Market Review and Update

Overview

Throughout the second quarter of 2025 the municipal market has seen exceptionally high bond issuance volume, and a stabilization of taxable and tax-exempt rates at a slightly elevated level following April tariff announcements and resultant volatility. At its last meeting in July the FOMC voted to hold rates steady at 4.25-4.50%.

Interest Rates

- **Treasury Rates:** Treasury rates (industry accepted benchmark for taxable bonds) continue to be volatile in 2025 as the market reacts to the Trump administration's ongoing tariff negotiations. As of mid-August, bond markets have calmed somewhat. Current long-term Treasury rates are at or close to the highest they have been over the past fifteen years. The 2-year treasury rate is currently 3.77% and the 30-year treasury rate is 4.85%.
- **Municipal Market Rates:** Tax exempt municipal bond rates, as represented by the AAA BVAL rates (benchmark for tax-exempt rates produced by Bloomberg) rose significantly in April in response to tariffs, mirroring the movements in the Treasury market. Since April, they have eased slightly but remain elevated. The 30-year rate is currently at 4.55%.
- **Fed Funds Rate:** The Fed held rates steady in the 4.25% - 4.50% range at the July 2025 meeting. Despite continued pressure from the White House, the FOMC continues to exercise a cautious approach, with a reduction in the monthly cap of US treasury redemption to $5 billion from $25 billion and projections of slower growth and higher core inflation for the year.
- **Municipal Market Supply-Demand Dynamics:** Tax-exempt municipal bond issuance volume remained high in the first half of 2025, with four consecutive months from April through July exceeding $50 billion in issuance volume. This volume was supported by modest inflows into bond funds over the same period.
- **Equity Markets:** After several volatile weeks in early April which saw major indices fluctuate wildly, equity markets have steadily calmed as investors welcomed temporary tariff exemptions. Throughout Q2 major indices steadily climbed back to all-time highs.

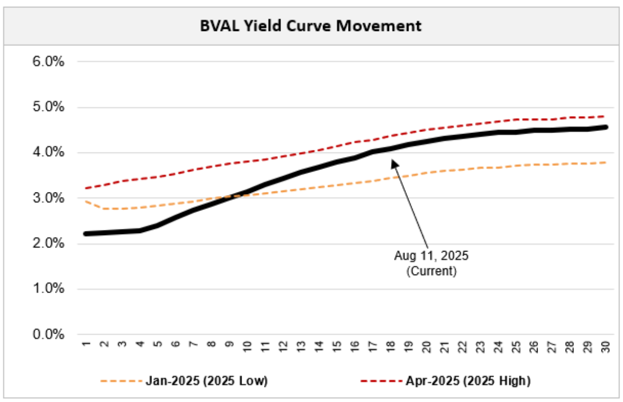
U.S. Economy

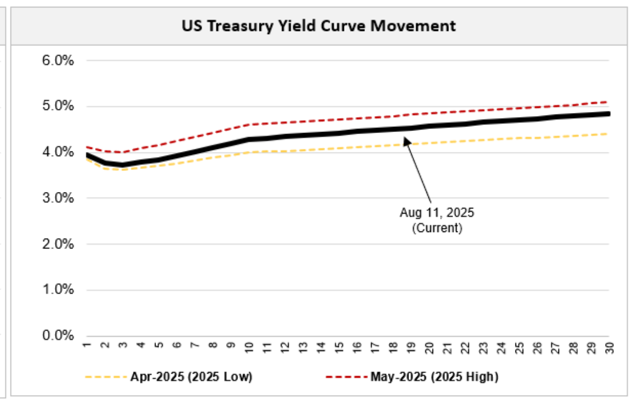
- **Jobs and Unemployment**: Initial Jobless Claims of 224,000 for the week of August 9 is trending favorably compared to June. The unemployment rate rose slightly to 4.2% in July 2025, aligning with market expectations. The results continue to reflect a softening, but still robust, labor market.
- **GDP**: The US economy grew 2% year-on-year in the second quarter of 2025, the same as in the first three months of the year, remaining the weakest performance since Q4 2022.
- **Inflation**: The annual inflation rate accelerated to 2.7% in June, in line with forecasts and the highest level since February. Annual core inflation, which excludes items such as food and energy, increased from 2.8% in May to 3.1% in July, coming in above forecasts.
- **Personal Spending**: As one of the key drivers of the economy, personal spending increased by 0.3% in June 2025, rebounding from a flat reading in May, but falling short of market expectations.
- **Retail Sales:** Retail sales in the US increased 0.9% month-over-month in June 2025 and another 0.5% in July 2025.
- **Manufacturing and Service Data:** The S&P Global U.S. Composite Purchasing Managers Index (PMI) rose to 55.1 in July, up from 52.9 in June and in line with preliminary estimates. A reading above 50 indicates expansion in business activity, vice versa for readings below 50. The growth is primarily driven by the service sector (PMI 55.7). Manufacturing PMI improved slightly to 49.8.
- **Consumer Sentiment**: The University of Michigan's consumer sentiment dropped to 58.6 in August 2025, down from 61.7 in July and well below market expectations of 62. Consumer sentiment fell for

the first time in four months, mainly due to growing inflation concerns and sharply worse buying conditions for durable goods.

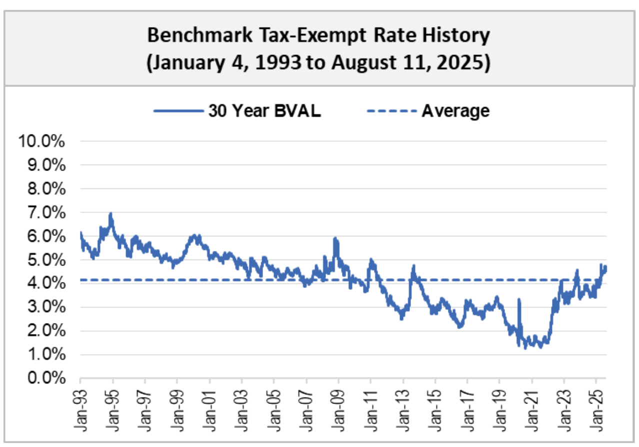
Long-Term Tax-Exempt and Taxable Interest Rates

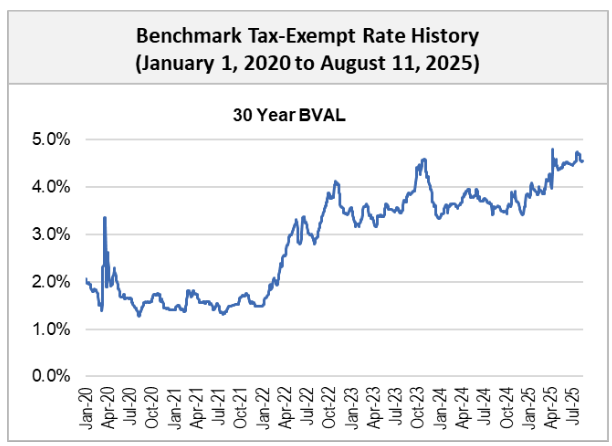
The Bloomberg Valuation Service's (BVAL) AAA yield curve (i.e., the "BVAL AAA" which is a widely accepted benchmark for tax-exempt municipal bond rates) has been very volatile over the course of 2025. The two charts below show the current AAA BVAL yield curve and the current US Treasury yield curve (benchmark of taxable municipal bond rates) in comparison to the lowest and highest rates this year. As seen in the chart, the long-end of the BVAL AAA yield curve is close to peak rates seen in recent history with resumption of tariff headlines, while the short end has declined considerably in line with prior fed rate cuts as well as the expectation of more cuts in the near-future. Treasury rates have also increased, and long-term rates are currently at or close to the highest they have been in 2025. On the short end, the U.S. Treasury curve maintains slight inversion in reaction to a variety of market uncertainties reigniting fears of a recession. In general, the theme of volatility has only been amplified so far in 2025, as investors react to new trade and economic policies of the current administration, as well as periodic releases of economic data.





The current 30-year BVAL AAA bond yield is 4.55%, which is 41 bps higher than its long-term average of



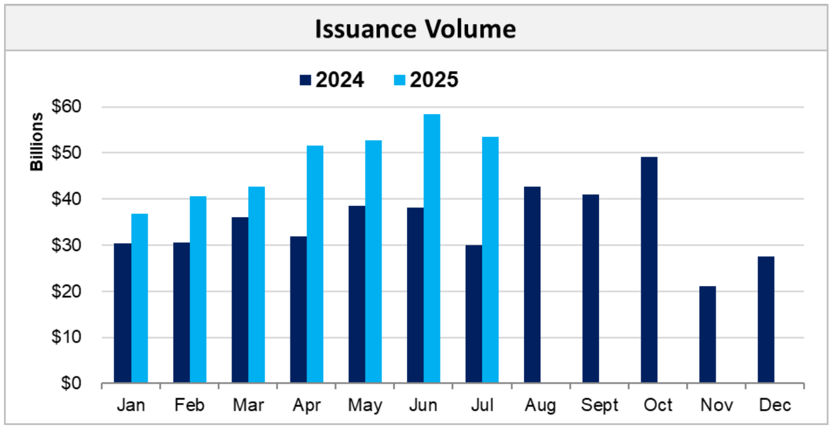


4.14%.

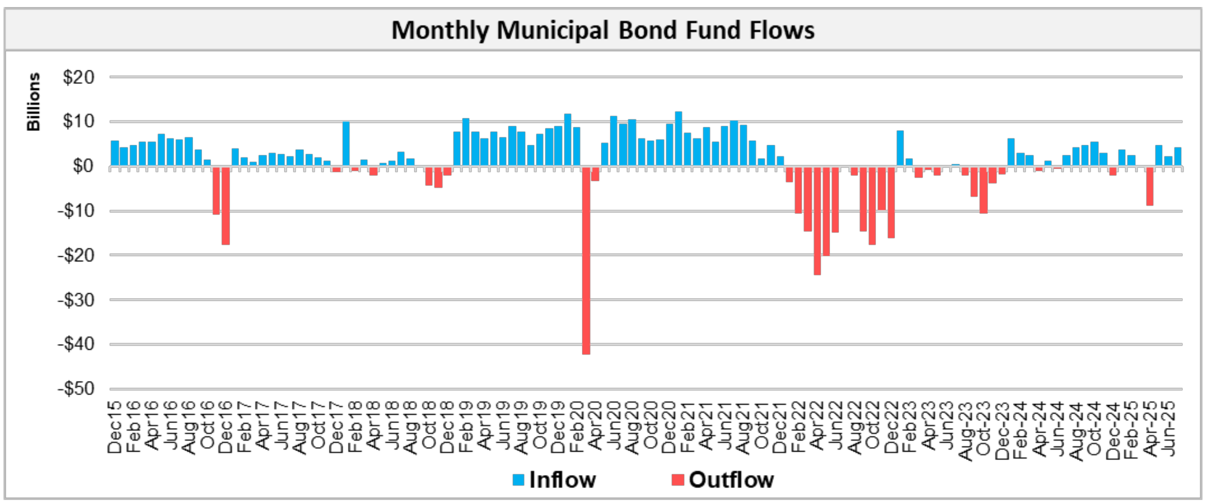
**The 1993-2010 data represents the AAA Municipal Market Data (MMD) data which is also a widely accepted tax-exempt benchmark rate. The 2011-2025 data represents the AAA BVAL rates*

Municipal Market Supply and Demand

2025 has been a strong year for bond issuance thusfar, and recent months have seen issuance level ramp up considerably. Year-to-date issuance volume up 19.1% to $336.3 billion in par issued though July 2025. The months since April have seen record issuance levels, exceeding $50 billion each month through July 2025.



Mutual funds are one of the largest investors in municipal bonds, and the net inflow or net outflow from mutual funds is indicative of demand for municipal bonds. There were outflows from municipal bond funds for the majority of 2022 and 2023 indicating weak investor appetite for municipal bonds owing to a very volatile interest rate environment. Over the past two years the course has changed and there have been modest inflows throughout 2025 year-to-date, indicating an improving appetite for bonds.



Credit Spreads

Mirroring the movements in rates, credit spreads have also been volatile for the last few years since the pandemic. Spreads that had widened significantly in 2022 generally improved over the course of 2025. After a brief and disruptive shock in April, credit spreads have generally improved since the initial tariff announcements.

Interest Rate Forecasts

The Fed kept rates unchanged at 4.25-4.50% after its most recent meeting in July. The Fed dot plot released after the last meeting suggests the Fed continues to favor a "slow pace of interest-rate reductions" in the fast-changing economic and political climate of 2025.

The next table provides an average of interest rate forecasts by industry professionals. These are surveyed and compiled by Bloomberg. The market is forecasting two rate cuts of approximately 0.25% each in 2025. The two-year U.S. Treasury rate is forecasted to fall 0.07% to 3.68% through the end of 2025. The ten-year U.S. Treasury rate is forecasted to rise by 0.03% to 4.29% by end of 2025. The 30-year U.S. Treasury rate is also forecast to fall by 0.09% to 4.74% by end of 2025.

Street's Interest Rate Forecast

Forecast	8/11/25	Q3 25	Q4 25	Q1 26	Q2 26	Q3 26	Q4 26	Q1 27	Q2 27	Q3 27
30-Year UST	4.85 %	4.81 %	4.74 %	4.70 %	4.69 %	4.67 %	4.67 %	4.56 %	4.57 %	4.58 %
10-Year UST	4.29 %	4.33 %	4.29 %	4.25 %	4.22 %	4.19 %	4.16 %	4.08 %	4.08 %	4.08 %
5-Year UST	3.84 %	3.93 %	3.89 %	3.85 %	3.83 %	3.80 %	3.78 %	3.70 %	3.70 %	3.72 %
2-Year UST	3.77 %	3.78 %	3.68 %	3.60 %	3.54 %	3.49 %	3.46 %	3.38 %	3.38 %	3.38 %
3M Secured Overnight Financing Rate	4.23 %	4.17 %	3.96 %	3.76 %	3.61 %	3.48 %	3.39 %	3.40 %	3.36 %	3.37 %
Federal Funds Target Rate Upper Bound	4.50 %	4.35 %	4.07 %	3.88 %	3.69 %	3.55 %	3.45 %	3.28 %	3.28 %	3.27 %
Federal Funds Target Rate Lower Bound	4.25 %	4.10 %	3.82 %	3.63 %	3.44 %	3.30 %	3.20 %	3.03 %	3.03 %	3.02 %