

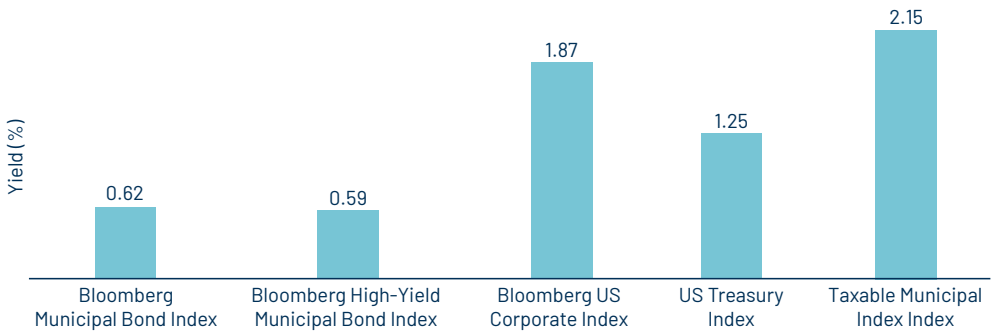
# Muni Monthly

## Performance Overview

Municipals posted positive returns as rates rallied in June.

In June, fixed-income markets responded positively to softer inflation and labor data, as global geopolitical tensions contributed to a flight-to-quality sentiment. Treasury yields declined by 16 to 18 basis points (bps) across the curve. Although municipal yields also fell alongside Treasuries, municipals continued to underperform other taxable fixed-income sectors due to record supply conditions. Shorter maturities and lower-investment-grade municipals generally delivered stronger performance during the month.

Exhibit 1: June Municipal Index Returns



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

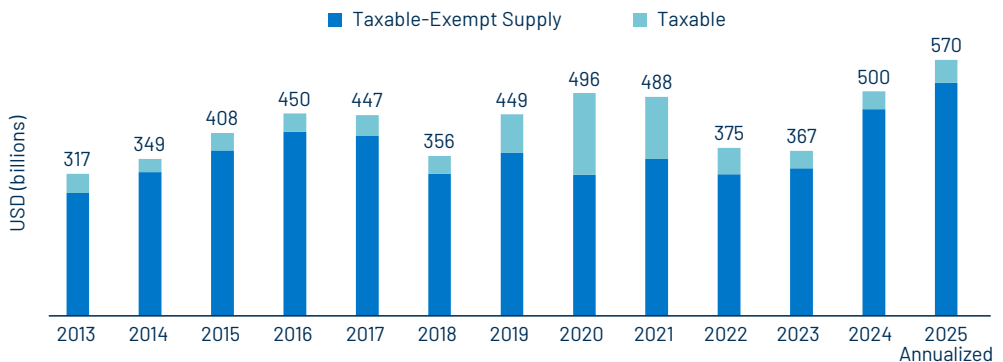
## Supply and Demand Technicals

Muni supply remains at a record pace this year.

The municipal bond supply in June increased 23% from June 2024 levels, rising to \$58.5 billion. This marks the highest monthly issuance so far this year and appears to continue at a record-setting pace. Year-to-date (YTD) municipal issuance totaled \$283 billion for the first half of 2025, 18% higher than the prior record-year levels. Tax-exempt supply increased 17% year-over-year (YoY) to \$257 billion YTD, or 91% of total issuance. Taxable municipal issuance totaled \$25 billion, a 20% increase compared to last year.

Municipal demand continued to rebound in June following tax-related selling that occurred in the spring. Municipal mutual funds recorded \$4.3 billion of inflows during the month, according to Lipper, with the largest inflows attributable to long-term (\$3.6 billion) and short-term (\$740 million) funds. These inflows led YTD inflows higher to \$13 billion.

Exhibit 2: Historical Municipal Supply



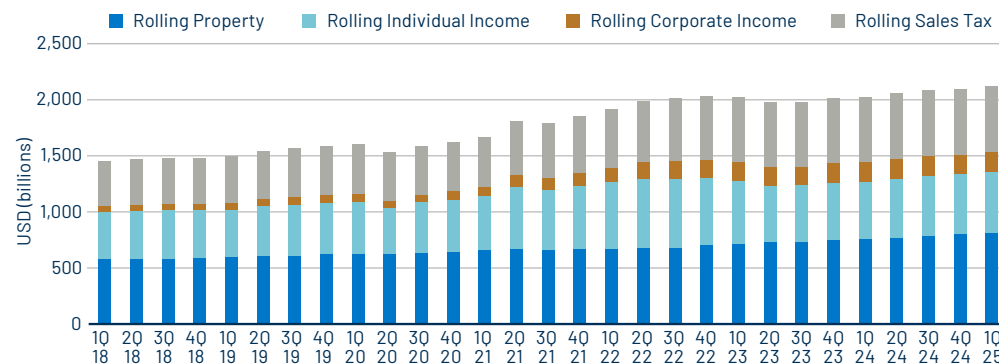
Source: ICI, Western Asset, Bloomberg. As of 30 Jun 25.

## Fundamentals

### State and local tax collections remain near record levels.

In June, the Census released 1Q25 state and local tax collection estimates, which indicated continued revenue growth for state and local governments. Twelve-month trailing collections increased 5% to \$2.1 trillion YoY, marking a record-high level. While strong revenue collections are indicative of credit resiliency in the muni market, the pace of credit rating improvement from the three major rating agencies has slowed so far this year. According to Bloomberg data, total entities upgraded (620) continued to exceed downgrades (472); however, total downgrades by par value of \$122 billion outpaced upgrades of \$112 billion. Meanwhile, first-time payment defaults totaled \$1 billion, exceeding the 1H24 level of \$711 million.

**Exhibit 3: 12-Month Trailing State and Local Revenue Collections**



Source: Western Asset, Census NSA major state and local tax revenue. As of 30 Jun 25.

## Valuations

### For high taxpayers, municipals offer above-average after-tax relative value compared to taxable counterparts.

Record supply conditions and negative YTD muni performance has resulted in improved tax-exempt income opportunities and relative valuations. Longer duration and lower-investment-grade municipal credit offer above 100 bps of excess after-tax yield pickup versus like-structured Treasuries and corporate counterparts. We recognize that supply and demand imbalances, such as what we have observed this year, tend to correct. As a result, we expect that favorable relative value against the backdrop of strong credit fundamentals could establish the potential for attractive performance in the back half of the year.

Munis and the Macro<sup>1</sup>

	Prior Month (Revised From)	Consensus	Actual
GDP Annualized QoQ (1Q25)	2.40%	-0.20%	-0.50%
CPI YoY	2.30%	2.40%	2.40%
PCE	2.20%	2.30%	2.30%
Unemployment Rate	4.20%	4.20%	4.20%
Change in Nonfarm Payrolls	158k (177k)	126k	144k

Yield and Curve Changes – AAA Munis vs. Treasuries<sup>3</sup>

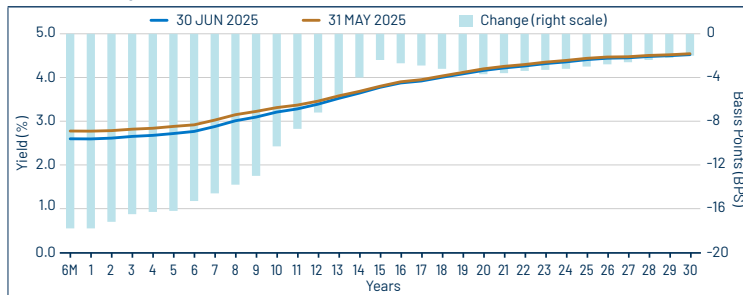
	2-Yr	5-Yr	10-Yr	30-Yr
<b>6/30/2025</b>				
AAA Muni	2.59%	2.67%	3.26%	4.54%
Treasury	3.72%	3.80%	4.23%	4.78%
M/T Ratio	70%	70%	77%	95%
<b>Change</b>				
Muni Δ (bps)	▼ -18	▼ -17	▼ -7	▲ 2
Treasury Δ (bps)	▼ -18	▼ -17	▼ -17	▼ -16
Ratio Δ (%)	▼ -1%	▼ -1%	▲ 1%	▲ 3%
<b>10-Yr Average</b>				
AAA Muni	1.48%	1.64%	2.04%	3%
Treasury	2.17%	2.33%	2.59%	3%
Ratio	68%	70%	78%	93%

After-Tax Yield Pickup<sup>5</sup>

Quality/Maturity Segment	Muni YTW	Taxable Equivalent YTW	Taxable YTW	Taxable Equivalent Muni Yield Pickup	5-Yr Average
10-Yr AAA Munis vs Treasuries	3.19%	5.39%	4.23%	116	60
30Y AAA Muni vs Treasury	4.47%	7.54%	4.78%	277	162
AA Munis vs Corps	3.83%	6.47%	4.70%	177	68
A Munis vs Corps	4.23%	7.14%	4.86%	228	112
BBB Munis vs Corps	4.74%	8.00%	5.18%	282	158
HY Munis vs Corps	5.81%	9.82%	7.06%	276	144

Municipal Supply<sup>6</sup>

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	680	August	49.0				
Annualized		September	48.9				
		October	64.5				
		November	25.1				
		December	31.7				
		<b>Total</b>	<b>499.9</b>	<b>226.6</b>	<b>37%</b>	<b>-132.7</b>	<b>60.2</b>

AAA Municipal Yield Curve<sup>2</sup>Index Returns<sup>4</sup>

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	0.62%	-0.35%
<b>Returns by Maturity</b>		
Bloomberg Municipal Bond 1-Year Index	0.52%	1.88%
Bloomberg Municipal Bond 5-Year Index	0.91%	2.27%
Bloomberg Municipal Bond 10-Year Index	0.87%	1.04%
Bloomberg Municipal Bond 20-Year Total Return Index	0.41%	-2.73%
Bloomberg Municipal Bond Long Bond Index	0.31%	-3.38%
<b>Returns by Credit Quality</b>		
Bloomberg Municipal AAA Index	0.54%	-0.43%
Bloomberg Municipal AA Index	0.61%	-0.34%
Bloomberg Municipal A Index	0.68%	-0.27%
Bloomberg Municipal BBB Index	0.76%	-0.51%
Bloomberg Muni High Yield Index	0.59%	-0.33%
<b>Returns by Sector</b>		
GO Bond Index	0.59%	-0.28%
Revenue Bond Index	0.63%	-0.42%
<b>Taxable Muni Returns</b>		
Bloomberg Taxable Municipal Bond Index	2.15%	3.82%
Bloomberg Global Aggregate Index	1.89%	7.27%
Bloomberg U.S. Treasury Index	1.25%	3.79%
Bloomberg U.S. Corporate Index	1.87%	4.17%

Demand Technicals – Municipal Mutual Fund Flows<sup>7</sup>

Year	Flows (\$M)	2025	Flows (\$M)
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	5,040
2023	-5,695	June	
2024	45,091	July	
2025 YTD	5,888	August	
		September	
		October	
		November	
		December	

<sup>1</sup>Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 30 Jun 25.<sup>2</sup>Source: Bloomberg, Western Asset. As of 30 Jun 25. Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve.<sup>3</sup>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.<sup>4</sup>Source: Bloomberg Municipal Bond Index, Bloomberg Taxable Municipal Bond Index. As of 30 Jun 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.<sup>5</sup>Source: Bloomberg, Western Asset. As of 30 Jun 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.<sup>6</sup>Source: Bloomberg. As of 30 Jun 25.<sup>7</sup>Source: Bloomberg, ICI. As of 30 Jun 25.



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