3Q 2025

NEUBERGER BERMAN

Municipal Basis Points

All You Can Eat

- Record issuance is delivering a feast of opportunity for municipal investors
- Tariff-related uncertainty has introduced new volatility to markets, while fiscal policy changes could affect muni issuers broadly
- We believe a focus on quality and security selection remains crucial
- With municipal yields remaining elevated, this could be a good time to put cash to work

NEUBERGER BERMAN MUNICIPAL FIXED INCOME TEAM

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Macro and Markets

Impressive tax-exempt yields and research opportunities could deliver for investors.

Early April was challenging for many investors as the "Liberation Day" tariff announcement led to volatility across a broad range of asset classes. The municipal bond market was not spared as tariff concerns as well as technical and seasonal factors combined to push yields sharply higher in a short period. Our initial view that the sell-off was not related to the market "downgrading" its view of municipal credit quality later proved correct. We also believed that, once the dust settled, higher absolute yields and improved valuations would be viewed favorably. Indeed, as Treasuries started to stabilize, investors jumped in to buy munis again.

Despite a brief pause amid tariff-related volatility, municipal supply has continued at a record pace, and it has been impressive to us how smoothly it has been absorbed. From the peak in April, AAA rated municipal yields declined, with intermediate and shorter duration bonds performing the best.

Overall, we continue to believe that the municipal market offers considerable value. Intermediate investment-grade munis ended the quarter yielding 3.29%, for a taxable-equivalent yield of 5.56% (assuming a federal tax rate of 40.8%). When compared to intermediate Treasuries, which were yielding 3.83% at the same time, municipal bonds have an advantage of 173 basis points on a tax-adjusted basis.

IMPROVING DYNAMICS

Looking ahead, we think that market dynamics may be favorable over the remaining summer months. While supply should remain heavy, bond maturities and coupon payments ought to create ample investor interest. In addition, fund flows have been positive for weeks, suggesting healthy investor demand. Credit spreads are on the tighter side right now; so, while we are not averse to adding credit exposure to portfolios, the bar is now higher for us. All things equal, we are even more focused on quality than usual.

In our view, this is a great time for active management and security selection. With the sheer volume of bonds available in the new issue and secondary markets, and the steady stream of potential policy changes in Washington, DC, being able to quickly process news and compare investments for relative value has never been more important. Finally, we continue to believe that an active approach to tax-loss harvesting can add value when opportunities arise.

Strategy and Outlook

Issuance levels, seasonality and yield opportunity may all be factors to keep in mind in the coming months.

LOOKING BACK

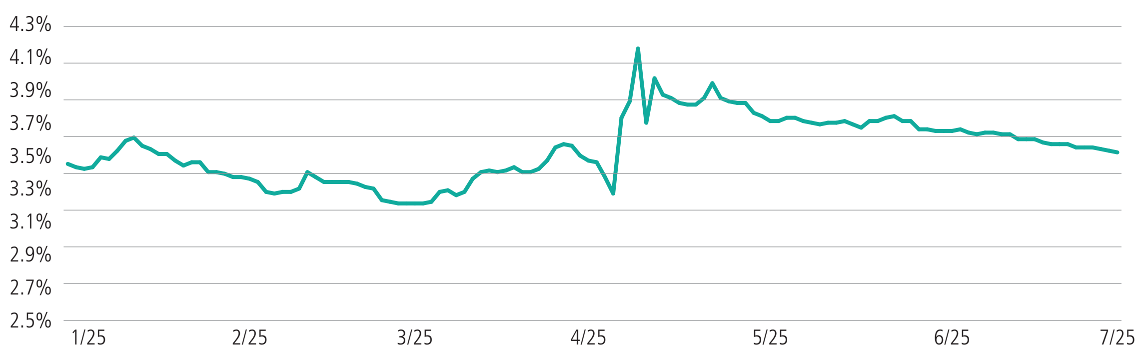
Yield Movement: Muni yields have been volatile this year, rising more than comparable U.S. Treasuries, largely fueled by tariff-related news, record-setting issuance and mixed economic data. Market swings included a tariff-related sell-off in early April, which was largely unwound in May and June as tariff concerns subsided, and the federal tax and spending law preserved the municipal interest exemption.

New Issue Supply: Second-quarter municipal issuance totaled around $150 billion, marking a 17% year-over-year increase. Analysts have recently raised their 2025 supply forecasts, now expecting issuance to surpass last year's record $500 billion. Drivers of current supply include:

- **Voter-Approved Bonds:** Numerous measures approved last November authorized municipalities to issue new debt for infrastructure, education and other public needs.
- **Rising Costs:** Costs for both new construction and maintenance have climbed significantly in recent years.
- **Depleted COVID Funds:** Most pandemic-related funding has been exhausted, with some Biden administration infrastructure funds potentially at risk of being rescinded.
- **Policy Shifts in Washington, DC:** Lower payouts may increase funding needs for climate programs, higher education and hospitals.

MUNICIPAL RATES HAVE RETRACED MOST OF APRIL'S SELL-OFF

Yield to Worst, Muni 1- to 15-Year Index



Source: Bloomberg, as of June 30, 2025.

LOOKING AHEAD

Federal Reserve: The market currently expects the Fed to hold rates steady at its July meeting, but resume easing as soon as September, with two rate cuts likely by year-end, driven by concerns over slowing economic growth, possible softness in the labor market and continued tariff headlines.

Summer Technicals: We think muni bonds could outperform Treasuries in the near term, supported by two key seasonal factors: a slowdown in new issuance over the summer and a substantial influx of investor cash from July and August coupon payments and maturities.

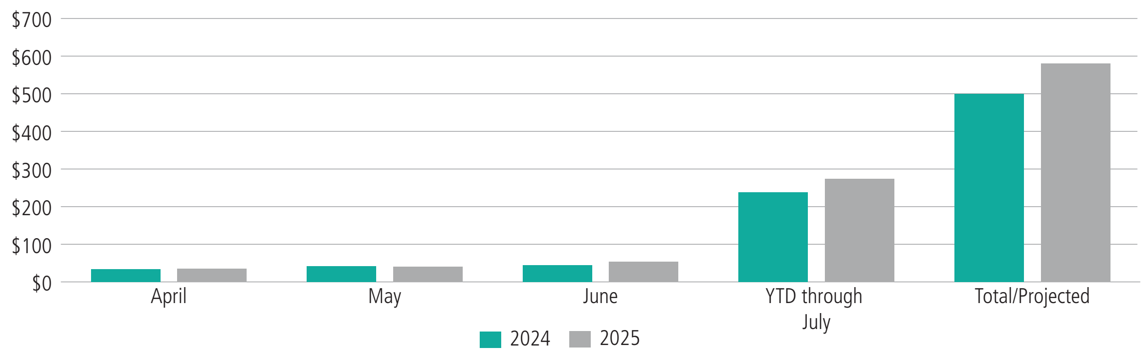
Duration: We currently favor modestly longer duration than relevant benchmarks to capitalize on the steepness of the yield curve in intermediate and long maturities.

OUT OF CASH

In our view, municipal yields remain attractive across the curve, particularly in relation to prevailing cash rates. Investors may want to consider shifting out of cash-equivalent securities to avoid reinvesting at potentially lower rates later on.

MUNICIPAL BOND ISSUANCE IS BREAKING RECORDS

New Issuance ($ Billions)



Source: Bloomberg, as of June 30, 2025.

Deeper Dive

We believe in-depth research can create meaningful advantages in assessing the impact of tariffs and other key issues affecting municipals.

The Trump administration's tariff policies have been a major economic concern, introducing significant uncertainty into credit markets. Tariffs—taxes imposed on imported goods—can raise costs for consumers and businesses, as well as disrupt established trade flows. While the sectors and industries affected may vary across the country, all states are apt to experience some degree of impact. For the municipal market, higher tariffs introduce the risk of slower economic growth and increased inflation, as well as sector-specific challenges, particularly for areas dependent on trade. In our view, the resulting price volatility and risk may require careful assessment.

Given this backdrop, we thought it would be worthwhile to briefly lay out our approach to analyzing municipal issuers, and how it could be helpful in relation to the tariffs issue.

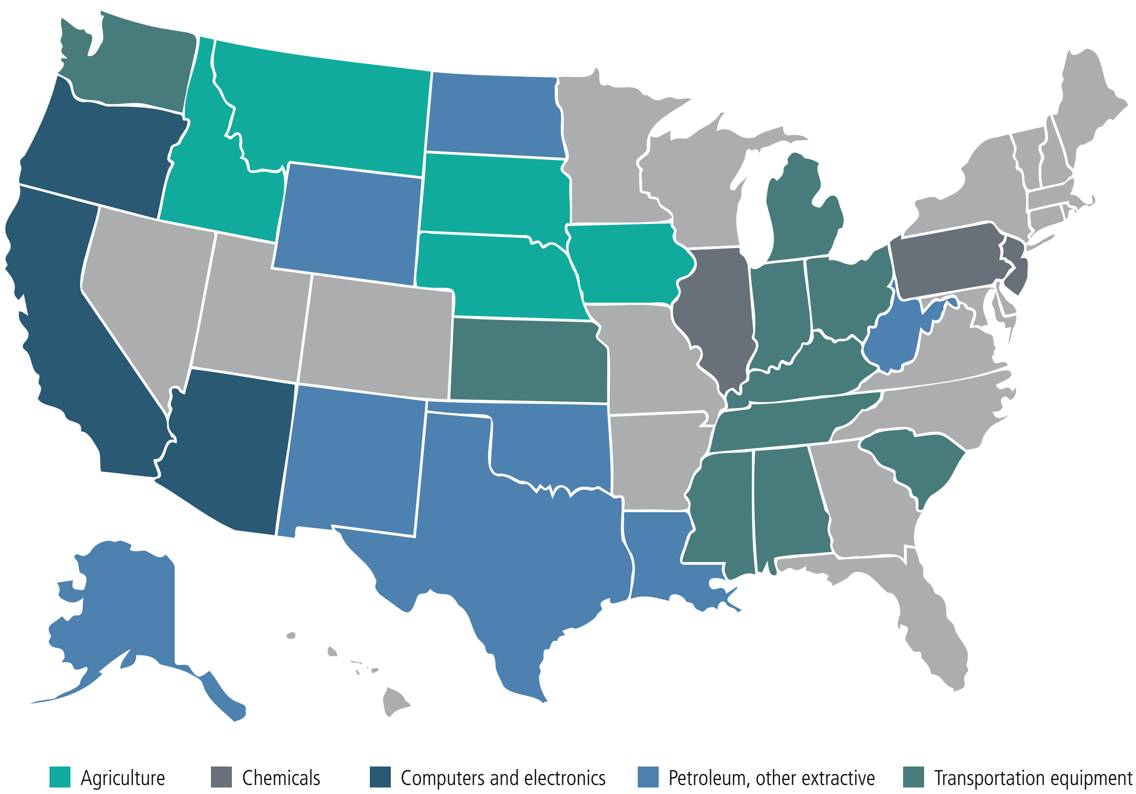
Specifically, the municipal research team employs methodical, in-depth analysis to identify potentially resilient investment opportunities. When it comes to the tariffs, rather than relying on broad generalizations, we are looking at how these levies could affect specific economic indicators, sectors and credits. This allows us to move past the headlines and focus on the nuanced, real-world impacts that are most likely to influence the municipal landscape.

A cornerstone of our methodology is the careful analysis of sector-specific and structural nuances. For example, in the case of port authorities, we distinguish between the "operator" model, where revenues are tied directly to cargo volumes, and the "landlord" model, where revenues are secured by leases and minimum guaranteed payments. In periods of declining trade volumes, "landlord" ports may offer greater revenue stability and, therefore, could present more attractive investment opportunities. This kind of targeted, detail-oriented analysis helps to uncover credits that may be overlooked by those focused only on headline risk.

We also like to emphasize historical context and the structural protections embedded within municipal credits. We therefore look for issuers with less concentrated economic risk as they are typically better positioned to weather periods of volatility. By understanding past cycles of trade disruption and the specific financial safeguards in place for different issuers, we can better assess which credits are positioned to withstand economic headwinds. This approach facilitates finding value in sectors and issuers that demonstrate resilience, even in challenging environments shaped by tariffs and other macroeconomic uncertainties.

In summary, while tariffs introduce risks to the municipal market, we seek to use our discipline to identify and capitalize on potential opportunities that may prove resilient even in times of economic stress.

STATES WITH ELEVATED EXPOSURE TO TARIFF-HEAVY INDUSTRIES



Source: U.S Bureau of Economic Analysis, U.S. Bureau of Labor Statistics; Office of the United States Trade Representative and Moody's Ratings, April 2025.

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