

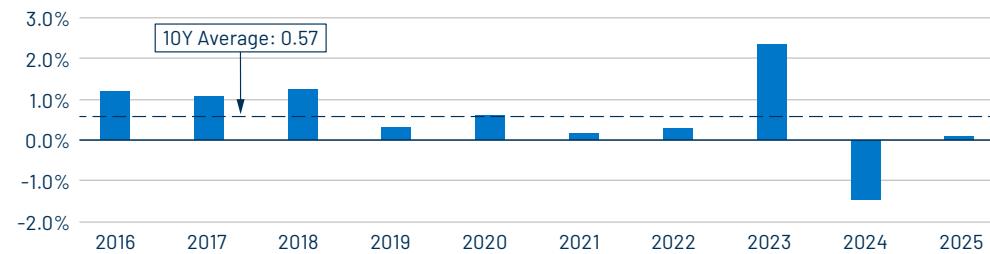
Muni Monthly

Performance Overview

Munis posted below-average returns in December.

Municipal bonds posted positive returns in December, as reflected by the Bloomberg Municipal Bond Index's total return of 0.09%. That is below the prior 10-year average December return of 0.57% as Treasury rates moved higher during the month amid an uptick in hawkish language from the Federal Reserve. Municipals outperformed Treasuries and corporate bonds, which returned -0.33% and -0.20%, respectively, amid improved technicals during the month.

Exhibit 1: December Total Return by Year



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

Supply and Demand Technicals

The tax-exempt muni supply maintained an elevated pace, as observed throughout the year.

The month of December showed a strong supply and demand technical backdrop, which was a key contributor to municipals' outperformance. New-issue volume remained robust and concluded the record year of issuance. Total December new-issue volume reached \$40 billion, down 12% from November levels, but up 25% from December 2024. Through 2025, municipalities issued a record \$588 billion of new issuance, up from \$500 billion during the prior record year.

From the demand perspective, investor flows accelerated into the end of the year. Lipper reported \$5.9 billion of inflows into municipal funds, 60% higher compared to November's \$3.7 billion. Demand continued to concentrate in longer-maturity funds, with the long-term category attracting \$3.0 billion of inflows.

Fundamentals

Improved credit trends were reflected in ratings activity in December.

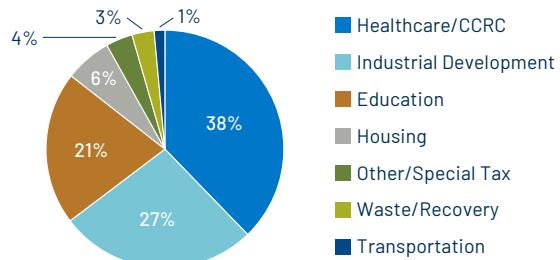
Municipal credit fundamentals continued to show resilience despite slowing growth trends. Census-reported 2025 state and local tax collection estimates, which capture fiscal year-end results for most governments, showed 12-month trailing collections increased 4% year-over-year (YoY) to \$2.1 trillion, a record high. Twelve-month trailing individual income tax collections rose 8% YoY, sales tax collections increased 2% YoY while corporate income tax collections were relatively flat. Rolling 12-month property tax collections, the primary revenue source for local governments, increased 2% YoY.

The improved credit trends were reflected in ratings activity. Public rating agency upgrades outpaced downgrades by more than 2 to 1, according to Bloomberg. Muni default activity also

Fundamentals *continued*

remained limited and largely isolated to select high-yield sectors and issuers. Through December 15, 2025, the muni market recorded 51 first-time payment defaults totaling \$1.5 billion, down from 60 defaults totaling \$2.1 billion in 2024, according to Bloomberg.

Exhibit 2: 2025 Muni Defaults by Sector (% Par Value)



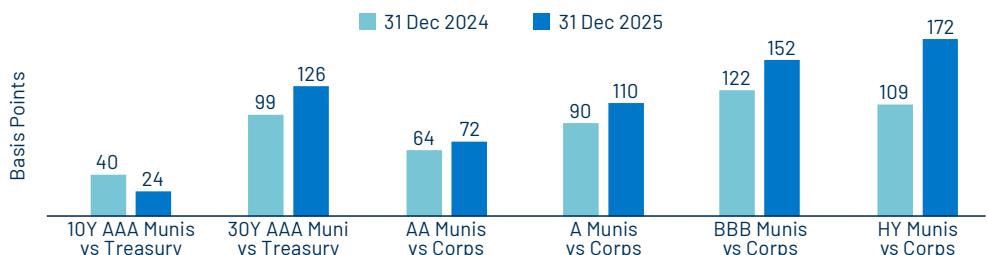
Source: Bloomberg. As of 15 Dec 25.

Valuations

Municipals generally offered higher after-tax yield advantages than at the start of the year.

Relative underperformance and record supply conditions improved the tax-efficient income opportunities offered by munis entering 2026. The average investment-grade municipal yield, as measured by the Bloomberg Municipal Bond Index, ended the year just 14 bps lower at 3.60%. By comparison, yields on the Bloomberg Treasury Index and Bloomberg Corporate Index declined by 56 bps and 52 bps, respectively. Given the smaller magnitude of the municipal yield decline, after-tax relative valuations improved across most segments of the curve and credit structures over the year.

Exhibit 3: Muni vs. Taxable After-Tax Yield Pickup—YoY Change (bps)



Source: Bloomberg, Western Asset. As of 02 Jan 26.

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. After-tax 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.

Munis and the Macro¹

	Prior Month (Revised From)	Consensus	Actual
CPI YoY	3.00%	3.10%	2.70%
Core CPI YoY	3.00%	3.00%	2.60%
Unemployment Rate (Sept)	4.40%	4.50%	4.60%
Change in Nonfarm Payrolls (NFP, 000s), September	-105,000	51,000	64,000

Yield and Curve Changes - AAA Munis vs. Treasuries³

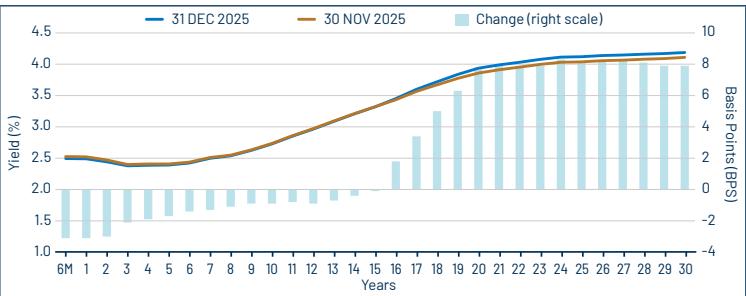
	2-Yr	5-Yr	10-Yr	30-Yr
12/31/2025				
AAA Muni	2.41%	2.41%	2.76%	4.24%
Treasury	3.48%	3.73%	4.17%	4.85%
M/T Ratio	69%	65%	66%	88%
Change				
Muni Δ (bps)	▼ -3	—	▲ 1	▲ 8
Treasury Δ (bps)	▼ -2	▲ 13	▲ 15	▲ 18
Ratio Δ (%)	▼ -1	▼ -2	▼ -2	▼ -2
10-Yr Average				
AAA Muni	1.56%	1.70%	2.08%	3%
Treasury	2.32%	2.44%	2.69%	3%
Ratio	67%	69%	77%	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	2.71%	4.58%	4.58%	0	62
30Y AAA Muni vs Treasury	4.13%	6.98%	0.00%	698	0
AA Munis vs Corps	3.46%	5.84%	5.84%	0	79
A Munis vs Corps	3.86%	6.53%	0.00%	653	0
BBB Munis vs Corps	4.48%	7.56%	0.00%	756	0
HY Munis vs Corps	5.59%	9.43%	0.00%	943	149

Municipal Supply⁶

Year	\$B	Month	2024 Issuance	2025 Issuance	YoY	Calls/Maturities	Net
2018	356	January	31.1	37.1	19%	-31.0	6.2
2019	449	February	31.9	39.6	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	53.7	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	588	August	49.0	49.7	1%	-48.3	0.8
		September	48.9	48.6	-1%	-26.7	22.3
		October	64.5	62.5	-3%	-32.8	31.7
		November	25.1	45.4	81%	-33.5	-8.4
		December	31.7	39.8	26%	-35.5	4.3
		Total	499.9	587.8	18%	-367.0	220.7

AAA Municipal Yield Curve²Index Returns⁴

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	0.09%	4.25%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	0.33%	3.47%
Bloomberg Municipal Bond 5-Year Index	0.28%	5.03%
Bloomberg Municipal Bond 10-Year Index	0.25%	5.92%
Bloomberg Municipal Bond 20-Year Total Return Index	-0.19%	3.12%
Bloomberg Municipal Bond Long Bond Index	-0.33%	1.95%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	0.11%	4.25%
Bloomberg Municipal AA Index	0.12%	4.21%
Bloomberg Municipal A Index	0.01%	4.35%
Bloomberg Municipal BBB Index	0.06%	4.13%
Bloomberg Muni High Yield Index	-0.24%	2.46%
Returns by Sector		
GO Bond Index	0.16%	4.31%
Revenue Bond Index	0.06%	4.21%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	0.64%	8.27%
Bloomberg Global Aggregate Index	0.23%	7.89%
Bloomberg U.S. Treasury Index	0.62%	6.67%
Bloomberg U.S. Corporate Index	0.65%	7.99%

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	58,502	August	5,006
		September	7,683
		October	10,883
		November	3,647
		December	5,857

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



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