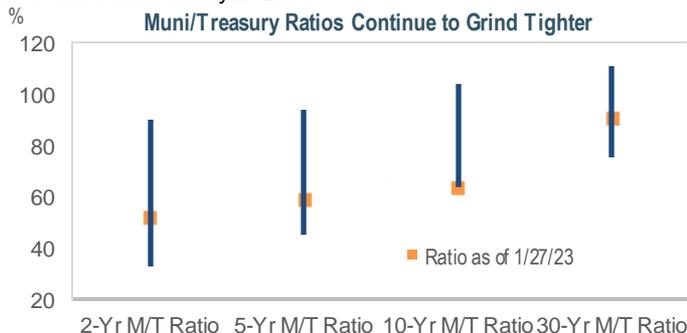


Municipal Market Update

- The municipal market rallied in 4Q22 and into 2023 against a backdrop of continued outflows, light supply, and heavy tax loss selling activity.
- Municipals had roughly \$360 billion of supply in 2022, down by over 20% YoY. While aggregate fund flows were overwhelmingly negative in 2022, ETF flows were positive. Much of the ETF inflow activity in 4Q22 was attributable to mutual fund tax loss harvesting. Fund flows are showing signs of rebound in early 2023.



- In 4Q22, taxable municipals' excess returns underperformed those of corporates and outperformed those of non-corporates and CMBS.

	Corps	Non-Corps	CMBS	Taxable Munis	Long Taxable Munis
4Q22 Excess Returns	2.89	1.40	-0.17	1.43	1.68

- Amid the market rally, yields have decreased notably across the rating spectrum.

Index Yield Tracker

Avg Yield (%)	1-2 Yrs	3-5 Yrs	5-7 Yrs	7-10 Yrs	10-20 Yrs	20-30 Yrs	30+ Yrs
AAA	2.37	2.18	2.21	2.29	3.02	3.83	4.06
AA	2.38	2.25	2.27	2.34	3.1	3.9	4.14
A	2.73	2.69	2.75	2.83	3.47	4.14	4.27
BBB+	3.2	3.32	3.55	3.61	4.16	4.79	5.2

Economic Environment

- Continued strength in jobs data and an encouraging CPI print in December has provided the market a delicate optimism that the tightening cycle is beginning to make an impact, which supports a slowdown in the pace of future rate increases.
- The Federal Reserve (Fed) remains hawkish, but market consensus is that we are nearing the peak. Ahead of the February FOMC meeting, investors are pricing in a 25bp rate hike and a market implied terminal rate of 4.9% in June.

ESG and Municipals

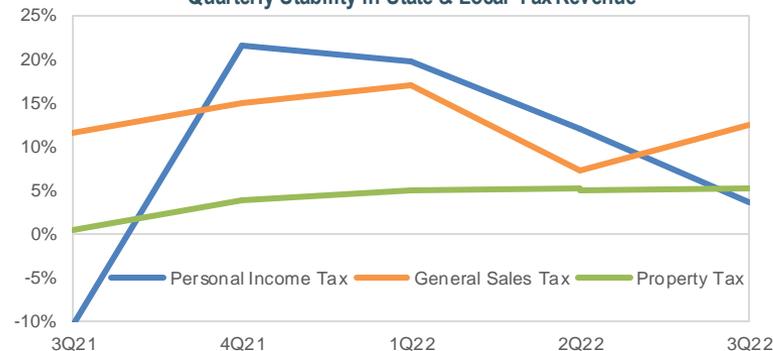
- While municipal ESG issuance declined in 2022, the portion of new money supply, used to finance new projects, edged down only marginally. The ESG share of total municipal supply is now 10%, up from 2% in 2019. Top sources of municipal ESG bond proceeds:

Breakdown by Purpose	Share of ESG Issuance
General Obligation	12%
Housing	31%
Education	6%
Utilities	19%
Transportation	8%

Credit Perspective

- Bolstered by federal stimulus and a strong period of tax revenue, state and local governments are well-prepared to navigate any weakness in tax revenue brought by a potential slowdown in economic growth.

Quarterly Stability in State & Local Tax Revenue



- Recent airport upgrades acknowledge the sector's supportive credit fundamentals and solid balance sheets: Broward County Airport FL to A+ from A (S&P), Houston Airport to A+ from A (S&P), and the Port Authority of NY and NJ to AA- from A+ (Fitch). Air travel is expected to fully recover to pre-pandemic levels in 2023.