

MONTHLY MUNICIPAL BOND MARKET UPDATE

As of August 31, 2023

Key Takeaways

- Munis returns remain positive year-to-date, despite negative returns for the month across all fixed income indices, driven largely by a continued rise in rates – see *chart 1*
- Credit spreads continued to tighten, with BBB spreads at 112 basis points as of August 31, compared to 139 basis points as of December 31, 2022. However, we believe there is potentially room for additional tightening, given the average BBB spread of 98 basis points since December 31, 2020 and the three-year average of 103 basis points.– see *chart 2*
- Starting yields (which we view as a good predictor of long-term returns) remain significantly higher over this time last year, despite remaining somewhat unchanged from last month. Munis continue to look attractive, particularly on a tax-equivalent basis – see *chart 3*
- Muni credit quality remains strong and default rates remain low – see *chart 4*

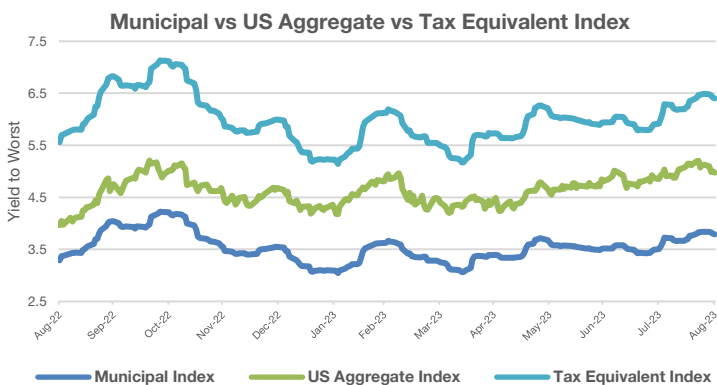
The Month in Charts

CHART 1

Index	8/31/2023 YTD Return	8/31/2023 MTD Return
Municipal Bond	1.59%	-1.44%
US Aggregate	1.37%	-0.64%
US Universal	1.81%	-0.60%
US Treasury	0.70%	-0.52%

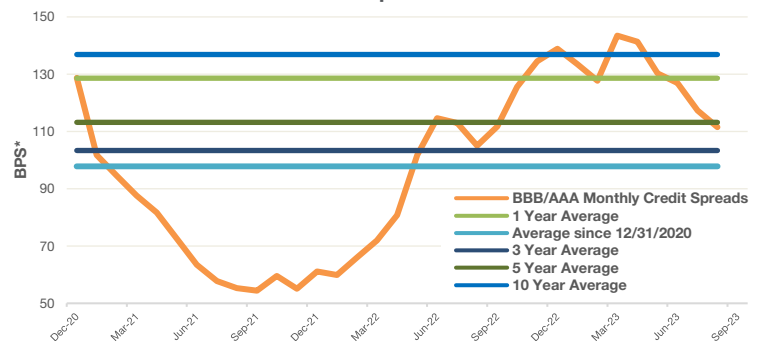
Source: Bloomberg

CHART 3



Source: Bloomberg

CHART 2 BBB/AAA Muni Credit Spreads since 2021



*Basis point "bps" is 1/100th of a percentage point.

Source: Bloomberg

CHART 4

Credit Quality	10-Year Cumulative Default Rates	
	Municipals	Corporates
Moody's Rating		
Aaa	0.00%	0.35%
Aa	0.02%	0.76%
A	0.10%	1.96%
Baa	1.06%	3.45%
Investment Grade	0.09%	2.17%
Speculative Grade	6.94%	28.92%
All Rated	0.15%	10.36%

Source: Moody's

Our Current Thinking

We remain committed to our core competency of evaluating, taking, and managing credit risk in the municipal market. We continue to build our portfolios bond-by-bond, relying on our assessment of fundamental credit risk and attempting to capture and distribute incremental yield in an effort to drive higher long-term income to our investors. While there might be some volatility in the muni market in the short term, we remain confident that the right approach is to focus on what matters in the long term. We believe municipal bonds continue to represent an attractive investment opportunity on a relative basis. At the end of the August 2023, the yield on the Bloomberg Municipal Bond Index was 3.79% which is a taxable-equivalent yield of 6.40% (in the highest tax bracket). After factoring in the benefit of the tax exemption, munis look attractive vs. the (taxable) Bloomberg U.S. Aggregate Bond Index, which yielded 4.97% at month-end.

Past performance is no guarantee of future results. Index returns do not reflect management fees, transaction costs or expenses; one cannot invest directly in an index.

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. Bonds and bond funds will decrease in value as interest rates rise and vice versa. Credit risk refers to the possibility that debt issuers may not be able to make principal and interest payments or may have their debt downgraded by ratings agencies.

Municipal bonds are more vulnerable to unfavorable economic, political and regulatory changes affecting issuers in specific municipalities. Some income from municipal bonds may be subject to state or local taxes or the federal Alternative Minimum Tax (AMT).

Interested parties are strongly encouraged to seek advice regarding the best options for their particular circumstances from qualified tax and financial experts. The opinions are as of the date noted and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

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