

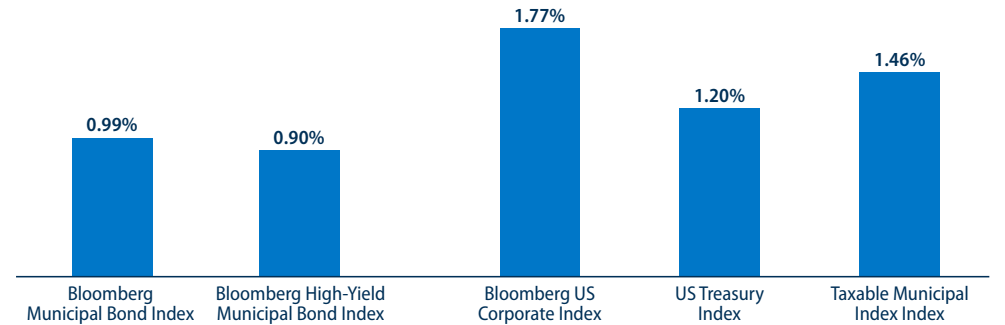
# Muni Monthly

## Performance Overview

Municipals posted positive returns along with other fixed-income asset classes as the Fed reduced the fed funds rate by 50 bps.

The investment-grade municipal market posted positive returns in September, as the Bloomberg Municipal Bond Index returned 0.99%. This marks the fourth consecutive month of positive returns, leading year-to-date (YTD) returns higher to 2.30%. Long-maturity municipals outperformed during the month, as sentiment around a lower rate environment improved following the Federal Reserve’s (Fed) 50-basis-point (bp) rate cut. Quality returns were mixed across the board, and high-yield municipal debt underperformed following the significant outperformance recorded earlier this year. The Bloomberg High Yield Municipal Index returned 0.90% in September, leading YTD returns higher to 7.48%. Municipals continued to underperform other high-quality fixed-income asset classes, in part due to elevated supply conditions.

Exhibit 1: September Municipal vs. Taxable Fixed-Income Returns



Source: Bloomberg, Western Asset. Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve. 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. As of 30 September 24.

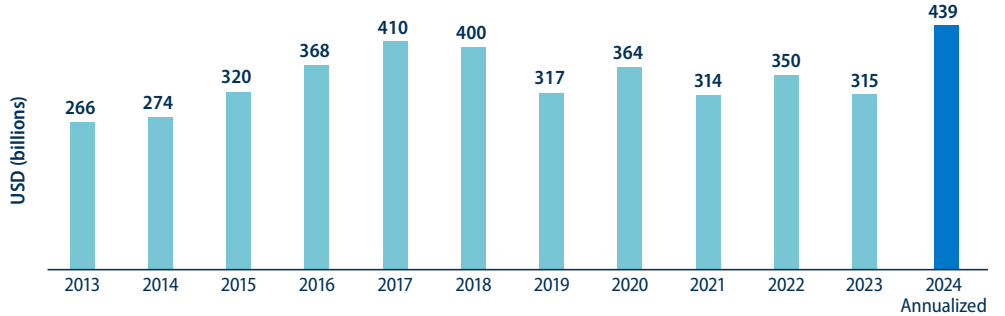
## Supply and Demand Technicals

Tax-exempt muni supply is on pace for a record year.

Municipal underperformance versus other fixed-income asset classes continued to be driven by elevated supply conditions. Total municipal supply of \$47 billion was 63% higher than last year’s September issuance level, leading total YTD issuance to \$376 billion. Through three quarters of the year, tax-exempt issuance increased \$100 billion (+44%) from the prior year to \$347 billion, and taxable issuance increased 9% year-over-year (YoY) to \$30 billion.

Municipal demand improved during the month, as weekly data from Lipper and ICI indicate over \$6 billion of municipal fund inflows during the month, leading YTD inflows higher to \$30 billion. Long-term category flows recorded the largest proportion of fund flows during the month, consistent with market returns.

Exhibit 2: Tax-Exempt Supply History



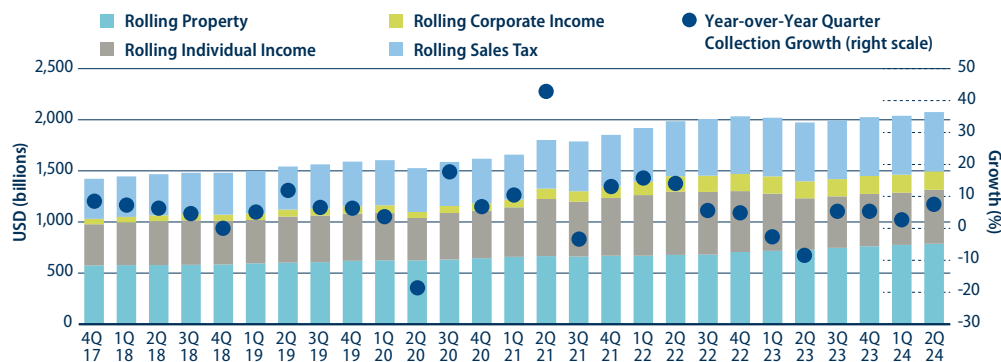
Source: Western Asset, Bond Buyer. As of 30 September 24.

## Fundamentals

## State and local revenue collections remain near record levels.

In September, the Census released 2Q24 state and local tax collection estimates, which coincide with the fiscal year-end for many municipalities. Second quarter major state and local government tax collections grew 7.4% from 2Q23 levels. Among the major state revenue sources, individual income taxes increased 11.9%, corporate income tax collections increased 7.2% and sales tax collections increased 2.6% YoY. Property tax collections, the primary source of revenues for local governments, increased 8.1% YoY to \$146 billion. The continued growth of tax collections highlights the strength of municipal credit, and we expect a strong labor market and consumer to support tax collections and municipal credit conditions over the medium term.

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



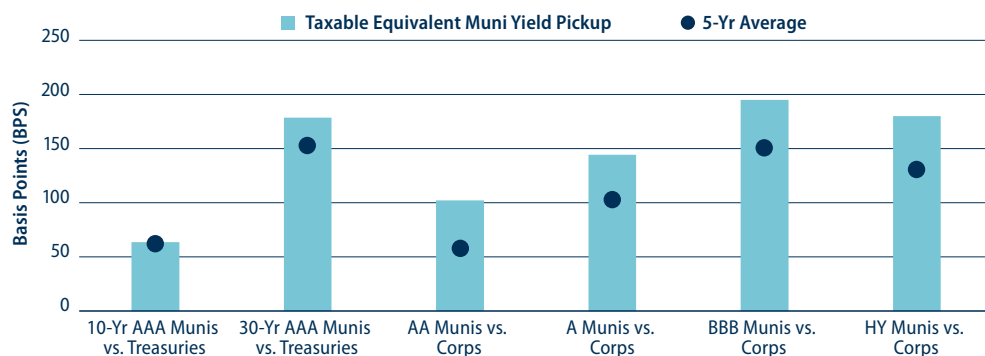
Source: Western Asset, Census NSA major state and local tax revenue. As of 11 September 24 (2Q24 data).

## Valuations

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

Despite the fourth consecutive month of positive municipal returns, elevated supply and relative underperformance versus other investment-grade fixed-income assets have contributed to an attractive relative value proposition for municipal debt. The 3.32% average yield-to-worst of the Bloomberg Muni Bond Index remains 10 bps higher than at the start of the year, and equivalent to 5.61% on a taxable-equivalent yield basis for an investor in the highest marginal tax bracket. Comparing municipals to like-rated taxable fixed-income, longer and lower intermediate-grade after-tax spreads remain above five-year averages across most of the curve and credit spectrum.

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



Source: Bloomberg, Western Asset. 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. As of 30 September 24.

Yield-to-Worst (YTW) is the lesser of yield-to-maturity or yield-to-call across all known call dates.

Munis and the Macro<sup>1</sup>

	Prior Month (Revised From)	Consensus	Actual
GDP Annualized QoQ (2Q 2024)	3.00%	2.90%	3.00%
CPI YoY	2.90%	2.50%	2.50%
PCE	2.50%	2.30%	2.20%
Unemployment Rate	4.30%	4.20%	4.20%
Change in Nonfarm Payrolls (NFP)	89k (114k)	165k	142k

Yield and Curve Changes - AAA Munis vs. Treasuries<sup>3</sup>

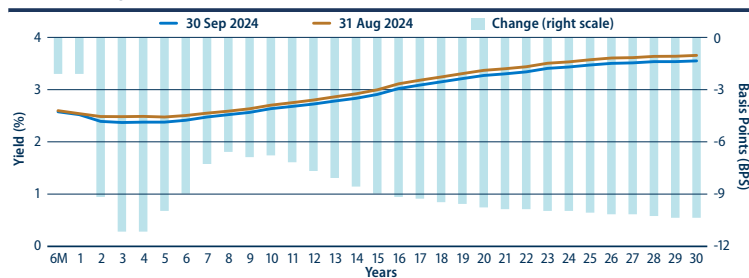
9/30/2024				
	2-Yr	5-Yr	10-Yr	30-Yr
AAA Muni	2.30%	2.31%	2.60%	3.52%
Treasury	3.64%	3.56%	3.78%	4.12%
M/T Ratio	63%	65%	69%	85%
Change				
Muni Δ (bps)	▼ -15	▼ -11	▼ -11	▼ -8
Treasury Δ (bps)	▼ -28	▼ -15	▼ -13	▼ -8
Ratio Δ	▲ 1	▼ -0.4	▼ -1	▼ -0.4
10-Yr Average				
AAA Muni	1.31%	1.53%	1.96%	3%
Treasury	1.91%	2.14%	2.43%	3%
Ratio	69%	71%	81%	94%

After Tax Yield Pickup<sup>5</sup>

Quality/Maturity Segment	Muni YTW	Taxable Equivalent YTW	Taxable YTW	Taxable Equivalent Muni Yield Pickup	5-Yr Average
10-Yr AAA Munis v. Treasuries	2.61%	4.41%	3.78%	63	61
30Y AAA Muni vs Treasury	3.49%	5.90%	4.12%	178	152
AA Munis v. Corps	3.18%	5.38%	4.36%	102	57
A Munis v. Corps	3.56%	6.01%	4.56%	145	102
BBB Munis v. Corps	4.08%	6.89%	4.94%	195	150
HY Munis v Corps	5.20%	8.78%	6.99%	179	130

Municipal Supply<sup>6</sup>

Year	\$B	Month	2023 Issuance	2024 Issuance	YoY	Calls/Maturities	Net
2018	356	January	21.8	31.1	43%	-25.6	5.6
2019	449	February	19.9	32.0	61%	-27.5	4.5
2020	496	March	32.8	38.0	16%	-26.5	11.5
2021	488	April	34.6	45.0	30%	-27.6	17.4
2022	375	May	28.9	47.4	64%	-28.1	19.3
2023	366	June	36.8	47.6	29%	-44.4	3.2
2024 YTD	503	July	27.3	39.4	44%	-47.2	-5.5
		August	38.2	49.1	28%	-53.7	-4.5
		September	28.7	47.9	67%	-24.2	1.4
		October	38.7				
		November	35.9				
		December	22.7				
		Total	366.5	377.0	40%	-268.3	61.2

AAA Municipal Yield Curve<sup>2</sup>Index Returns<sup>4</sup>

	1-Mo Total Return	YTD Total Return
Bloomberg Municipal Bond Index	0.99%	2.30%
Returns by Maturity		
Bloomberg Municipal Bond 1-Year Index	0.31%	2.59%
Bloomberg Municipal Bond 5-Year Index	0.70%	2.23%
Bloomberg Municipal Bond 10-Year Index	0.90%	1.02%
Bloomberg Municipal Bond 20-Year Total Return Index	1.23%	2.69%
Bloomberg Municipal Bond Long Bond Index	1.38%	3.11%
Returns by Credit Quality		
Bloomberg Municipal AAA Index	1.01%	1.67%
Bloomberg Municipal AA Index	0.97%	1.99%
Bloomberg Municipal A Index	1.01%	3.01%
Bloomberg Municipal BBB Index	0.99%	4.24%
Bloomberg Muni High Yield Index	0.90%	7.48%
Returns by Sector		
GO Bond Index	0.94%	1.75%
Revenue Bond Index	1.02%	2.50%
Taxable Muni Returns		
Bloomberg Taxable Municipal Bond Index	1.46%	5.33%
Bloomberg Global Aggregate Index	1.70%	3.60%
Bloomberg U.S. Treasury Index	1.20%	3.84%
Bloomberg U.S. Corporate Index	1.77%	5.32%

Demand Technicals - Municipal Mutual Fund Flows<sup>7</sup>

Year	Flows (\$)	2024	Flows (\$)
2018	8,843	January	4,026
2019	102,554	February	2,753
2020	54,468	March	4,087
2021	105,480	April	289
2022	-116,469	May	2,216
2023	-5,695	June	649
2024 YTD	24,926	July	4,885
		August	6,021
		September	6,633
		October	
		November	
		December	

<sup>1</sup> Source: Bloomberg; GDP, CPI, PCE: BEA; Unemployment, NFP: BLS. As of 30 Sep 24.<sup>2</sup> Source: Bloomberg, Western Asset. As of 30 Sep 24: Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve.<sup>3</sup> 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.<sup>4</sup> 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.<sup>5</sup> Source: Bloomberg, Western Asset. As of 30 Sep 24. 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.<sup>6</sup> Source: Bloomberg. As of 30 Sep 24.<sup>7</sup> Source: Bloomberg. As of 30 Sep 24.



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