

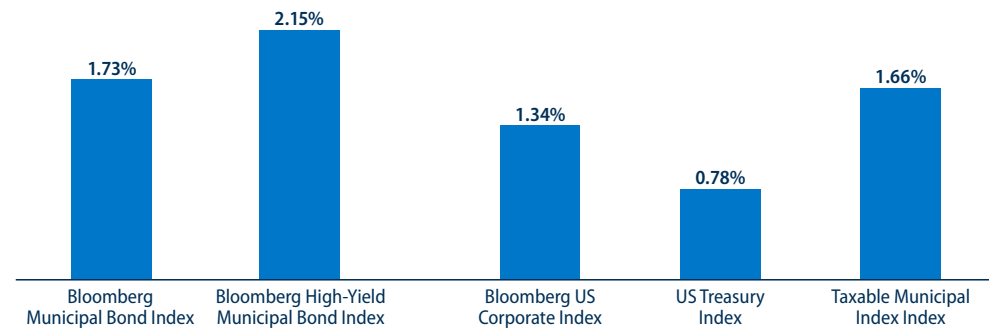
Muni Monthly

Performance Overview

Municipals rallied in November, outperforming taxable fixed-income.

Fixed-income markets were volatile in November following the election as the market processed the implications of a Republican sweep. Treasury yields moved higher earlier in the month amid fears that easy fiscal policy could contribute to higher inflation, supporting higher long-term Treasury rates. However, the selection of Trump’s Treasury Secretary, Scott Bessent, allayed these fears of unchecked fiscal expansion, and rates ultimately moved lower. From an economic data standpoint, jobless claims, third-quarter GDP and Personal Consumption Expenditures (PCE) price index inflation data were reported in line with expectations and remained relatively unchanged from prior readings. Muni market yields trailed Treasuries lower and generally outperformed alongside stronger supply and demand technical conditions. The Bloomberg Municipal Bond Index returned 1.73% during the month. Longer duration and lower quality securities outperformed in the strong market.

Exhibit 1: Municipal and Treasury Yield Curves



Source: Bloomberg. As of 29 November 24.

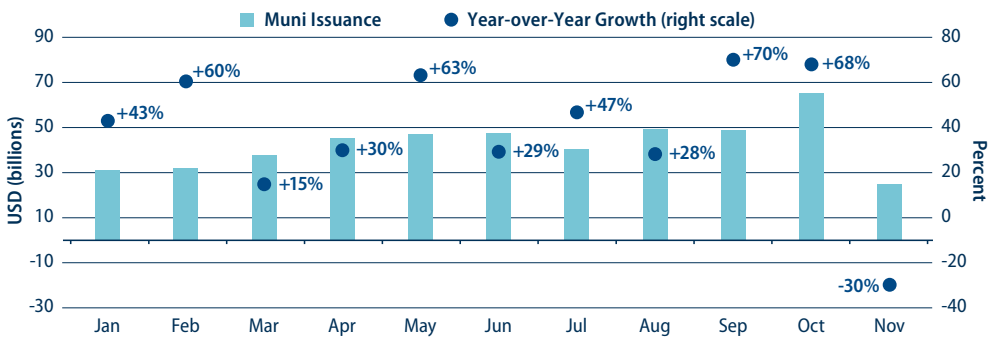
Supply and Demand Technicals

November supply stalled following a record YTD pace.

Entering November, year-to-date (YTD) municipal supply reached a record pace with a total municipal supply of \$444 billion. This represents the highest level of supply recorded through the first 10 months of the year in the muni market’s history. Due to the election, along with Veterans Day and Thanksgiving holidays, supply slowed in November as \$25 billion of issuance represented the lowest supply level of the year and declined 30% from November 2023 levels.

Demand for municipals continued to improve in November, sidestepping fears that the value of the municipal tax exemption could decline with the upcoming administration. Municipal mutual funds recorded an estimated \$7.5 billion of net inflows, according to Lipper, representing the highest month of inflows this year and extending YTD inflows to \$45 billion. Long-term and high-yield category flows recorded the largest proportion of fund flows during the year.

Exhibit 2: 2024 Municipal Supply (vs. Year-Over-Year Growth)



Source: Western Asset, Bloomberg. As of 29 November 24.

Fundamentals

Municipal upgrades continue to outpace downgrades.

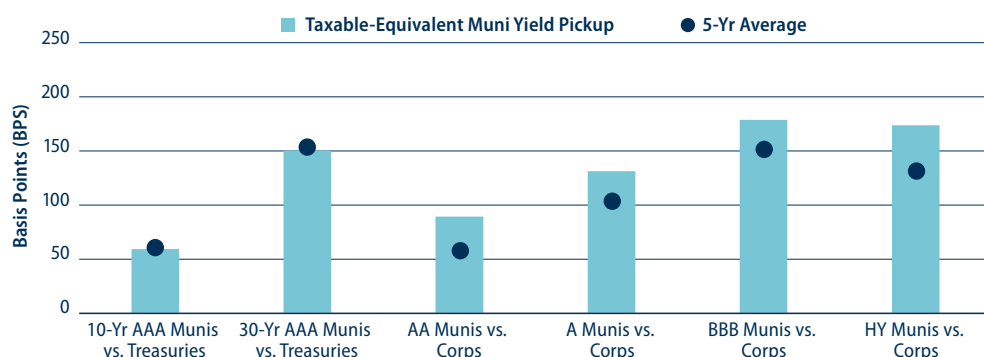
Municipal fundamentals remained resilient in November as rating agency upgrades continued to outpace downgrades. Notably, the City of Philadelphia was upgraded one notch to A+ by S&P. Conversely, the agency placed the City of Chicago (Baa3/BBB+/A- by S&P, Moody's and Fitch) on Creditwatch Negative. Western Asset expects upgrades to continue to outpace downgrades given strong tax collections and credit fundamentals, though we expect the pace of upgrades relative to downgrades to slow.

Valuations

Municipals offer above-average after-tax yield pickup versus taxable counterparts.

Despite the November slowdown, 2024 supply remains elevated and has been supportive of tax-exempt income opportunities and relative valuations. However, strong November technicals and muni outperformance underscore potential reinvestment risk associated with lower supply and higher demand that could quickly emerge in the municipal market. Western Asset anticipates that the 2025 municipal supply will remain elevated due to domestic infrastructure needs, but these elevated supply conditions should be well absorbed by demand from individuals seeking higher after-tax income opportunities as the Federal Reserve is expected to continue cutting rates. Should supply underperform expectations, persistent demand could lead to additional muni outperformance that could limit future income opportunities, further supporting the entry point offered by attractive municipal valuations today.

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 29 November 24.

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 (4Q 2024)	3.00%	2.90%	2.80%
CPI YoY	2.40%	2.60%	2.60%
PCE	2.10%	2.30%	2.30%
Unemployment Rate	4.10%	4.10%	4.10%
Change in Nonfarm Payrolls (NFP)	255k (254k)	100k	36k

Yield and Curve Changes - AAA Munis vs. Treasuries³

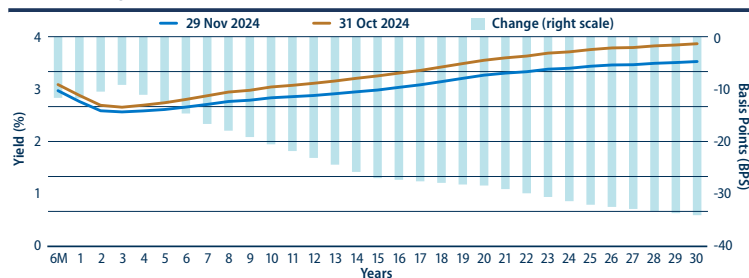
11/29/2024				
	2-Yr	5-Yr	10-Yr	30-Yr
AAA Muni	2.59%	2.61%	2.78%	3.62%
Treasury	4.15%	4.05%	4.17%	4.36%
M/T Ratio	62%	64%	67%	83%
Change				
Muni Δ (bps)	▼ -10	▼ -7	▼ -23	▼ -25
Treasury Δ (bps)	▼ -2	▼ -11	▼ -12	▼ -11
Ratio Δ (%)	▼ -2		▼ -4	▼ -3
10-Yr Average				
AAA Muni	1.35%	1.55%	1.97%	3%
Treasury	1.97%	2.18%	2.46%	3%
Ratio	68%	71%	80%	94%

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 v. Treasuries	2.82%	4.76%	4.17%	59	60
30Y AAA Muni vs Treasury	3.47%	5.86%	4.36%	150	154
AA Munis v. Corps	3.32%	5.60%	4.72%	88	58
A Munis v. Corps	3.69%	6.23%	4.93%	130	104
BBB Munis v. Corps	4.15%	7.01%	5.22%	179	153
HY Munis v Corps	5.26%	8.88%	7.14%	173	132

Municipal Supply⁶

Year	\$B	Month	2023 Issuance	2024 Issuance	YoY	Calls/Maturities	Net
2018	356	January	21.8	31.1	43%	-25.5	5.7
2019	449	February	19.9	31.9	60%	-27.5	4.4
2020	496	March	32.8	37.7	15%	-26.5	11.2
2021	488	April	34.6	45.0	30%	-27.6	17.4
2022	375	May	28.9	47.1	63%	-28.2	19.0
2023	366	June	36.8	47.9	30%	-44.4	3.5
2024 YTD Annualized	512	July	27.3	40.2	47%	-41.0	-0.9
		August	38.2	49.0	28%	-47.7	1.3
		September	28.7	48.9	70%	-24.2	24.7
		October	38.7	65.1	68%	-34.5	30.6
		November	35.6	25.1	-30%		
		December	22.7				
		Total	366.2	469.0	40%	-327.0	116.9

AAA Municipal Yield Curve²Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	1.73%	2.55%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	0.39%	2.73%
Bloomberg Municipal Bond 5-Year Index	0.75%	1.92%
Bloomberg Municipal Bond 10-Year Index	1.51%	0.86%
Bloomberg Municipal Bond 20-Year Total Return Index	2.38%	3.45%
Bloomberg Municipal Bond Long Bond Index	2.87%	3.99%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	1.84%	1.93%
Bloomberg Municipal AA Index	1.68%	2.18%
Bloomberg Municipal A Index	1.72%	3.30%
Bloomberg Municipal BBB Index	1.90%	4.90%
Bloomberg Muni High Yield Index	2.15%	8.12%
Returns by Sector		
GO Bond Index	1.70%	1.94%
Revenue Bond Index	1.76%	2.78%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	1.66%	4.13%
Bloomberg Global Aggregate Index	0.34%	0.47%
Bloomberg U.S. Treasury Index	0.78%	2.15%
Bloomberg U.S. Corporate Index	1.34%	4.14%

Demand Technicals - Municipal Mutual Fund Flows⁷

Year	Flows (\$)	2024	Flows (\$)
2018	8,843	January	4,026
2019	102,554	February	2,753
2020	54,468	March	4,087
2021	105,480	April	289
2022	-116,469	May	2,216
2023	-5,695	June	649
2024 YTD	45,360	July	4,885
		August	6,019
		September	6,041
		October	8,677
		November	5,718
		December	

¹ Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 29 Nov 24.² Source: Bloomberg, Western Asset. As of 29 Nov 24: Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve.³ 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.⁴ Source: Bloomberg Municipal Bond Index, Bloomberg Taxable Municipal Bond Index. 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.⁵ Source: Bloomberg, Western Asset. As of 29 Nov 24. 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.⁶ Source: Bloomberg. As of 29 Nov 24.⁷ Source: Bloomberg. As of 29 Nov 24.



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