

Muni Monthly

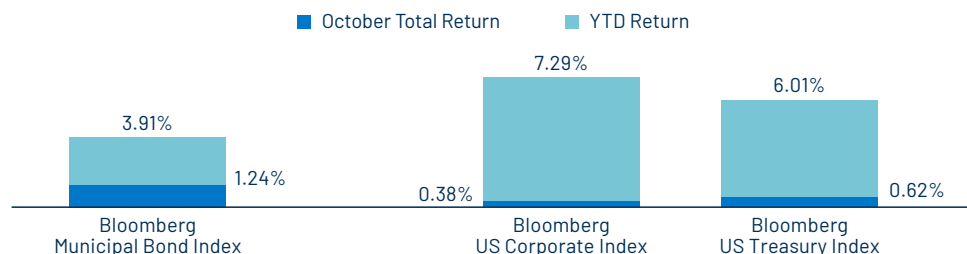
Performance Overview

Munis posted the best October return since 1990.

Fixed-income sectors generally posted positive returns in October amid limited economic data releases due to the partial federal government shutdown. Markets were focused on Federal Reserve (Fed) rhetoric as the Federal Open Market Committee reduced the fed funds rate for a second consecutive month by 25 basis points (bps), bringing the target range to 4.25%-4.50%. Heading into the month of October, municipals had significantly underperformed taxable fixed-income sectors in 2025, as the Bloomberg Municipal Bond Index returned just 2.64% year to date (YTD) through September 30—less than half the Bloomberg U.S. Treasury Index return of 5.36% and well below the Bloomberg U.S. Corporate Index return of 6.88%.

October's Municipal Bond Index total return of 1.24% not only bucked the historically negative average October return of -0.15% since 1990, but also marked the highest October total return since 1990. This was only the second positive October on record. The 1.24% gain was nearly double the Treasury Index return of 0.62% and more than triple the Corporate Index return of 0.38%. The strong monthly performance lifted the Muni Index YTD return to 3.91%, narrowing the gap but still trailing Treasuries at 6.01% and corporates at 7.29%.

Exhibit 1: Bloomberg Fixed Income Index Returns



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

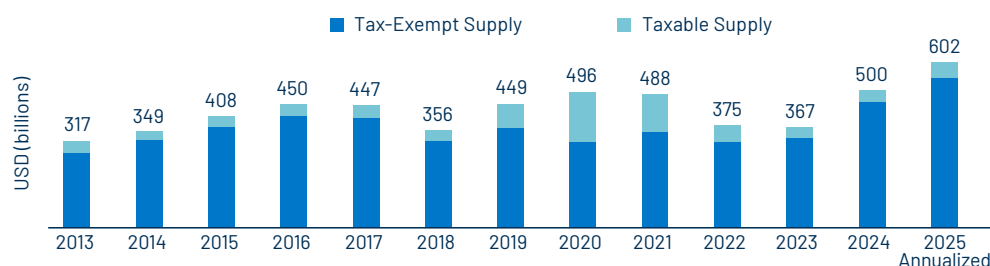
Supply and Demand Technicals

Muni demand improves as supply remains at a record pace this year.

Municipal supply maintained a record pace in October, with total new-issue volume reaching \$62 billion, a 27% increase from September's levels. YTD municipal issuance totaled \$502 billion, 16% higher year-over-year (YoY) and surpassing last year's full-calendar record of \$500 billion. YTD tax-exempt supply stood at \$456 billion, up 12% YoY, while taxable municipal issuance reached \$46 billion, 27% above prior-year levels.

Municipal demand remained robust in October, particularly for longer-duration bonds as the Fed cut rates for the second consecutive month. Municipal mutual funds reported \$6.5 billion in net inflows according to Lipper, up from \$5.5 billion the prior month and marking the strongest monthly inflow of the year. The long-term category continued to capture the majority of flows with \$4.6 billion of net inflows, followed by the intermediate category at \$1.6 billion and high-yield funds at \$1.2 billion. This accelerating investor demand, especially into longer maturities, contributing to an improved technical backdrop that fueled October's strong performance.

Exhibit 2: Historical Municipal Supply



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

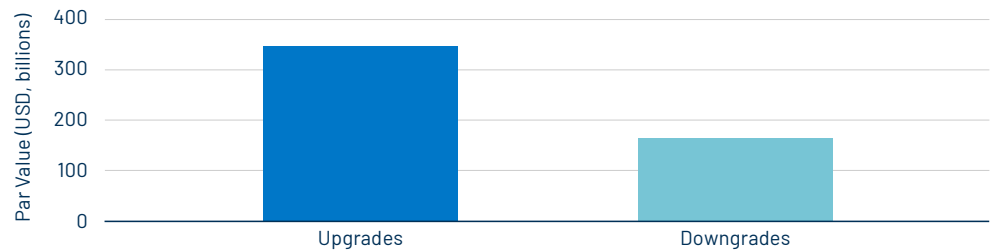
Fundamentals

Despite signs of slowing, upgrades continued to outpace downgrades this year.

In October, Moody's upgraded the state of Illinois to A2 from A3 while maintaining a stable outlook. The action represented the state's 13th positive rating action by the major agencies since 2020 and its fourth upgrade from Moody's over that span. The upgrade reflects sustained improvement in Illinois' financial metrics, reserve levels and structural balance, capping a multi-year turnaround from near-junk status during the pandemic.

The state's upgrade comes as broader credit momentum has shown early signs of deceleration. 3Q25 marked the first quarter since the pandemic recovery began in which Moody's downgrades outnumbered upgrades. Despite the quarterly slowdown, the upgrade cycle remained firmly intact on a YTD basis, with approximately \$347 billion in municipal debt upgraded across the major agencies through November 7, over double the \$165 billion downgraded, according to Bloomberg.

Exhibit 3: Moody's S&P and Fitch Upgrades vs. Downgrades YTD



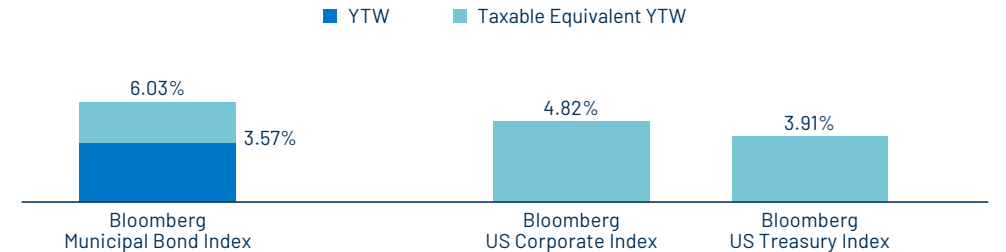
Source: Bloomberg, Western Asset. As of 07 Nov 25.

Valuations

Tax-exempt muni income levels remain near generational highs.

Despite the muni market narrowing the performance gap during the month, tax-exempt income levels remain near generational highs, and the relative YTD underperformance continues to offer potential demand catalysts, especially as the Fed is expected to continue its rate-cutting cycle into 2026. Sustained inflows, combined with the likelihood of seasonally lower supply heading into the holidays, support a constructive outlook for munis to gain further ground versus their taxable counterparts. Western Asset believes investors are well positioned to capitalize on this year's elevated supply-driven valuations, which may not persist at the same level through 2026.

Exhibit 4: Taxable-Equivalent Muni YTW vs. Corporate and Treasury Indices



Source: Bloomberg, Western Asset. As of 31 Oct 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

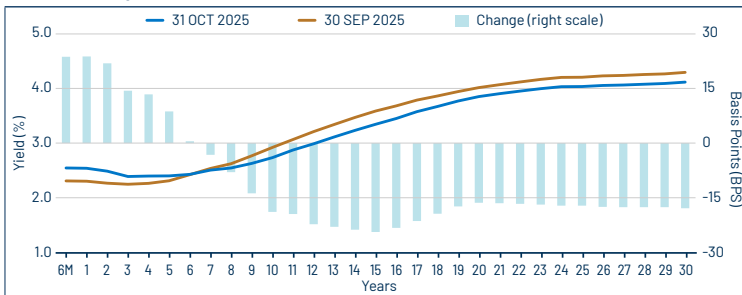
	Prior Month (Revised From)	Consensus	Actual
CPI YoY	2.90%	3.10%	3.00%

Yield and Curve Changes – AAA Munis vs. Treasuries³

	2-Yr	5-Yr	10-Yr	30-Yr
9/30/2025				
AAA Muni	2.46%	2.38%	2.73%	4.15%
Treasury	3.58%	3.69%	4.08%	4.65%
M/T Ratio	69%	65%	67%	89%
Change				
Muni Δ (bps)	▲ 18	▲ 6	▼ -19	▼ -9
Treasury Δ (bps)	▼ -3	▼ -5	▼ -7	▼ -8
Ratio Δ	▲ 6%	▲ 3%	▼ -3%	▼ -0.39%
10-Yr Average				
AAA Muni	1.53%	1.68%	2.07%	3%
Treasury	2.27%	2.41%	2.66%	3%
Ratio	68%	70%	78%	92%

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	2.72%	4.59%	4.08%	51	62
30Y AAA Muni vs Treasury	4.06%	6.86%	4.65%	220	171
AA Munis vs Corps	3.44%	5.81%	4.56%	125	76
A Munis vs Corps	3.81%	6.44%	4.68%	176	111
BBB Munis vs Corps	4.47%	7.55%	5.00%	255	163
HY Munis vs Corps	5.63%	9.52%	6.78%	274	150

AAA Municipal Yield Curve²Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	1.24%	3.91%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	-0.06%	2.84%
Bloomberg Municipal Bond 5-Year Index	-0.01%	4.50%
Bloomberg Municipal Bond 10-Year Index	1.22%	5.37%
Bloomberg Municipal Bond 20-Year Total Return Index	2.18%	3.11%
Bloomberg Municipal Bond Long Bond Index	1.83%	2.15%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	1.22%	3.89%
Bloomberg Municipal AA Index	1.23%	3.87%
Bloomberg Municipal A Index	1.25%	4.09%
Bloomberg Municipal BBB Index	1.33%	3.68%
Bloomberg Muni High Yield Index	1.00%	2.31%
Returns by Sector		
GO Bond Index	1.23%	3.93%
Revenue Bond Index	1.26%	3.90%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	1.08%	7.58%
Bloomberg Global Aggregate Index	-0.25%	7.64%
Bloomberg U.S. Treasury Index	0.62%	6.01%
Bloomberg U.S. Corporate Index	0.38%	7.29%

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	39.5	24%	-31.0	1.0
2020	496	March	37.7	43.4	15%	-22.8	14.9
2021	488	April	45.0	52.8	17%	-18.5	26.6
2022	375	May	47.1	53.8	14%	-29.5	17.6
2023	366	June	47.6	58.4	23%	-48.7	-1.0
2024	500	July	40.2	56.6	41%	-44.5	-4.4
2025 YTD	602	August	49.0	49.4	1%	-48.3	0.8
Annualized		September	48.9	48.9	0%	-26.7	22.3
		October	64.5	62.1	-4%	-32.8	31.7
		November	25.1				
		December	31.7				
		Total	499.9	502.1	37%	-333.5	109.6

Demand Technicals – Municipal Mutual Fund Flows⁷

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	-6,305
2022	-116,469	May	6,848
2023	-5,695	June	5,695
2024	45,091	July	6,994
2025 YTD	48,998	August	5,006
		September	7,683
		October	10,883
		November	
		December	

¹Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 31 Oct 25.²Source: Bloomberg, Western Asset. As of 31 Oct 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 Oct 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 Oct 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 Oct 25.⁷Source: Bloomberg, ICI. As of 31 Oct 25.



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