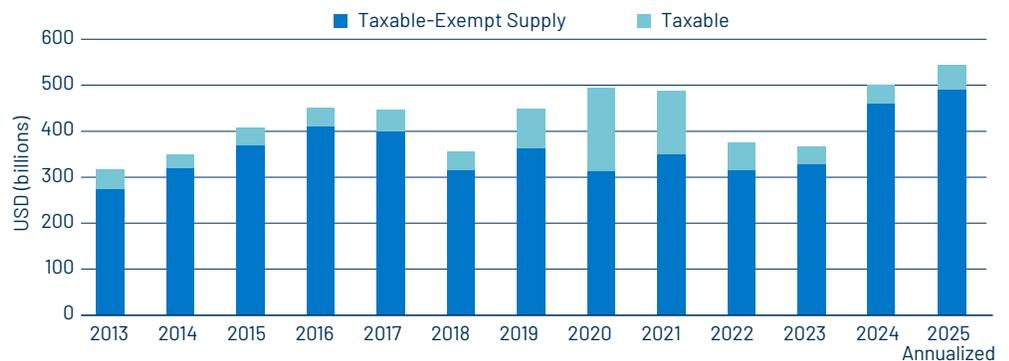
Supply and Demand Technicals

Muni supply remains at a record pace so far this year.

Municipal supply remained elevated in May. Total issuance in May reached \$54 billion, marking the highest monthly issuance this year and representing a 14% increase over May 2024 levels. YTD issuance stood at \$227 billion, 17% higher than the prior year, with tax-exempt issuance up 16% year-over-year (YoY) and taxable issuance up 30% YoY.

Municipal demand rebounded in May following the seasonal tax-related selling that occurred in April. Municipal mutual funds recorded \$6.8 billion of inflows during the month, reversing the \$6.3 billion of outflows seen in April, according to the Investment Company Institute (ICI). This brought YTD inflows to \$12 billion.

Exhibit 2: Historical Municipal Supply



Source: ICI, Western Asset, Bloomberg. As of 31 May 25.

Fundamentals/Outlook

New federal funding cuts and proposed endowment taxes may weaken the credit outlook for higher education municipal bonds.

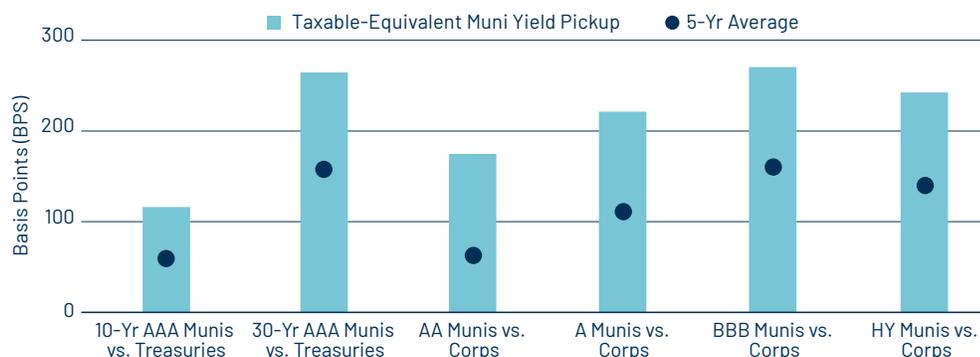
As the Trump administration established its policies this year, much of the municipal market has focused on the potential implications of federal funding reductions for municipal credit. The House Ways and Means Committee's release of the initial draft of the "One Big Beautiful Bill" extended these concerns for certain sectors. In addition to pay-for provisions that help extend current individual tax rates, the draft bill seeks to institute an endowment tax on higher education institutions based on endowment-per-student thresholds. Private universities with \$2 million in endowment funds per student would pay 21% on net investment income, while schools with lower endowment levels would pay closer to the current rate of 1.4%. These potential taxes could compound pressures from federal funding and grants that also have been rescinded from many universities.

Valuations

Municipals offer above-average after-tax relative value compared to taxable counterparts for investors in higher tax brackets.

Western Asset remains constructive on municipal relative valuations for investors in higher tax brackets. The Bloomberg Municipal Bond Index average yield-to-worst ended the month at 4.04%, or 6.82% on a taxable-equivalent basis. Despite the underperformance of other fixed-income sectors, the taxable-equivalent yield pickup between municipals and comparable taxable counterparts remained above five-year averages in May. While the draft tax legislation extends the current tax regime, it does not include material tax reductions for individuals or institutions, and we expect less future tax uncertainty to contribute positively to municipal market sentiment.

Exhibit 3: 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 25.

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%	-0.30%	-0.20%
CPI YoY	2.40%	2.40%	2.30%
PCE	2.10%	2.20%	2.10%
Unemployment Rate	4.20%	4.20%	4.20%
Change in Nonfarm Payrolls	185k (228k)	138k	177k

Yield and Curve Changes - AAA Munis vs. Treasuries³

	2-Yr	5-Yr	10-Yr	30-Yr
5/31/2025				
AAA Muni	2.77%	2.84%	3.33%	4.52%
Treasury	3.90%	3.96%	4.40%	4.93%
M/T Ratio	71%	72%	76%	92%
Change				
Muni Δ (bps)	▼ -15	▼ -18	▼ -1	▲ 14
Treasury Δ (bps)	▲ 30	▲ 24	▲ 24	▲ 25
Ratio Δ (%)	▼ -10%	▼ -9%	▼ -5%	▼ -2%
10-Yr Average				
AAA Muni	1.46%	1.63%	2.03%	3%
Treasury	2.15%	2.32%	2.58%	3%
Ratio	68%	70%	79%	93%

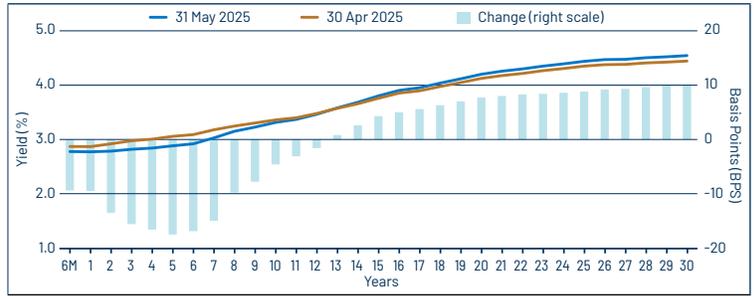
After Tax Yield Pickup⁵

Quality/Maturity Segment	Muni YTW	Taxable Equivalent YTW	Taxable YTW	Taxable Equivalent Muni Yield Pickup	5-Yr Average
10-Yr AAA Munis vs Treasuries	3.29%	5.57%	4.40%	116	59
30Y AAA Muni vs Treasury	4.49%	7.58%	4.93%	264	159
AA Munis vs Corps	3.92%	6.62%	4.87%	175	66
A Munis vs Corps	4.31%	7.27%	5.06%	221	111
BBB Munis vs Corps	4.81%	8.13%	5.42%	271	158
HY Munis vs Corps	5.85%	9.88%	7.46%	242	143

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	39.4	24%	-31.0	1.0
2020	496	March	37.7	43.4	15%	-22.8	14.9
2021	488	April	45.0	52.9	17%	-18.5	26.6
2022	375	May	47.1	53.8	14%	-29.5	17.6
2023	366	June	47.6				
2024	500	July	40.2				
2025 YTD	544	August	49.0				
Annualized		September	48.9				
		October	64.5				
		November	25.1				
		December	31.7				
		Total	499.9	226.6	37%	-132.7	60.2

AAA Municipal Yield Curve²



Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	0.06%	-0.96%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	0.48%	1.36%
Bloomberg Municipal Bond 5-Year Index	0.95%	1.35%
Bloomberg Municipal Bond 10-Year Index	0.64%	0.17%
Bloomberg Municipal Bond 20-Year Total Return Index	-0.84%	-3.13%
Bloomberg Municipal Bond Long Bond Index	-0.98%	-3.67%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	-0.01%	-0.97%
Bloomberg Municipal AA Index	0.10%	-0.94%
Bloomberg Municipal A Index	0.07%	-0.94%
Bloomberg Municipal BBB Index	-0.09%	-1.25%
Bloomberg Muni High Yield Index	0.07%	-0.91%
Returns by Sector		
GO Bond Index	0.11%	-0.87%
Revenue Bond Index	0.03%	-1.04%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	-1.23%	1.64%
Bloomberg Global Aggregate Index	-0.36%	5.28%
Bloomberg U.S. Treasury Index	-1.03%	2.51%
Bloomberg U.S. Corporate Index	-0.01%	2.26%

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	-6,306
2022	-116,469	May	6,848
2023	-5,695	June	
2024	45,091	July	
2025 YTD	12,736	August	
		September	
		October	
		November	
		December	

¹Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 31 May 25.

²Source: Bloomberg, Western Asset. As of 31 May 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 31 May 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 31 May 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 31 May 25.

⁷Source: Bloomberg, ICI. As of 31 May 25.



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