

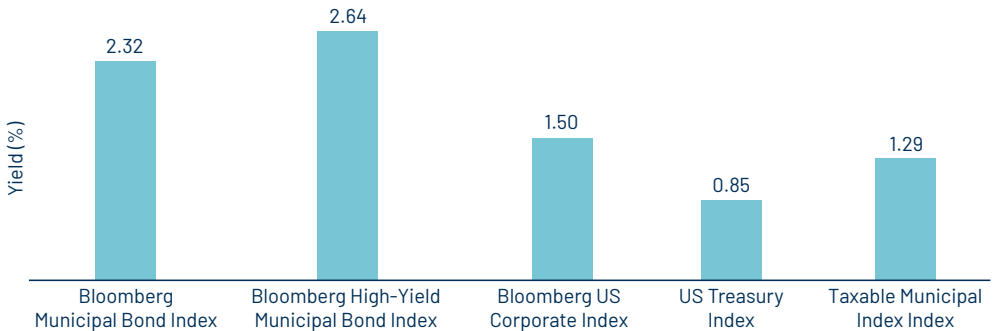
Muni Monthly

Performance Overview

Munis rallied in September.

In September, fixed-income market sentiment was bolstered by expectations that the Federal Reserve (Fed) would continue to cut the fed funds rate. These expectations were reinforced by weak labor data early in the month, as August nonfarm payrolls increased by 22,000 jobs, down from the prior month and falling below expectations, along with weaker than anticipated inflation figures. After the Fed reduced interest rates at the end of the month, the positive sentiment partially abated as strong data emerged, including increasing home sales and upward revisions to GDP data. All told, Treasury yields moved lower during the month, and municipals outperformed amid improving demand conditions. The Bloomberg Muni Bond Index returned 2.32% during the month, leading year-to-date (YTD) returns higher to 2.64%.

Exhibit 1: Bloomberg Fixed-Income Index Returns



Source: Bloomberg, Western Asset. As of 30 Sep 25.

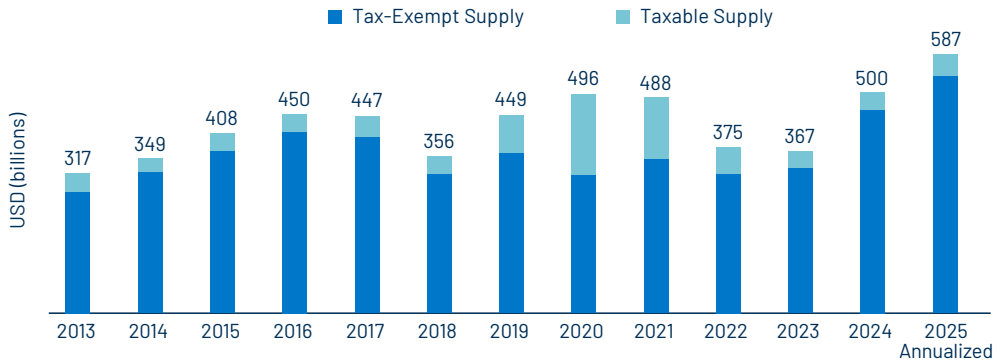
Supply and Demand Technicals

Muni supply remains at a record pace this year.

Municipal supply maintained an elevated pace in September. Total new-issue volume reached \$49 billion, which is in line with September 2024 and August 2025 supply levels. YTD municipal issuance totaled \$437 billion, 15% higher than the prior record-year levels. The YTD tax-exempt supply of \$401 billion is 15% higher year-over-year, while the taxable supply of \$36 billion is 17% higher than prior year levels.

Municipal demand remained robust, particularly for longer-duration municipals, as the Fed cut rates. Municipal mutual funds recorded \$5.5 billion of net inflows, according to Lipper. Long-term funds led muni categories at \$3.5 billion of net inflows, followed by high-yield and intermediate categories at \$2.2 billion and \$1.2 billion, respectively.

Exhibit 2: Historical Municipal Supply



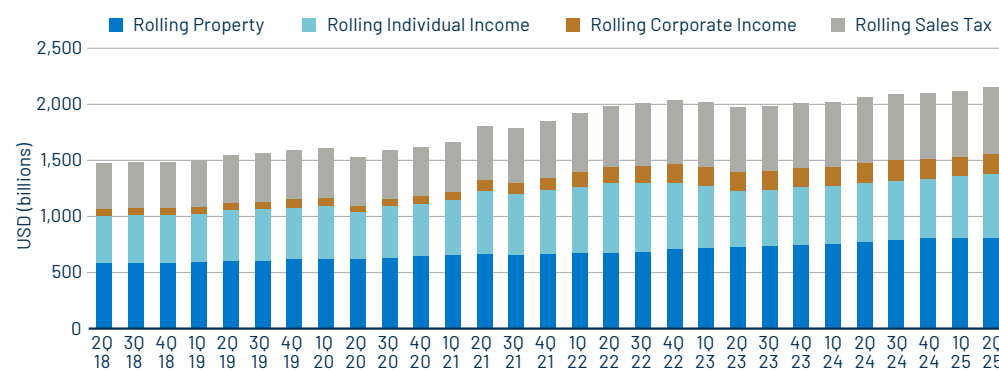
Source: ICI, Western Asset, Bloomberg. As of 30 Sep 25.

Fundamentals

Despite slower economic growth, state and local tax collections growth remains strong.

In September, the Census released 2Q25 state and local tax collection estimates, which coincided with the end of the fiscal year for most state and local governments. Second quarter major state and local government tax collections increased 5% from 2Q24 levels to \$562 billion. The continued growth of state and local tax collections highlights the resilience of state and local revenues despite the lower economic growth trends observed earlier in the year. We expect a strong labor market and consumer spending to support tax collections and municipal credit conditions over the medium term. However, we expect the potential for tax collections to be more critical for budgets if federal spending reductions extend more broadly to state and local budgets.

Exhibit 3: 12-Month Trailing State and Local Revenue Collections



Source: Western Asset, Census NSA major state and local tax revenue. As of 30 Sep 25.

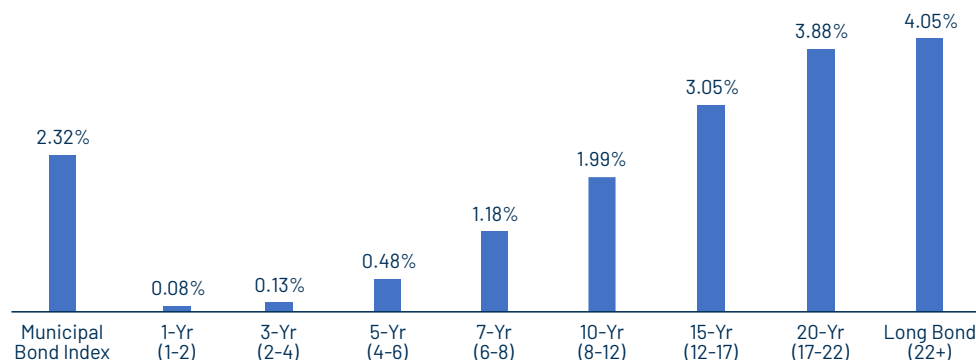
Valuations

The long end outperformed as the curve flattened.

As the Fed telegraphed a rate cut in September, the municipal bond yield curve significantly reversed the steepening observed earlier in the year. From September 1 to September 30, the AAA municipal yield curve 1-year yield rose 11 basis points (bps) to 2.30% while the 30-year yield fell 35 bps to 4.30%.

As a result of the curve flattening, longer maturities outperformed in September, with the Bloomberg Long Municipal Bond Index (22+ Year) returning 4.05%, retracing all the negative performance accumulated by the index this year. Meanwhile, the Bloomberg 1-Year Muni Bond Index significantly underperformed, returning just 0.08% during the month. The strong performance of longer-term munis is indicative of investors seeking higher income ahead of anticipated Fed rate cuts. Western Asset believes longer maturities continue to offer attractive relative value for long-term investors, considering elevated absolute muni yield levels and rolldown opportunities from the curve, which remains relatively steep versus taxable fixed-income markets.

Exhibit 4: September Municipal Index Performance by Maturity



Source: ICI, Western Asset, Bloomberg. As of 30 Sep 25.

Munis and the Macro¹

	Prior Month (Revised From)	Consensus	Actual
GDP Annualized QoQ (2025)	-0.60%	3.30%	3.80%
CPI YoY	2.70%	2.90%	2.90%
PCE	2.60%	2.70%	2.70%
Unemployment Rate	4.20%	4.30%	4.30%
Change in Nonfarm Payrolls	79k (73k)	75k	22k

Yield and Curve Changes – AAA Munis vs. Treasuries³

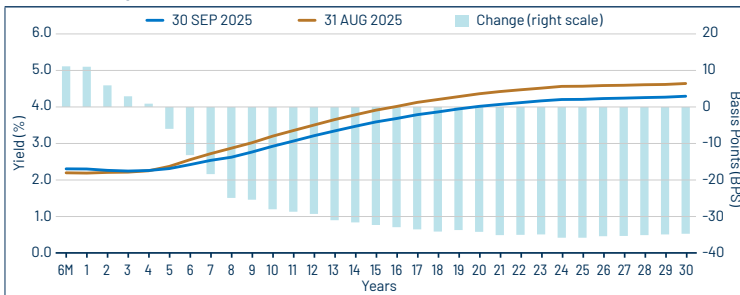
	2-Yr	5-Yr	10-Yr	30-Yr
9/30/2025				
AAA Muni	2.28%	2.32%	2.92%	4.24%
Treasury	3.61%	3.74%	4.15%	4.73%
M/T Ratio	63%	62%	70%	90%
Change				
Muni Δ (bps)	▲ 9	▼ -5	▼ -30	▼ -37
Treasury Δ (bps)	▼ -1	▲ 4	▼ -8	▼ -20
Ratio Δ (%)	▲ 3%	▼ -2%	▼ -6%	▼ -4%
10-Yr Average				
AAA Muni	1.52%	1.67%	2.06%	3%
Treasury	2.25%	2.39%	2.65%	3%
Ratio	68%	70%	78%	92%

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	2.90%	4.91%	4.15%	75	62
30Y AAA Muni vs Treasury	4.24%	7.16%	4.73%	243	169
AA Munis vs Corps	3.53%	5.97%	4.55%	142	74
A Munis vs Corps	3.90%	6.59%	4.68%	191	114
BBB Munis vs Corps	4.55%	7.69%	4.99%	270	162
HY Munis vs Corps	5.69%	9.61%	6.70%	291	149

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	1.0
2020	496	March	37.7	43.4	15%	-22.8	14.9
2021	488	April	45.0	52.8	17%	-18.5	26.6
2022	375	May	47.1	53.8	14%	-29.5	17.6
2023	366	June	47.6	58.4	23%	-48.7	-1.0
2024	500	July	40.2	56.6	41%	-44.5	-4.4
2025 YTD	587	August	49.0	49.4	1%	-48.3	0.8
Annualized		September	48.9	49.4	1%	-26.7	22.3
		October	64.5				
		November	25.1				
		December	31.7				
		Total	499.9	440.4	37%	-300.8	77.9

AAA Municipal Yield Curve²Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	2.32%	2.64%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	0.08%	2.89%
Bloomberg Municipal Bond 5-Year Index	0.48%	4.51%
Bloomberg Municipal Bond 10-Year Index	1.99%	4.10%
Bloomberg Municipal Bond 20-Year Total Return Index	3.88%	0.90%
Bloomberg Municipal Bond Long Bond Index	4.05%	0.31%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	2.43%	2.63%
Bloomberg Municipal AA Index	2.23%	2.61%
Bloomberg Municipal A Index	2.34%	2.80%
Bloomberg Municipal BBB Index	2.81%	2.32%
Bloomberg Muni High Yield Index	2.64%	1.29%
Returns by Sector		
GO Bond Index	2.20%	2.67%
Revenue Bond Index	2.39%	2.61%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	1.29%	6.43%
Bloomberg Global Aggregate Index	0.65%	7.91%
Bloomberg U.S. Treasury Index	0.85%	5.36%
Bloomberg U.S. Corporate Index	1.50%	6.88%

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	38,098	August	5,006
		September	7,666
		October	
		November	
		December	

¹Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 30 Sep 25.²Source: Bloomberg, Western Asset. As of 30 Sep 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 30 Sep 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 30 Sep 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 30 Sep 25.⁷Source: Bloomberg, ICI. As of 30 Sep 25.



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