

Muni Monthly

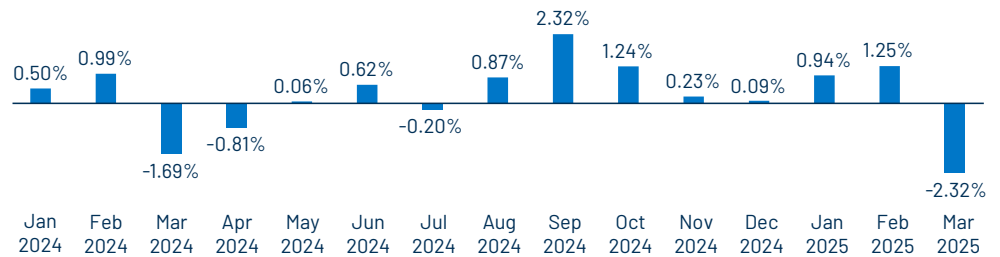
Performance Overview

Muni returns turned sharply lower in March.

Fixed-income market sentiment was dominated by geopolitical headlines, particularly the conflict in the Middle East following disruptions to the Strait of Hormuz and rising oil prices, which contributed to renewed inflation concerns. The Federal Reserve reiterated a “wait-and-see” stance at the March Federal Open Market Committee meeting, leaving rates unchanged and projecting one additional rate cut in 2026.

Treasury yields moved higher by 18–45 basis points (bps) across the curve, while high-grade municipal yields underperformed, rising by as much as 60 bps in intermediate maturities. The Bloomberg Municipal Bond Index returned -2.32%, reversing positive year-to-date (YTD) returns to -0.18%, as seasonal technical weakness compounded broader market volatility.

Exhibit 1: Bloomberg Municipal Index Monthly Returns



Source: Bloomberg, Western Asset. As of 31 Mar 26.

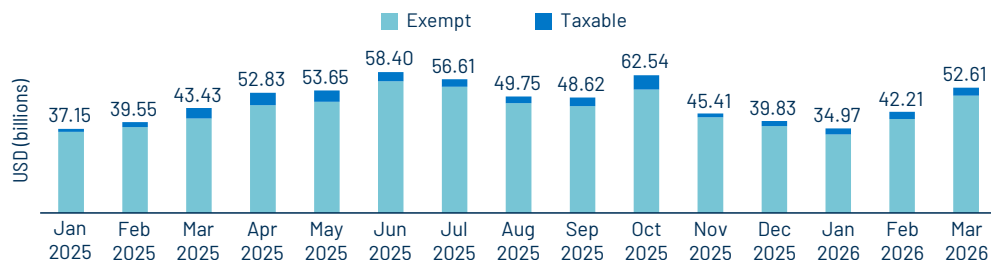
Technicals

Muni supply increased to the highest levels of the year.

Municipal technicals weakened and weighed on performance during the month. Total municipal supply of \$53 billion was the highest level recorded this year and the largest March supply on record. Tax-exempt issuance of \$50 billion increased 23% year-over-year (YoY), also a record level, while taxable supply declined 7% YoY to \$3 billion. YTD issuance of \$130 billion is up 8% versus the prior record year.

From a demand perspective, municipal fund flows were resilient early in the month despite typical seasonal tax-related weakness. Following two strong months of inflows in January and February, municipal mutual funds recorded \$7 billion of net inflows, according to ICI. Demand softened in the final two weeks of March amid broader market volatility and as tax day approached. Overall, demand has remained sound, with first-quarter net inflows of \$28 billion, approximately half of the total flows observed in the prior calendar year.

Exhibit 2: Monthly Municipal Supply



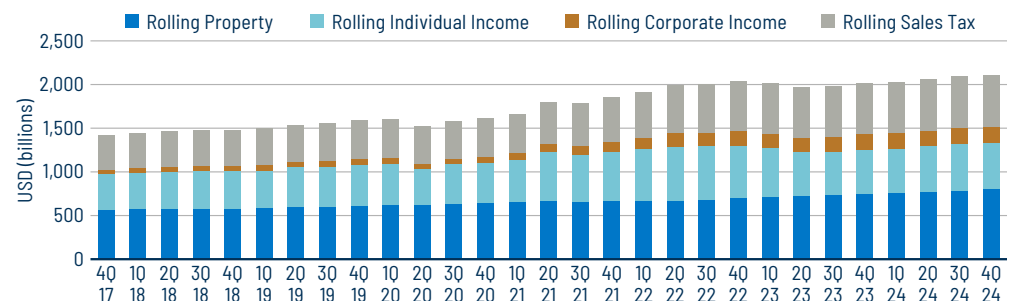
Source: Bloomberg, Western Asset. As of 31 Mar 26.

Fundamentals

Tax revenue growth remains resilient.

Earlier in the month, the U.S. Census Bureau released its 4Q25 state and local tax collection data, effectively closing out full-year 2025 results. In the fourth quarter, total state and local tax collections reached \$671 billion, representing a 6.2% YoY increase. Among major revenue sources, individual income taxes led growth, rising 10.8%, followed by corporate income taxes (+9.0%) and sales taxes (+5.7%). Property taxes, the primary revenue source for local governments, increased 4.2% YoY. The strong tax collections, building on already elevated levels, underscore the resilience of state and local credit and their capacity to manage potential budgetary pressures. As the municipal market navigates budget season, Western Asset expects these revenue trends to support overall credit stability and the historically high quality of the asset class.

Exhibit 3: 12-Month Trailing and Local Revenue Collections



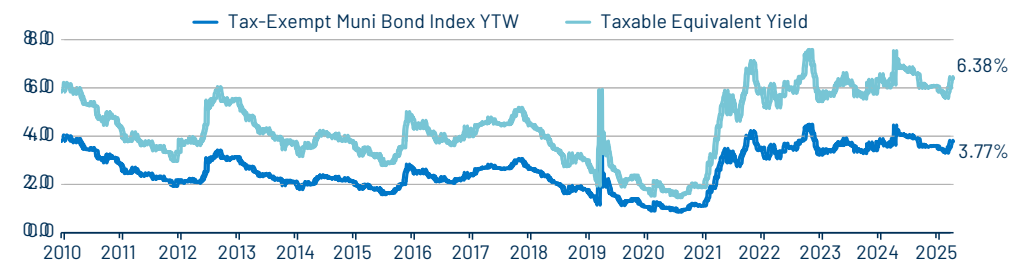
Source: Census, Western Asset. As of 12 Mar 26. Major state and local tax revenue is not seasonally adjusted.

Valuations

Taxable-equivalent yields jumped in March.

While periods of market volatility can contribute to short-term underperformance, they often create attractive long-term opportunities for investors to capture tax-exempt income at improved valuations. The Bloomberg Municipal Bond Index yield-to-worst increased to 3.77% (6.37% taxable-equivalent yield), up from February lows of 3.29% (5.56% taxable-equivalent yield). Notably, the 5- to 14-year segment of the curve experienced the largest increase in yields of over 50 bps, providing improved relative value, particularly for SMA strategies that had faced valuation challenges through much of the past year.

Exhibit 4: Muni and Taxable Equivalent Muni Yield-to-Worst



Source: Bloomberg, Western Asset. As of 31 Mar 26. Yield-to-worst (YTW) is the lowest potential yield that can be received on a bond without the issuer actually defaulting. Taxable-equivalent yield considers the top effective marginal tax rate of 40.8%.

Munis and the Macro¹

	Prior Month (Revised From)	Consensus	Actual
GDP Annualized QoQ (4Q25)	1.40%	1.40%	0.70%
CPI YoY	2.40%	2.40%	2.40%
PCE	2.80%	2.90%	2.90%
Unemployment Rate	4.30%	4.30%	4.40%
Change in Nonfarm Payrolls	160k(130k)	55k	-133k

Yield and Curve Changes - AAA Munis vs. Treasuries³

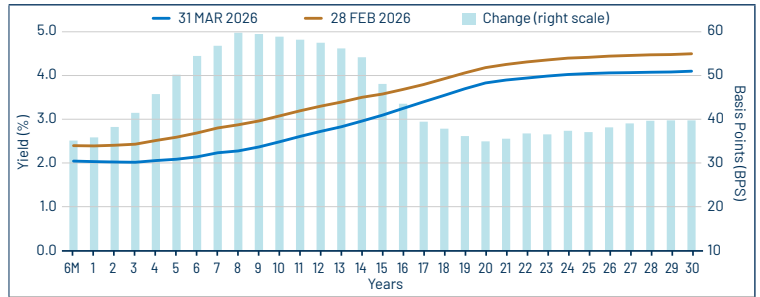
	2-Yr	5-Yr	10-Yr	30-Yr
3/31/2026				
AAA Muni	2.43%	2.67%	3.12%	4.47%
Treasury	3.80%	3.94%	4.32%	4.91%
M/T Ratio	64%	68%	72%	91%
Change				
Muni Δ (bps)	▲ 39	▲ 57	▲ 60	▲ 30
Treasury Δ (bps)	▲ 42	▲ 44	▲ 38	▲ 30
Ratio Δ (%)	▲ 4	▲ 8	▲ 8	▲ 1
10-Yr Average				
AAA Muni	1.60%	1.73%	2.10%	3%
Treasury	2.38%	2.50%	2.75%	3%
Ratio	67%	69%	76%	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	3.06%	5.17%	4.32%	85	63
30Y AAA Muni vs Treasury	4.44%	7.50%	4.91%	259	0
AA Munis vs Corps	3.65%	6.16%	4.89%	127	84
A Munis vs Corps	4.01%	6.78%	4.99%	179	126
BBB Munis vs Corps	4.62%	7.81%	5.34%	247	172
HY Munis vs Corps	5.66%	9.56%	7.40%	216	0

Municipal Supply⁶

Year	\$B	Month	2025 Issuance	2026 Issuance	YoY	Calls/Maturities	Net
2018	356	January	37.1	35.0	-6%	-23.4	11.6
2019	449	February	39.6	42.2	7%	-35.2	7.0
2020	496	March	43.4	52.6	21%	-38.3	5.1
2021	488	April	52.8				
2022	375	May	53.7				
2023	366	June	58.4				
2024	500	July	56.6				
2025	587	August	49.7				
2026	519	September	48.6				
		October	62.5				
		November	45.4				
		December	39.8				
		Total	587.8	129.8	37%	-124.2	-4.1

AAA Municipal Yield Curve²Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	-2.32%	-0.18%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	-0.33%	0.64%
Bloomberg Municipal Bond 5-Year Index	-1.77%	0.01%
Bloomberg Municipal Bond 10-Year Index	-3.09%	-0.79%
Bloomberg Municipal Bond 20-Year Total Return Index	-2.34%	0.37%
Bloomberg Municipal Bond Long Bond Index	-2.35%	-0.22%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	-2.49%	-0.34%
Bloomberg Municipal AA Index	-2.28%	-0.20%
Bloomberg Municipal A Index	-2.28%	-0.03%
Bloomberg Municipal BBB Index	-2.37%	-0.08%
Bloomberg Muni High Yield Index	-1.90%	0.71%
Returns by Sector		
GO Bond Index	-2.34%	-0.32%
Revenue Bond Index	-2.33%	-0.13%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	-2.14%	0.43%
Bloomberg Global Aggregate Index	-3.07%	-1.07%
Bloomberg U.S. Treasury Index	-1.74%	-0.04%
Bloomberg U.S. Corporate Index	-1.98%	-0.54%

Demand Technicals - Municipal Mutual Fund and ETF Flows⁷

Year	Flows (\$M)	2026	Flows (\$M)
2018	8,843	January	9,311
2019	102,554	February	12,023
2020	54,468	March	6,490
2021	105,480	April	
2022	-116,469	May	
2023	-5,695	June	
2024	45,091	July	
2025	61,549	August	
2026 YTD	27,824	September	
		October	
		November	
		December	

¹Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 31 Mar 26.²Source: Bloomberg, Western Asset. As of 31 Mar 26. 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 Mar 26. 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 Mar 26. 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 Mar 26.⁷Source: Bloomberg, ICI. As of 31 Mar 26.



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