

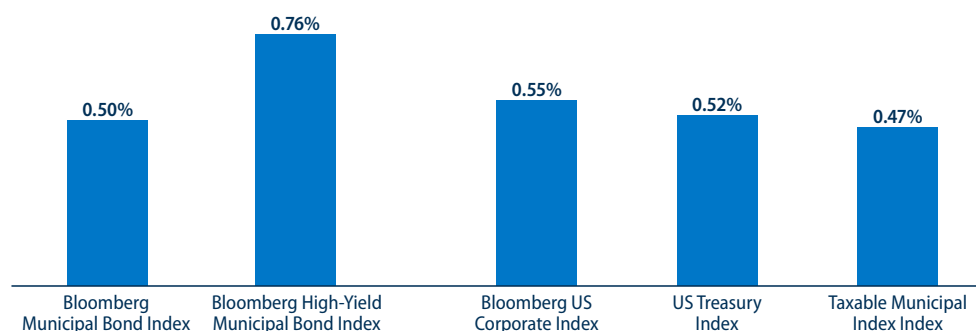
Muni Monthly

Performance Overview

Munis posted positive returns in January.

Munis posted positive returns in January, in line with other taxable fixed-income sectors. Fourth quarter GDP came in below expectations and continued to trend lower at 2.3% from the prior quarter. Inflation data aligned with expectations but year-over-year (YoY) Consumer Price Index (CPI) and Personal Consumption Expenditures (PCE) figures moved higher from the prior month while December nonfarm payrolls exceeded expectations. The yield curve steepened as the high-grade muni curve moved 9-15 basis points (bps) lower in short maturities and 7 bps higher in longer maturities. The Bloomberg Municipal Bond Index returned 0.50% in January. Maturities of less than 15 years generally outperformed, as did lower-investment-grade and high-yield segments.

Exhibit 1: Municipal and Treasury Yield Curves



Source: Bloomberg. As of 31 Jan 25. AAA Callable Municipal Yield Curve and US On-/Off-the-Run Sovereign Curve.

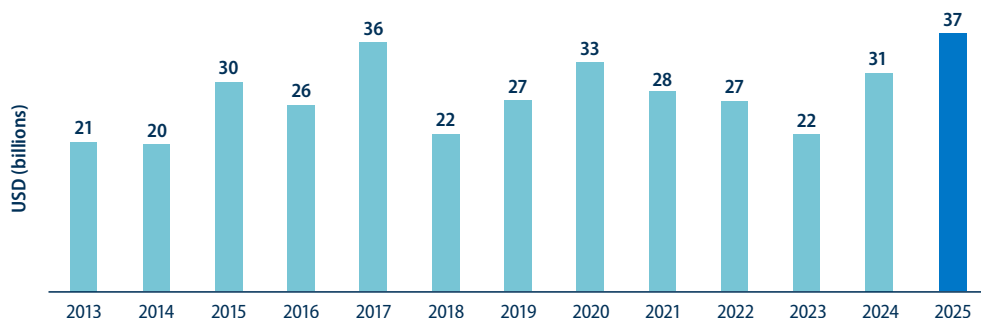
Supply and Demand Technicals

Supply continued at an elevated pace in January.

January new issuance picked up where the 2024 record supply year left off. Municipal issuers raised \$37 billion in January, 35% higher than the prior 10-year average January issuance which has historically represented a quieter month of supply (lowest average supply during the prior 10 years). Tax-exempt supply of \$35 billion comprised 93% of total issuance and was 15% higher YoY, while taxable supply of \$2 billion was double the prior year's level but still below recent averages as issuers sought better opportunities in tax-exempt markets given the higher rate environment.

Municipal demand rebounded from end-of-year tax selling activity as estimates from ICI and Lipper indicated net inflows of approximately \$3 billion in January. Long-term and high-yield fund categories garnered the majority of flows this year at \$2.3 billion and \$1.7 billion, respectively. January's inflows extended the rebound of inflows that began in early 2024, bringing in \$47 billion for the period between January 1, 2024 to January 31, 2025.

Exhibit 2: January Municipal Issuance



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

Fundamentals

We estimate that less than 5% of valuations or customers will be impacted by Los Angeles wildfires.

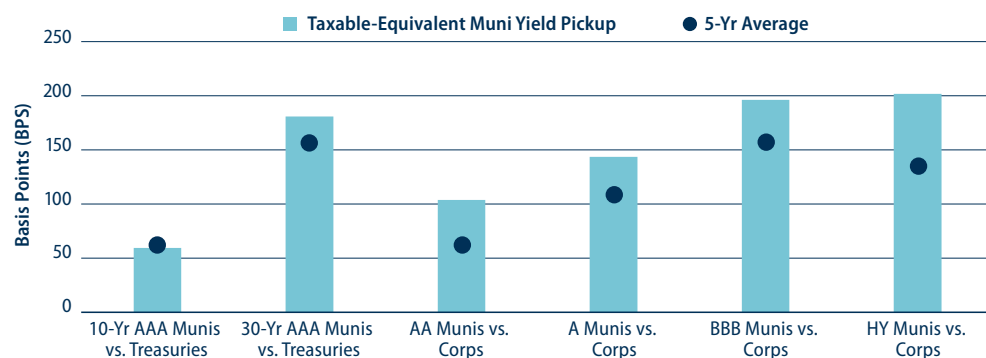
The devastating wildfire damage in Los Angeles will likely represent one of the costliest disasters in the nation's history with some estimates surpassing \$250 billion. Investor attention has understandably turned to the ability of affected municipalities to manage through costs of recovery, revenue disruptions and potential liabilities ahead. While headlines and near-term uncertainty could drive price volatility for impacted issuers, the municipal market has a favorable history of managing through significant natural disasters, and we expect the Los Angeles regional economy and affected issuers to recover and support municipal debt. Considering the size and diversity of the Los Angeles tax base, as well as the economic importance to the region, we expect affected municipal issuers to emerge from the disaster with limited implications to long-term municipal credit. At this juncture, we estimate that less than 5% of affected issuer assessed valuations or customer bases will be impacted. We also expect significant federal and state assistance to support credit conditions through the recovery period. However, we recognize the potential for downgrade risks considering the potential legal liability that can surface around the fire ignition origin or response, which has yet to be officially established.

Valuations

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

Despite muni yields moving lower during the month, more significant spread tightening in other markets has contributed to favorable relative valuations. Longer-duration high-quality and lower-investment-grade municipals offer above-average after-tax yield pickup versus their taxable counterparts when considering five-year averages. As the municipal yield curve has steepened, we expect income-oriented investors to find value in the after-tax relative value proposition offered by the asset class.

Exhibit 3: Taxable-Equivalent Municipal Yield Pickup vs. the Five-Year Average



Source: Bloomberg Western Asset. As of 31 Jan 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.

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)	3.10%	2.60%	2.30%
CPI YoY	2.70%	2.90%	2.90%
PCE	2.40%	2.60%	2.60%
Unemployment Rate	4.20%	4.20%	4.10%
Change in Nonfarm Payrolls (NFP)	212k (227k)	165k	256k

Yield and Curve Changes - AAA Munis vs. Treasuries³

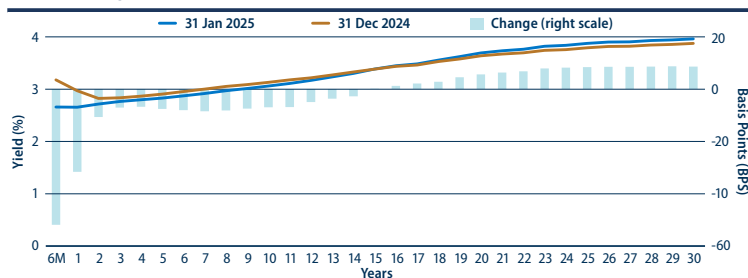
01/31/2025				
	2-Yr	5-Yr	10-Yr	30-Yr
AAA Muni	2.67%	2.77%	2.97%	3.97%
Treasury	4.20%	4.33%	4.54%	4.79%
M/T Ratio	64%	64%	65%	83%
Change				
Muni Δ (bps)	▼ -15	▼ -10	▼ -9	▲ 7
Treasury Δ (bps)	▼ -4	▼ -5	▼ -3	▲ 1
Ratio Δ (%)	▼ -3	▼ -2	▼ -2	▲ 1
10-Yr Average				
AAA Muni	1.39%	1.58%	1.99%	3%
Treasury	2.04%	2.23%	2.50%	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	3.04%	5.13%	4.54%	59	61
30Y AAA Muni vs Treasury	3.90%	6.59%	4.79%	181	156
AA Munis v. Corps	3.56%	6.01%	4.97%	104	61
A Munis v. Corps	3.92%	6.61%	5.18%	143	107
BBB Munis v. Corps	4.40%	7.44%	5.48%	196	156
HY Munis v Corps	5.45%	9.21%	7.20%	202	134

Municipal Supply⁶

Year	\$B	Month	2024 Issuance	2025 Issuance	YoY	Calls/Maturities	Net
2018	356	January	31.1	37.1	19%	-41.3	-10.1
2019	449	February	31.9				
2020	496	March	37.7				
2021	488	April	45.0				
2022	375	May	47.1				
2023	366	June	47.6				
2024 YTD Annualized	445	July	40.2				
		August	49.0				
		September	48.9				
		October	64.5				
		November	25.1				
		December	31.7				
		Total	499.9	37.1	22%	-41.3	-10.1

AAA Municipal Yield Curve²Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	0.50%	0.50%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	0.52%	0.52%
Bloomberg Municipal Bond 5-Year Index	0.64%	0.64%
Bloomberg Municipal Bond 10-Year Index	0.82%	0.82%
Bloomberg Municipal Bond 20-Year Total Return Index	0.26%	0.26%
Bloomberg Municipal Bond Long Bond Index	0.08%	0.08%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	0.56%	0.56%
Bloomberg Municipal AA Index	0.41%	0.41%
Bloomberg Municipal A Index	0.61%	0.61%
Bloomberg Municipal BBB Index	0.80%	0.80%
Bloomberg Muni High Yield Index	0.76%	0.76%
Returns by Sector		
GO Bond Index	0.46%	0.46%
Revenue Bond Index	0.51%	0.51%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	0.47%	0.47%
Bloomberg Global Aggregate Index	0.57%	0.57%
Bloomberg U.S. Treasury Index	0.52%	0.52%
Bloomberg U.S. Corporate Index	0.55%	0.55%

Demand Technicals - Municipal Mutual Fund Flows⁷

Year	Flows (\$)	2025	Flows (\$)
2018	8,843	January	6,107
2019	102,554	February	
2020	54,468	March	
2021	105,480	April	
2022	-116,469	May	
2023	-5,695	June	
2024 YTD	45,091	July	
		August	
		September	
		October	
		November	
		December	

¹ Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 31 Jan 25.² Source: Bloomberg, Western Asset. As of 31 Jan 25. 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 31 Jan 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.⁶ Source: Bloomberg. As of 31 Jan 25.⁷ Source: Bloomberg, ICI. As of 31 Jan 25.



© Western Asset Management Company, LLC 2025. The information contained in these materials ("the materials") is intended for the exclusive use of the designated recipient ("the recipient"). This information is proprietary and confidential and may contain commercially sensitive information, and may not be copied, reproduced or republished, in whole or in part, without the prior written consent of Western Asset Management Company ("Western Asset").

Past performance does not predict future returns. These materials should not be deemed to be a prediction or projection of future performance.

These materials are intended for investment professionals including professional clients, eligible counterparties, and qualified investors only.

These materials have been produced for illustrative and informational purposes only. These materials contain Western Asset's opinions and beliefs as of the date designated on the materials; these views are subject to change and may not reflect real-time market developments and investment views.

Third party data may be used throughout the materials, and this data is believed to be accurate to the best of Western Asset's knowledge at the time of publication, but cannot be guaranteed. These materials may also contain strategy or product awards or rankings from independent third parties or industry publications which are based on unbiased quantitative and/or qualitative information determined independently by each third party or publication. In some cases, Western Asset may subscribe to these third party's standard industry services or publications. These standard subscriptions and services are available to all asset managers and do not influence rankings or awards in any way.

Investment strategies or products discussed herein may involve a high degree of risk, including the loss of some or all capital. Investments in any products or strategies described in these materials may be volatile, and investors should have the financial ability and willingness to accept such risks.

Unless otherwise noted, investment performance contained in these materials is reflective of a strategy composite. All other strategy data and information included in these materials reflects a representative portfolio which is an account in the composite that Western Asset believes most closely reflects the current portfolio management style of the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio shown may differ from other accounts in the composite. Information regarding the representative portfolio and the other accounts in the composite are available upon request.

Statements in these materials should not be considered investment advice. References, either general or specific, to securities and/or issuers in the materials are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendation to purchase or sell such securities. Employees and/or clients of Western Asset may have a position in the securities or issuers mentioned.

These materials are not intended to provide, and should not be relied on for, accounting, legal, tax, investment or other advice. The recipient should consult its own counsel, accountant, investment, tax, and any other advisers for this advice, including economic risks and merits, related to making an investment with Western Asset. The recipient is responsible for observing the applicable laws and regulations of their country of residence.

Founded in 1971, Western Asset Management Company is a global fixed-income investment manager with offices in Pasadena, New York, London, Singapore, Tokyo, Melbourne, São Paulo, Hong Kong, and Zürich. Western Asset is a wholly owned subsidiary of Franklin Resources, Inc. but operates autonomously. Western Asset is comprised of six legal entities across the globe, each with distinct regional registrations: Western Asset Management Company, LLC, a registered Investment Adviser with the Securities and Exchange Commission; Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários Limitada is authorized and regulated by Comissão de Valores Mobiliários and Brazilian Central Bank; Western Asset Management Company Pty Ltd ABN 41 117 767 923 is the holder of the Australian Financial Services License 303160; Western Asset Management Company Pte. Ltd. Co. Reg. No. 200007692R is a holder of a Capital Markets Services License for fund management and regulated by the Monetary Authority of Singapore; Western Asset Management Company Ltd, a registered Financial Instruments Business Operator and regulated by the Financial Services Agency of Japan; and Western Asset Management Company Limited is authorised and regulated by the Financial Conduct Authority ("FCA") (FRN 145930). This communication is intended for distribution to Professional Clients only if deemed to be a financial promotion in the UK as defined by the FCA. This communication may also be intended for certain EEA countries where Western Asset has been granted permission to do so. For the current list of the approved EEA countries please contact Western Asset at +44 (0)20 7422 3000.