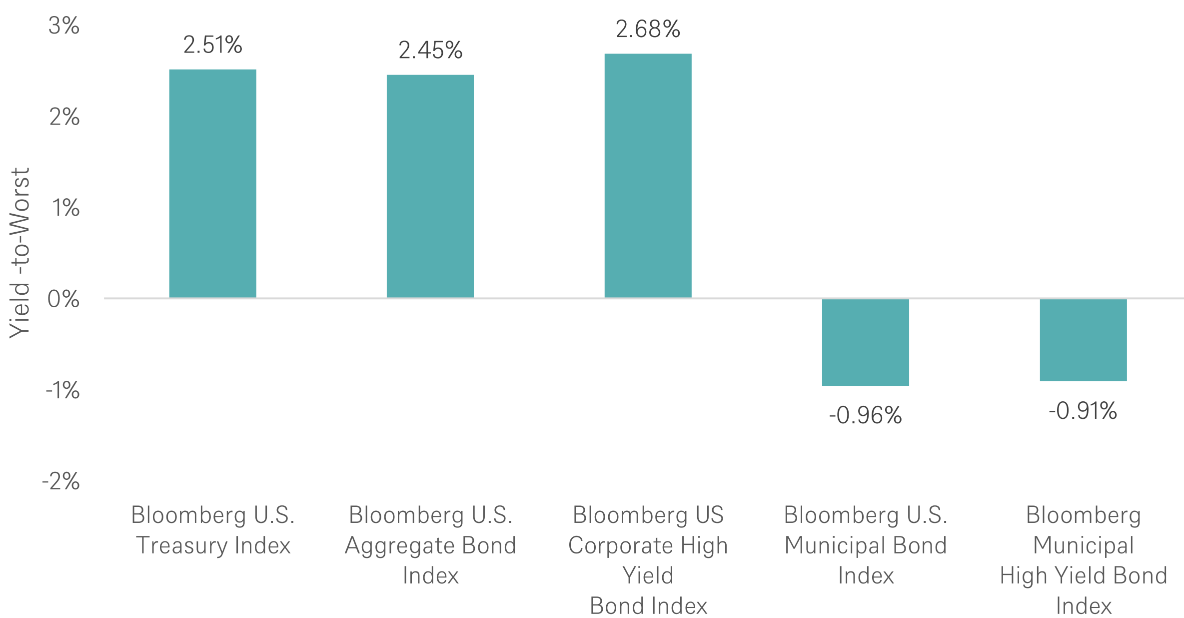
June 2025

Bright Side of Tepid Muni Returns so far for 2025

Tax-exempt municipal bonds did relatively well in May after two consecutive months of negative returns in March and April. While the Bloomberg Municipal Bond Index outperformed all other fixed income segments, the return remains negative year-to-date through May 31, 2025. Yet, there are reasons to be optimistic. Weaker performance has largely been driven by a large amount of supply that hit the market during a period when reinvestment money from coupons and maturities was low. It didn't help that volatility in the U.S. Treasury market due to tariff announcements muted flows into mutual funds and ETFs.

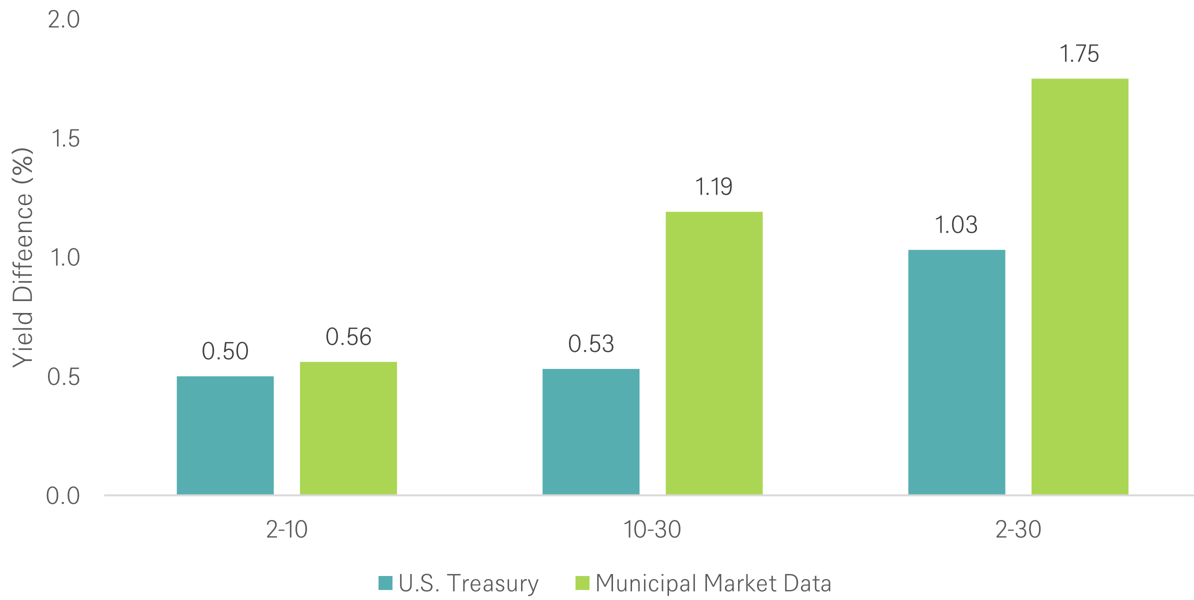
Fixed Income Return YTD as of 5/31/25



Source: Bloomberg as of May 31, 2025

The large supply concentrated on the long end of the yield curve and lack of strong demand from the primary buyer, mutual funds, has resulted in a step yield curve. Attractive valuations relative to U.S. Treasuries in 30-years provides significant compensation for the additional duration (price sensitivity to changes in interest rates). The yield difference between 10 and 30 years was 1.19%, which is as big a difference as seen in the past decade. The steepness of the municipal yield curve is also more than twice that of the U.S. Treasury curve.

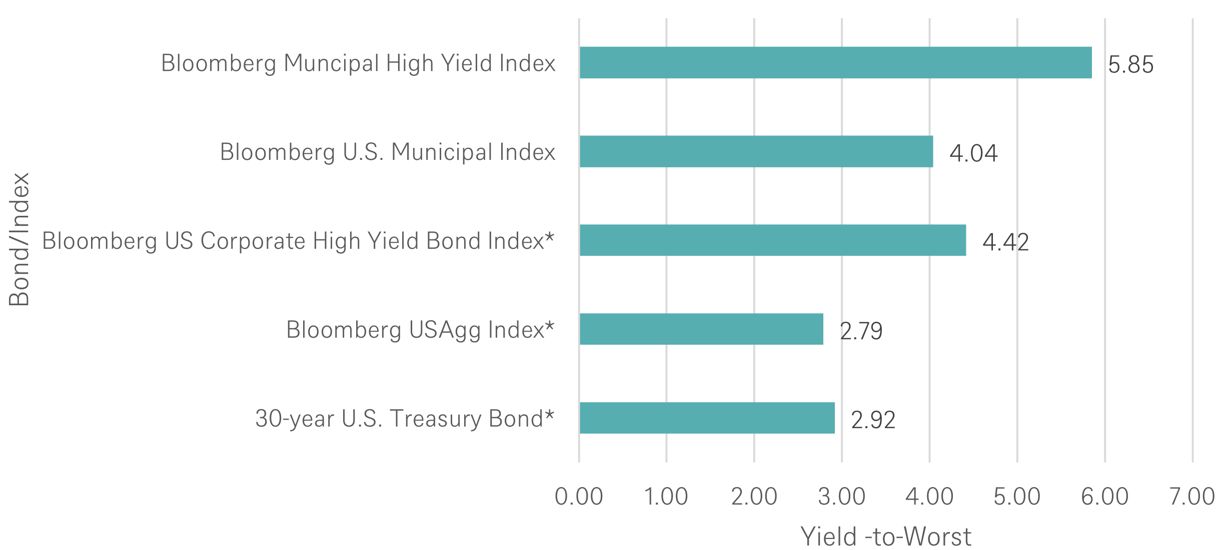
Steeper Muni Yield Curve



Source: Bloomberg as of May 31, 2025

Summer typically is a period of strong returns as issuance tends to decline and reinvestment demand is some of the strongest all year. However, there is no guarantee 2025 will follow historical patterns. June has started off with some of the largest weeks of new issuance in history. Tariffs and federal budget de-bates could keep investors on the sidelines, resulting in weak or even further negative performance for municipal bonds. Of course, a slowing economy, moderating inflation, and a Federal Reserve likely to cut its benchmark funds rate later this year could mean current yields above recent historical levels will be a distant memory soon.

Fixed Income Yields After-tax Yield-to-Worst



Source: Bloomberg as of May 31, 2025

Glossary

Municipal Bonds: Interest on municipal bonds is generally exempt from federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax exemption applies if securities are issued within one's state of residence and, if applicable, local tax exemption applies if securities are issues within one's city of residence. The tax-exempt status of municipal securities may be changed by legislative process, which could affect their value and marketability.

Credit risk, also known as default risk, is the likelihood that a borrower won't repay a loan or meet their debt obligation.

Credit quality is a measure of a bond issuer's ability to repay interest and principal in a timely manner. Rating agencies assign letter designations such as AAA, AA and so forth. The lower the rating, the higher the probability of default. Credit quality does not remove market risk and is subject to change.

Duration is the measure of price sensitivity to changes in interest rtes. In general, the higher the duration, the more a bond's price will drop as interest rates rise. This also indicates a higher level of interest rate risk.

Federal Funds rate is the interest rate banks charge each other for overnight loans.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

An exchange-traded fund (ETF) is a security that tracks an index or asset like an index fund, but trades like a stock on an exchange.

Municipal to Treasury Ratio compares the yield of municipal bonds to the yield of U.S. Treasury bonds This ratio helps investors assess the relative value of municipal bonds, especially considering their tax-free nature. The ratio is calculated by dividing the yield of a municipal bond by the yield of a Treasury bond with the same maturity.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Yields and distribute rates are historical and subject to change.

Yield to worst (YTW) refers to the lowest possible yield an investor can expect to receive on a bond, assuming the issuer does not default.

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