

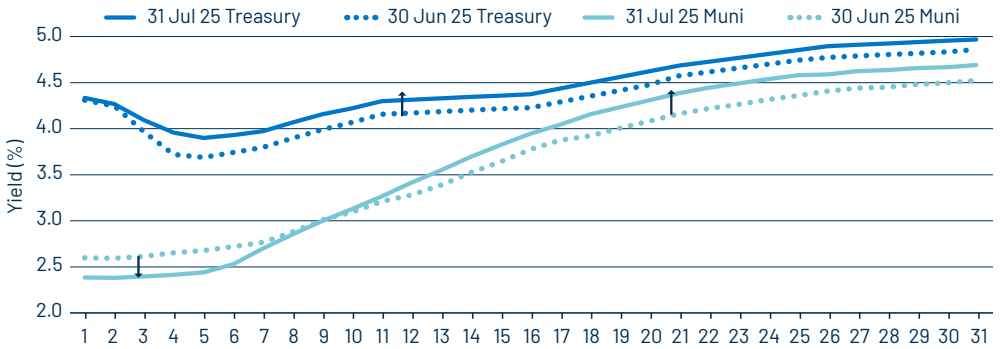
Muni Monthly

Performance Overview

Municipals posted positive returns as rates rallied in July.

In July, fixed-income yields generally moved higher amid stronger than expected economic data. Second quarter GDP rose 3.0% quarter-over-quarter, well above consensus expectations of 2.6%. Consumer Price Index (CPI) and Personal Consumption Expenditures (PCE) data also exceeded expectations, reducing the likelihood that the Federal Reserve would reduce interest rates at month end. While Treasury yields moved higher across the curve, the AAA municipal yield curve steepened, with yields moving lower in short maturities and higher in longer maturities..

Exhibit 1: Municipal and Treasury Yield Curves



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

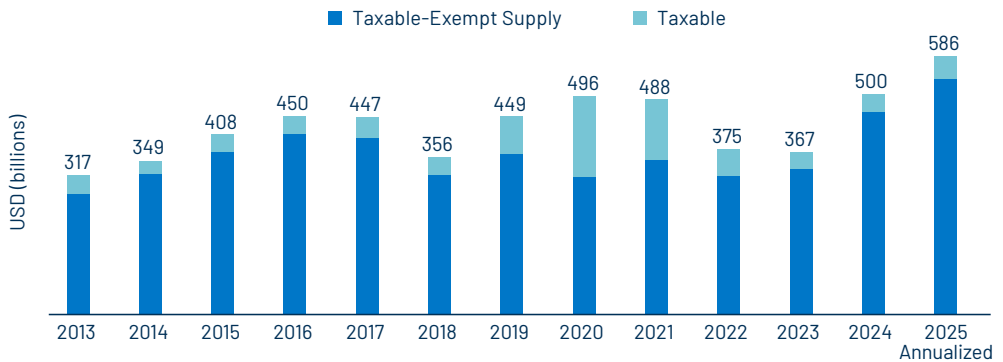
Supply and Demand Technicals

Muni supply remains at a record pace this year.

Municipal supply maintained a record pace, as July supply increased 18% from July 2024 levels to \$57 billion. Year-to-date (YTD) municipal issuance totaled \$342 billion, 22% higher than the record levels of the prior year. Tax-exempt supply increased 22% year-over-year to \$313 billion YTD. Taxable municipal issuance totaled \$29 billion this year, a 20% increase compared to last year.

Municipal demand remained positive as ICI reported that weekly reporting municipal mutual funds recorded \$7 billion of net inflows. Short duration and intermediate categories recorded the majority of net inflows during the month. July's net inflows increased YTD net inflows to \$25 billion.

Exhibit 2: Historical Municipal Supply



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

Fundamentals

High-yield credit spreads remain near decade tights.

Traditional state and local municipal credit continues to benefit from elevated tax collections and cash balances that have supported upgrades that outpaced downgrades this year. However, select high-yield issuers were mentioned by name in the headlines during the month. On July 30, a top-10 issuer in the High Yield Muni Index, Brightline Trains, was downgraded to B by the agency. Note that this issue was originated in 2024 with a BBB- rating by Fitch. This is an example of potentially concentrated positions within high-yield portfolios that we believe underscore the value of diligent credit research, particularly in a tight credit spread environment where compensation for risks is less than what was observed in the past.

Exhibit 3: Bloomberg High Yield Index YTW vs. Bloomberg AAA YTW



Source: Bloomberg. As of 31 Jul 25.

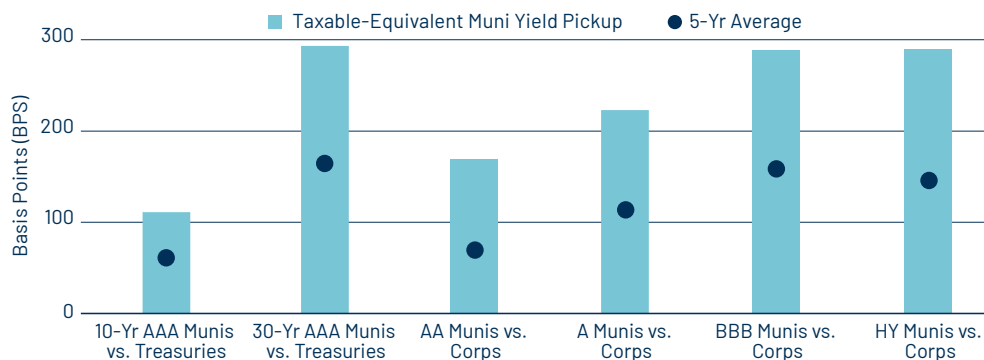
Yield-to-worst (YTW) is the lowest potential yield that can be received on a bond without the issuer actually defaulting.

Valuations

For high taxpayers, municipals offer above-average after-tax relative value compared to their taxable counterparts.

Record supply conditions and negative muni performance YTD have resulted in improved tax-exempt income opportunities and relative valuations. The Bloomberg Muni Bond Index average yield-to-worst of 3.98% at month end, which is 6.72% on a taxable-equivalent basis for top taxpayers. Across the curve and credit spectrum, municipal credit currently offers 100-290 basis points of taxable-equivalent yield pickup versus like-structured Treasuries and corporate counterparts. Given the tighter spread conditions, we anticipate that credit selection will be increasingly influential in achieving this relative value across credit cohorts.

Exhibit 4: Taxable-Equivalent Municipal Yield Pickup vs. the 5-Year Average



Source: Bloomberg, Western Asset. As of 30 Jun 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.

Munis and the Macro¹

	Prior Month (Revised From)	Consensus	Actual
GDP Annualized QoQ (2025)	-0.50%	2.60%	3.00%
CPI YoY	2.40%	2.60%	2.70%
PCE	2.40%	2.50%	2.60%
Unemployment Rate	4.20%	4.30%	4.10%
Change in Nonfarm Payrolls	19k (139k)	106k	14k

Yield and Curve Changes – AAA Munis vs. Treasuries³

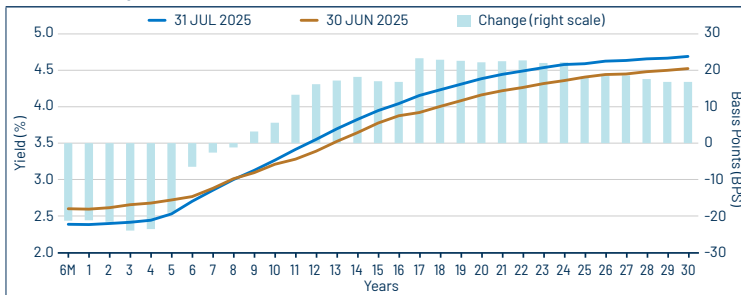
	2-Yr	5-Yr	10-Yr	30-Yr
7/31/2025				
AAA Muni	2.41%	2.53%	3.32%	4.67%
Treasury	3.96%	3.97%	4.38%	4.90%
M/T Ratio	61%	64%	76%	95%
Change				
Muni Δ (bps)	▼ -18	▼ -14	▲ 6	▲ 13
Treasury Δ (bps)	▲ 24	▲ 18	▲ 15	▲ 13
Ratio Δ (%)	▼ -9%	▼ -7%	▼ -1%	▲ 0.2
10-Yr Average				
AAA Muni	1.49%	1.65%	2.04%	3%
Treasury	2.20%	2.36%	2.61%	3%
Ratio	68%	70%	78%	93%

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	3.25%	5.49%	4.38%	111	61
30Y AAA Muni vs Treasury	4.63%	7.83%	4.90%	293	164
AA Munis vs Corps	3.84%	6.49%	4.80%	169	70
A Munis vs Corps	4.24%	7.16%	4.94%	222	114
BBB Munis vs Corps	4.81%	8.13%	5.24%	289	158
HY Munis vs Corps	5.91%	9.97%	7.08%	290	146

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	8.5
2020	496	March	37.7	43.4	15%	-22.8	20.6
2021	488	April	45.0	52.8	17%	-18.5	34.3
2022	375	May	47.1	53.8	14%	-29.5	24.3
2023	366	June	47.6	58.4	23%	-48.7	9.7
2024	500	July	40.2	56.6	41%	-44.5	12.1
2025 YTD	586	August	49.0				
Annualized		September	48.9				
		October	64.5				
		November	25.1				
		December	31.7				
		Total	499.9	341.7	37%	-103.2	16.1

AAA Municipal Yield Curve²Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	-0.20%	-0.55%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	0.51%	2.40%
Bloomberg Municipal Bond 5-Year Index	0.86%	3.15%
Bloomberg Municipal Bond 10-Year Index	0.11%	1.15%
Bloomberg Municipal Bond 20-Year Total Return Index	-1.15%	-3.84%
Bloomberg Municipal Bond Long Bond Index	-1.08%	-4.42%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	-0.27%	-0.70%
Bloomberg Municipal AA Index	-0.14%	-0.48%
Bloomberg Municipal A Index	-0.18%	-0.45%
Bloomberg Municipal BBB Index	-0.70%	-1.20%
Bloomberg Muni High Yield Index	-1.51%	-1.83%
Returns by Sector		
GO Bond Index	-0.16%	-0.44%
Revenue Bond Index	-0.23%	-0.65%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	-0.16%	3.66%
Bloomberg Global Aggregate Index	-1.49%	5.67%
Bloomberg U.S. Treasury Index	-0.39%	3.39%
Bloomberg U.S. Corporate Index	0.07%	4.24%

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	6,995
2025 YTD	25,427	August	
		September	
		October	
		November	
		December	

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



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