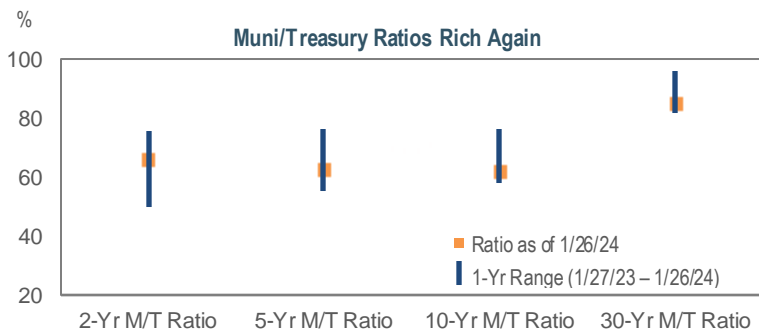


Municipal Market Update

- The market enjoyed a brief period of cheap Muni/Treasury ratios in the third quarter before ratios richened substantially in 4Q23. Muni and Treasury yields both peaked in October 2023 before the strongest two-month rally in over 40 years closed out the year. The rally brought investment grade muni returns up to +6.4% for 2023, despite lackluster results for most of the year.
- Market consensus is that ratios will remain rich for the majority of 2024, particularly in the short end of the curve, where demand for SMA assets exhibits a downward pressure on rates.



- The municipal AAA yield curve remains slightly inverted.
- Municipal issuance was \$376 billion in 2023, 4% below that of 2022 amid a backdrop of negative, but improving, fund flows. Taxable municipal issuance continued to remain suppressed due to higher rates, totaling \$37 billion for the year.
- Muni credit spreads widened in 4Q23 as the economy downshifted.
- In 4Q23, taxable municipals' excess returns underperformed those of corporates and CMBS but outperformed those of non-corps.

	Taxable Munis	Long Taxable Munis	Corps	Non-Corps	CMBS
4Q23 Excess Returns (%)	0.57	0.69	2.03	0.38	0.68

- In 4Q23, municipal yields decreased 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	3.03	2.78	2.73	2.76	3.41	4.18	4.32
AA	3.05	2.81	2.75	2.81	3.43	4.13	4.41
A	3.39	3.17	3.15	3.19	3.67	4.36	4.55
BBB+	3.89	3.73	3.73	3.76	4.18	4.71	4.98

Economic Environment

- The Federal Reserve (Fed) pivoted to a dovish posture in November, causing the market to focus on the timing of rate cuts. At its December meeting, the Fed maintained its policy rate in the 5.25%-5.5% range, suggesting three quarter-point cuts in 2024, which are below the market's expectation of six quarter-point cuts.
- Inflation rose slightly y/y to 3.4% in December, but core CPI continued to ease at 3.9% y/y for the month. While still elevated compared to the Fed's target, it was the first time Core CPI clocked in below 4% in two and a half years.
- All eyes are on the next FOMC meeting at the end of January. While we expect the Fed to hold rates constant later this month, the meeting could offer additional information about future cuts and their timing.

Municipal Credit Perspective

- Muni credit fundamentals remain resilient, with upgrades generally outpacing downgrades. Munis have enjoyed historically low defaults and stability versus corporates in previous recessionary periods.
- Notable rating actions in 4Q23 include:
 - State of OH's upgrade to Aaa by Moody's
 - Commonwealth of PA's upgrade to AA by Fitch
 - City of Chicago's upgrade to BBB+ by Fitch
 - District of Columbia's outlook revision to negative by Moody's
 - Denver International Airport's outlook revision to positive by Fitch
 - Memorial Sloan Kettering, NY's outlook revision to stable by Moody's

Sources: All above data is from Bloomberg as of 12/31/23, unless otherwise noted. Investment grade municipal returns and Index Yield Tracker data are both from Bloomberg's Municipal Bond Index. Issuance data retrieved from Barclays and SIFMA as of 1/3/24. Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries. The issuers listed are those IR+M deems to be most meaningful during January 2024. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from IR+M. "Bloomberg" and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by IR+M. Bloomberg is not affiliated with IR+M, and Bloomberg does not approve, endorse, review, or recommend the products described herein. Bloomberg does not guarantee the timeliness, accuracy, or completeness of any data or information relating to any IR+M product.

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