

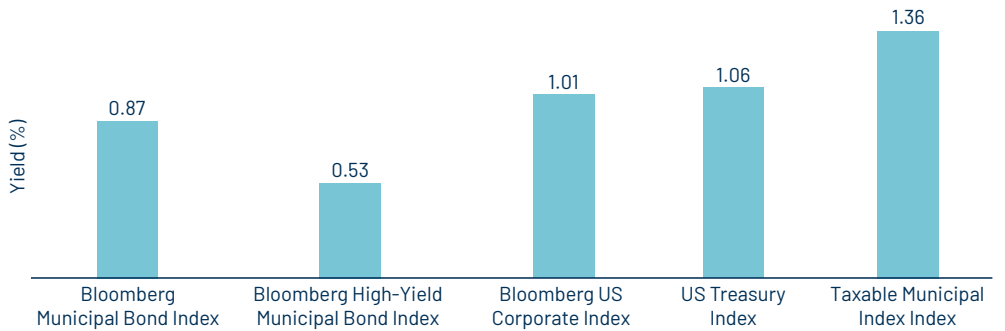
Muni Monthly

Performance Overview

Munis underperformed taxable fixed-income in August.

In August, fixed-income yields moved lower and contributed to positive returns across most sectors. Early in the month, the July nonfarm payroll release declined from the prior month and fell below expectations. Inflation remained steady with the Consumer Price Index (CPI) coming in at 2.7% year-over-year (YoY), also below expectations. Expectations for a Federal Reserve rate cut in September reached 90%, with Powell indicating that a “shifting balance of risks may warrant adjusting our policy stance.” Consistent with much of the year, municipals continued to underperform taxable sectors amid elevated supply conditions, as the Bloomberg Municipal Bond Index return of 0.87% for August lagged the respective US Corporate and Treasury Index returns of 1.01% and 1.06%, respectively.

Exhibit 1: Bloomberg Fixed Income Index Returns



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

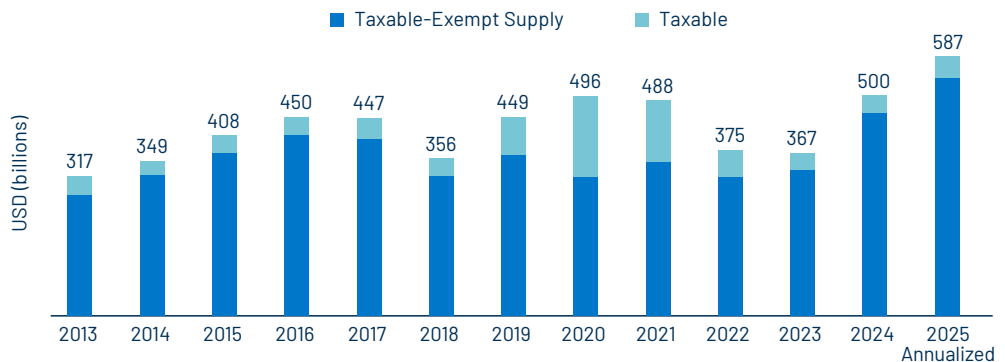
Supply and Demand Technicals

Muni supply remains at a record pace this year.

Municipal supply remained elevated at \$49 billion in August, down 13% from the prior month but 1% above August 2024 levels. Year-to-date (YTD) municipal issuance totaled \$391 billion, 19% higher than the prior year's record levels. YTD tax-exempt supply is 18% higher at \$358 billion YoY and YTD taxable municipal issuance of \$32 billion is 20% higher YoY.

Municipal demand remained positive as ICI reported that weekly reporting municipal mutual funds recorded \$5 billion of net inflows, leading YTD inflows higher to \$30 billion. Long-term and high-yield categories led August inflows.

Exhibit 2: Historical Municipal Supply



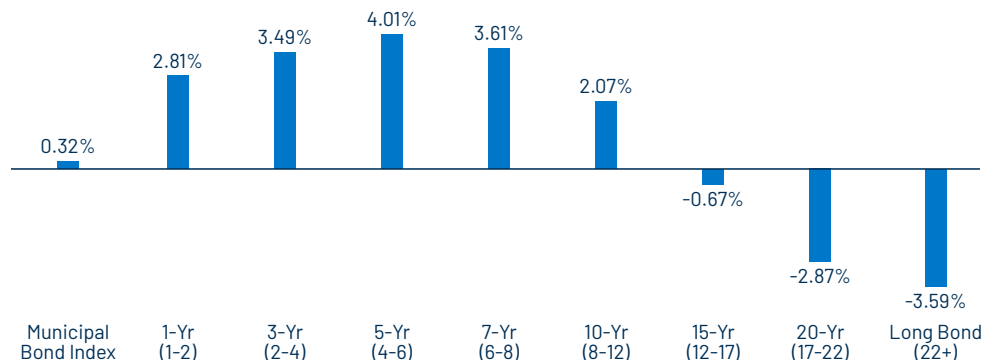
Source: ICI, Western Asset, Bloomberg. As of 31 Aug 25.

Valuation Swings Underscore Active Opportunities

Long-end underperformance has created opportunity.

The municipal market's 0.3% total return YTD appears relatively unremarkable, but unraveling the layers of the fragmented muni market provides a more dynamic performance story that underscores the value of active management this year. The Bloomberg 5-Year Municipal Bond Index (4- to 6-year maturities) led maturity index returns with a 4.0% YTD return through August 31, while the Bloomberg 22+ Year Municipal Bond Index returned -3.6%—a performance gap of nearly 8% driven by yield curve exposure.

Exhibit 3: Municipal Index Performance YTD



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

The municipal market's significant performance disparities across the curve also highlight the potential for evolving relative value opportunities ahead. Strong performance at the front end of the yield curve has driven down the 1-year AAA municipal rate by 80 basis points (bps) YTD to 2.19%, equivalent to a taxable-equivalent yield of 3.70% for investors in the top tax bracket, less than the 1-year Treasury yield of 3.96%. Conversely, the 30-year AAA tax-exempt municipal yield has risen 79 bps to 4.66%, equivalent to 7.87% on a taxable basis, exceeding the 30-year Treasury yield of 4.98% by 289 bps. Western Asset believes that fixed income solutions that can take advantage of market dislocations within the municipal market, as well as tax-aware solutions that have the flexibility to better access these higher after-tax income opportunities can provide for more favorable after-tax outcomes.

Munis and the Macro¹

	Prior Month (Revised From)	Consensus	Actual
GDP Annualized QoQ (2025)	-0.50%	3.10%	3.30%
CPI YoY	2.70%	2.80%	2.70%
PCE	2.60%	2.60%	2.60%
Unemployment Rate	4.10%	4.20%	4.20%
Change in Nonfarm Payrolls	-13k (147k)	105k	79k

Yield and Curve Changes – AAA Munis vs. Treasuries³

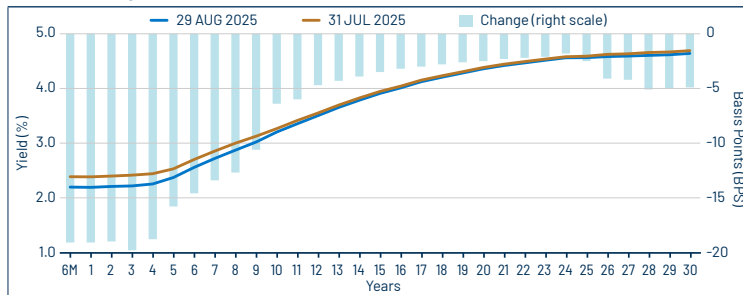
	2-Yr	5-Yr	10-Yr	30-Yr
8/29/2025				
AAA Muni	2.19%	2.37%	3.22%	4.61%
Treasury	3.62%	3.70%	4.23%	4.93%
M/T Ratio	61%	64%	76%	94%
Change				
Muni Δ (bps)	▼ -22	▼ -16	▼ -10	▼ -6
Treasury Δ (bps)	▼ -34	▼ -28	▼ -15	▲ 3
Ratio Δ (%)	▼ -0.4%	▲ 0.4%	▲ 0.3%	▼ -2%
10-Yr Average				
AAA Muni	1.51%	1.66%	2.05%	3%
Treasury	2.22%	2.37%	2.63%	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	3.18%	5.38%	4.23%	115	62
30Y AAA Muni vs Treasury	4.58%	7.74%	4.93%	282	167
AA Munis vs Corps	3.75%	6.34%	4.65%	169	72
A Munis vs Corps	4.13%	6.98%	4.78%	220	116
BBB Munis vs Corps	4.79%	8.09%	5.08%	301	160
HY Munis vs Corps	5.88%	9.93%	6.75%	319	148

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	49.4	1%	-48.3	0.8
2025 YTD	587	August	49.0				
Annualized		September	48.9				
		October	64.5				
		November	25.1				
		December	31.7	391.0	37%	-274.1	55.6
		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	0.87%	0.32%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	0.41%	2.81%
Bloomberg Municipal Bond 5-Year Index	0.84%	4.01%
Bloomberg Municipal Bond 10-Year Index	0.91%	2.07%
Bloomberg Municipal Bond 20-Year Total Return Index	1.01%	-2.87%
Bloomberg Municipal Bond Long Bond Index	0.87%	-3.59%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	0.91%	0.20%
Bloomberg Municipal AA Index	0.85%	0.37%
Bloomberg Municipal A Index	0.91%	0.45%
Bloomberg Municipal BBB Index	0.73%	-0.48%
Bloomberg Muni High Yield Index	0.53%	-1.31%
Returns by Sector		
GO Bond Index	0.90%	0.45%
Revenue Bond Index	0.87%	0.21%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	1.36%	5.08%
Bloomberg Global Aggregate Index	1.45%	7.21%
Bloomberg U.S. Treasury Index	1.06%	4.48%
Bloomberg U.S. Corporate Index	1.01%	5.30%

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	6,994
2025 YTD	30,446	August	5,020
		September	
		October	
		November	
		December	

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



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