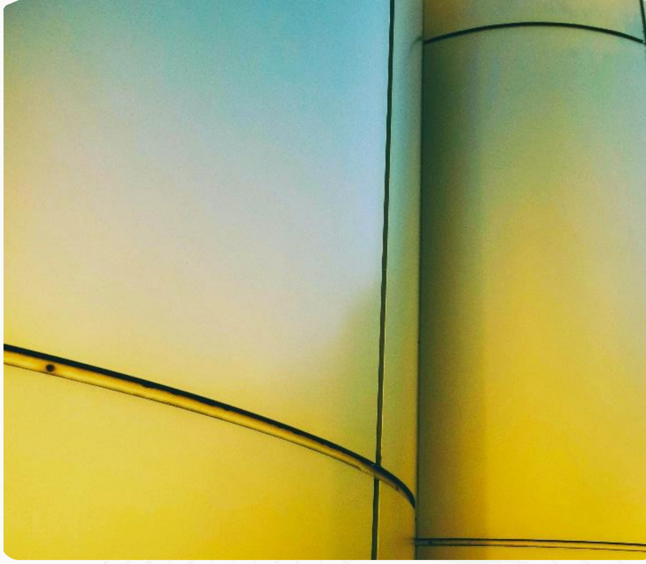
Municipal Market Update

4th Quarter 2025



Economy & Rates

- The US Treasury interest rate curve steepened during the fourth quarter. Short term yields gapped lower after the Federal Reserve (Fed) implemented its third overnight rate cut of 2025. Longer term Treasury yields rose in Q4, most notably in the 20-year and beyond range, in reaction to the resilient economy and lingering concerns about longer term inflation trends and fiscal deficits.

- On December 10th the Fed announced its widely expected 25 basis point (bps) cut to the overnight lending rate. Chairman Powell did cite the slowing US labor market as a key rationale for the cut, while also cautioning that inflation remains somewhat elevated above the Fed’s target. With the rate now set at the 3.50%-3.75% range, the market consensus is that there will be two more rate cuts in 2026.

- For the full year 2025, the baseline 10-year US Treasury yield declined significantly, ending the year at 4.17% after having started the year at 4.57%, and placing it well below the cyclical peak of roughly 5% which was notched in October 2023. Treasury yields inside of 10 years rallied even more significantly, with the 2-year versus 10-year yield spread widening by approximately 50 bps over the course of the year. These effects, in combination with the yield increases longer on the curve, created what is known as a “bull steepener” reshaping of Treasury yields in 2025, which is regarded as shorthand for a rates market fueled by optimism for future monetary and fiscal stimulus in combination with firmer longer-term rates driven by lingering structural and inflationary concerns.

- The 2026 outlook for the US economy, in our view, is constructive. We expect positive GDP growth of 1-2%, with a possible bias toward the upside, driven by supportive fiscal programs (partially offset by drag from tariffs), further Fed easing, strong corporate profits, and resilient consumer spending.

- As of 12/19/2025, Loomis Sayles’ Macro Strategies team currently assigns a 60% probability to a “Expansion Resilient” macro scenario as their base case, which forecasts that growth is likely to persist with a boost from fiscal programs, partially offset by tariff policy effects. “Late Cycle Economic Boom” (marked by a less onerous tariff regime, a more resilient economic growth trend, an upward bias to yields, and a pause in the Fed cutting cycle) is assigned a 25% likelihood, and “Downturn” (essentially a mild recession scenario marked by a pullback in consumer spending, negative S&P 500 earnings growth, and an increasingly accommodative Fed) is assigned a 15% likelihood.

Municipal Market Performance

- In contrast to the Treasury curve, the municipal (muni) curve flattened in the fourth quarter, with yields inside of 6 years rising and yields beyond 6 years falling. After steepening for most of the year, especially inside of 10 years due to persistent retail demand, muni market participants finally turned their buying focus to the higher absolute yields available on the longer end.

- The net effect of the reshaping of the muni curve was positive total return for the Bloomberg Municipal Bond Index, which posted a 1.56% return in Q4. Given the yield compression and higher absolute returns available on the longer end of the curve, returns were stronger in the 10-20-year segment of the muni market than they were shorter on the curve, but positive total returns were posted for all tenors.

- The Index posted a strong total return, up 4.25%, for the full year. Returns were strongest around the 10-year portion of the Index, which turned out to be the "sweet spot" between the most significant full year yield compression seen on the front end of the curve and the higher absolute yields available on the longer end of the curve.

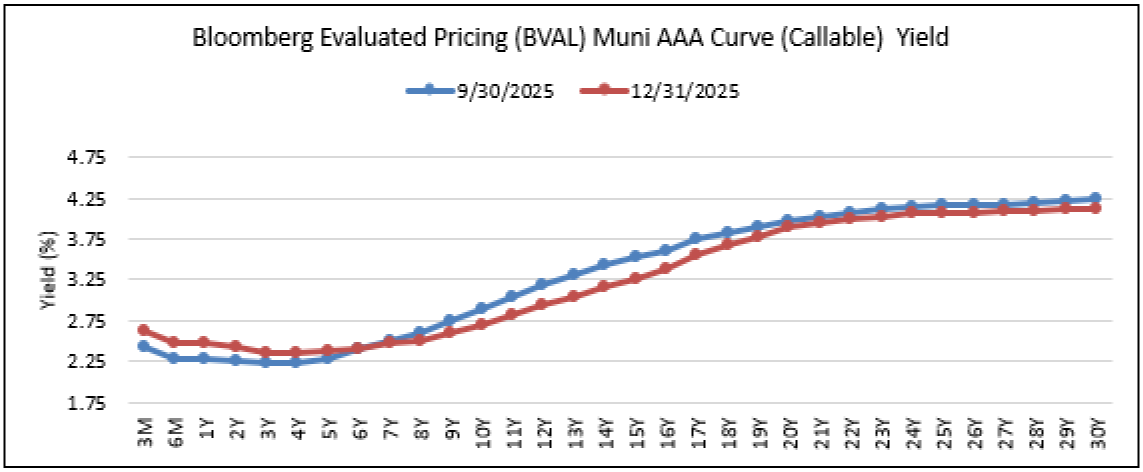
- While all portions of the investment grade muni market saw positive performance in 2025, some areas shone brighter than others. From a sector perspective the strongest returns were seen in Housing and Private Activity Bonds, while Hospitals and Electric Power were among the weaker performers. From an issuer quality perspective, there actually wasn't a significant performance advantage in 2025, with all the quality bands performing within a tight 4.13% to 4.35% range for the year. Also somewhat unusually, the performance differential between General Obligation and Revenue bond segments of the Index was tight, with the former returning 4.31% and the latter returning 4.21%.

				TRAILING RETURNS AS OF DECEMBER 31, 2025 (%)				
Index Data	**Duration (Years)**	**Quality**	**YTW**	**Quarter**	**1-year**	**3-year**	**5-year**	**10-year**
Bloomberg Municipal Bond Index	6.68	AA-	3.58%	1.56	4.25	3.88	0.80	2.34

Source: Bloomberg
Returns for multi-year periods are annualized. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.
Past market performance is no guarantee of future results.

- Muni credit spreads widened for much of the year before beginning to grind tighter late in the third quarter and into the fourth quarter. Spreads remain modestly attractive, in our view, across the curve and the ratings spectrum for most sectors, relative to recent historical averages. Pockets of weakness may continue to materialize should the economic outlook turn negative, and spreads are likely to remain anchored higher in muni sectors which are more directly impacted by adverse federal policy decisions.

- At year end, the muni curve maintained a generally normal, upward-sloping shape, aside from a bit of a "hook" inside of six months where yields were elevated in correlation with the Fed funds rate. For the full year, curve steepening was a key trend, with yields inside of 15 years declining and yields 16 years and beyond rising.



Source: Bloomberg as of 12/31/25
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- Muni valuations, as measured by the muni-to-treasury ratio, have generally been grinding tighter for the past several quarters. The front end of the curve has been the exception because of a drop in reinvestment flows which had supported the front end over the summer, a slightly slower pace of new issuance and a shift of investor interest toward the long end given the (previously) attractive valuations. As a result, the 2-year and 5-year muni-to-treasury ratios appear slightly cheap relative to fair value, in our view, while 10-year and 30-year ratios are closer to fair value.

Muni/Treasury Ratio			
	12/31/2023	12/31/2024	12/31/2025
5 Year	58%	66%	64%
10 Year	58%	68%	65%
30 Year	83%	80%	85%

Source: Bloomberg
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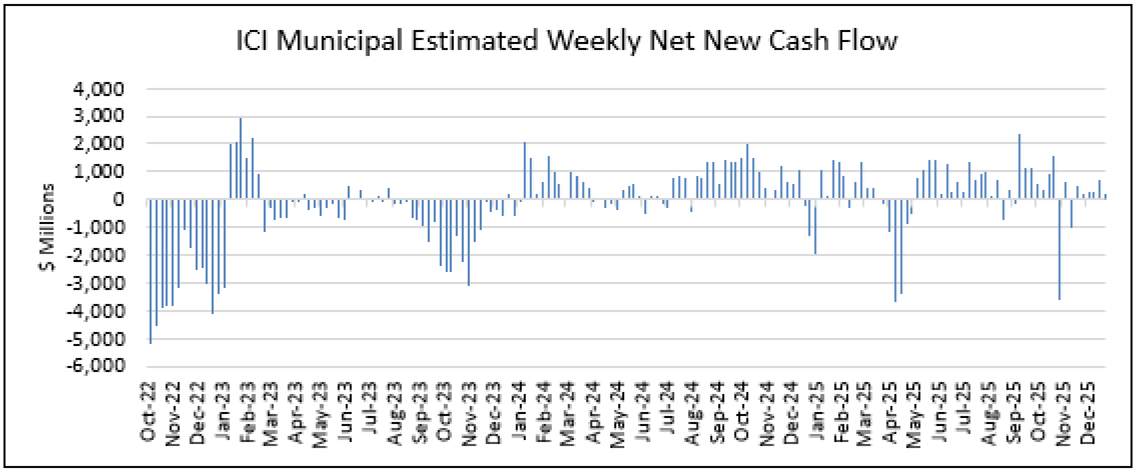
Muni Supply & Demand

- The flow of investor money into municipals demonstrated a positive trend in Q4, with weekly muni mutual fund flows remaining primarily positive and with separately managed account (SMA) demand remaining robust as well. Mutual fund net inflows totaled approximately $1-2 billion in the quarter; however, we note this number was artificially skewed lower due to several muni mutual funds converting to ETFs. These conversions were counted as mutual fund outflows. Absent these conversions, we believe mutual fund net inflows would have been closer to $6-7 billion in the quarter.



Source: Bloomberg, as of 12/31/2025.
Past market experience is no guarantee of future results.

- New issuance of muni bonds in 2025 tracked approximately 16% ahead of 2024's pace. We expect strong new issuance to continue in 2026, fueled by inflationary effects (which increase municipal project costs) and decreased federal support for state and local entities, which could induce new borrowing needs and spur incremental new issuance.

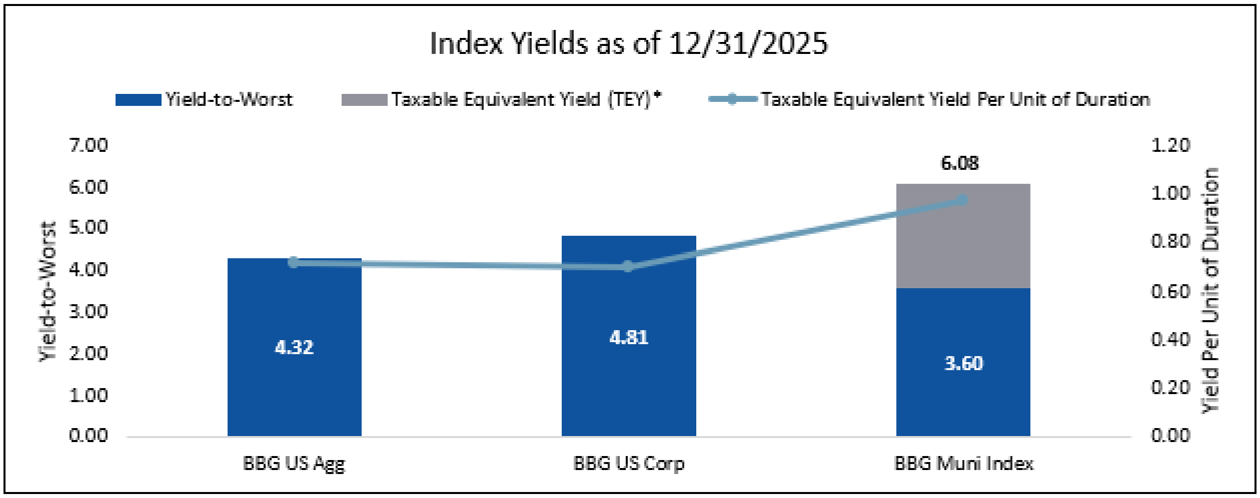
- From a technical perspective, seasonal flows from bond coupons and maturities entered a relatively strong time of year in December and should help provide a muni market backstop until an expected drop off in the spring. While this cycle is a known annual event and just one factor in what moves the muni market, stronger seasonals could potentially offset emergent negative market factors during the interim.

Outlook

The following conditions underpin our constructive view on the current outlook for the municipal market:

- Elevated absolute yields and a still relatively steep muni yield curve offer an opportunity for attractive carry and rolldown.
- On a "tax equivalent" basis, munis may provide a compelling alternative to other investment grade credit asset classes, particularly for high tax bracket investors.
- We expect demand from retail investors in mutual funds, ETFs and separately managed accounts to continue absorbing the heavy pace of new issuance and bring balance to the muni market.
- Credit spreads remain modestly attractive across the curve and rating spectrum for most sectors relative to historical averages.
- While credit conditions in several muni sectors are being impacted by Federal policy headwinds, an overall improvement in the macroeconomic tone has provided stability to the credit environment.
- Relative valuations appear slightly cheap at the 2-year and 5-year points on the curve, while appearing fairly valued past the 10-year point on the curve.
- We expect strong client inflows into muni products – mutual funds, separately managed accounts, and ETFs – to augment the expected seasonal strength of muni reinvestment flows through the winter months.
- The risks which challenge our constructive view include Fed policy uncertainties which could impact the credit fundamentals of weaker quality muni issuers, the Fed's extent and timing of future rate cuts, and the potential for an unexpectedly strong economy which pressures long-term rates higher.

The Bloomberg Municipal Bond Index sported a 3.60% yield at year-end, which equates to a 6.08% Taxable Equivalent Yield (using an effective tax rate of 40.8%). We believe this represents value - and a possible entry point - relative to the Bloomberg US Corporate Bond Index and the Bloomberg US Aggregate Index.



**The taxable equivalent yield is calculated using an effective tax rate of 40.8% which includes the 37.0% top federal marginal income tax rate and the 3.8% Net Investment Income Tax to fund Medicare.*
Source: Loomis Sayles and Bloomberg as of 12/31/2025. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.
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Past market performance is no guarantee of future results.

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