

Municipal Bonds

Positive Technicals and Reduced Tail Risk Support Tax-Exempts

This report is excerpted from the *Third Quarter 2025 Fixed-Income Sector Views*.

Federal austerity measures may challenge municipal budget stability.

We expect tax-exempt municipal bonds to outperform as we approach the summer months, driven by positive technical factors and diminished tail risk concerning changes to their tax-exempt status. While long-end municipal bonds have underperformed relative to shorter maturities, we think the current steep yield curve presents opportunities for investors to extend duration. This environment may offer attractive entry points for those seeking the potential for enhanced returns in the municipal bond market.

Sector Commentary

- Tax-exempt municipal bonds ended the second quarter with a -0.1 percent total return. Initial weak technicals improved as large principal and interest payments absorbed elevated supply, while reduced risk of tax exempt status changes bolstered buyer confidence. Front-end tenors outperformed the long end, driven by separately managed accounts, leading to a decline in muni/Treasury yield ratios.
- New money deals jumped 29 percent year over year to \$195 billion, contributing to record primary volumes in 2025. High principal and interest payments through August are expected to continue mitigating supply/demand imbalances.
- Taxable municipal spreads remained mostly unchanged, underperforming investment-grade corporate bond spreads. Static spreads led to a 0.8 percent total return as Treasury rates declined. Year-to-date issuance remains anemic at \$18 billion, a 3 percent increase over the same period in 2024.

Investment Themes

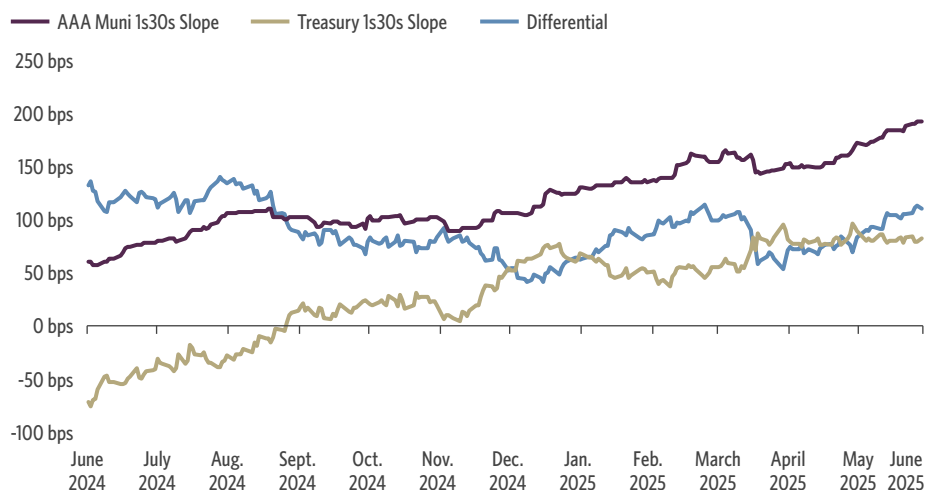
- The municipal yield curve has steepened to 211 basis points, its widest in 12 months, due to front-end tenor outperformance and reduced retail demand for long bonds. This presents an opportunity to add duration with attractive tax-exempt long bonds.
- Tax-exempt bonds avoided severe tail risk as budget bills from both the House and Senate did not alter the tax exemption. However, proposed federal austerity measures may pressure municipal budgets, forcing them to either draw reserves or cut benefits.
- States that have reduced personal income taxes since 2021 may face greater budget-balancing challenges than those that maintained tax levels, as they navigate the fiscal pressures from federal austerity measures.

By Allen Li and Michael Park

The municipal yield curve has steepened to 211 basis points, its widest in 12 months, due to front-end tenor outperformance and reduced retail demand for long bonds. This presents an opportunity to add duration with attractive tax-exempt long bonds.

Steep Yield Curve Presents Opportunities for Investors to Extend Duration

1s30s Slopes: AAA Muni vs Treasury



Source: Guggenheim Investments, Municipal Market Monitor. Data as of 6.30.2025.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

One **basis point** is equal to 0.01%.

This material contains opinions of the authors, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward-looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information.

Investing involves risk, including the possible loss of principal. In general, the value of a fixed-income security falls when interest rates rise and rises when interest rates fall. Longer term bonds are more sensitive to interest rate changes and subject to greater volatility than those with shorter maturities. During periods of declining rates, the interest rates on floating rate securities generally reset downward and their value is unlikely to rise to the same extent as comparable fixed rate securities. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Investors in asset-backed securities, including mortgage-backed securities and collateralized loan obligations ("CLOs"), generally receive payments that are part interest and part return of principal. These payments may vary based on the rate loans are repaid. Some asset-backed securities may have structures that make their reaction to interest rates and other factors difficult to predict, making their prices volatile and they are subject to liquidity and valuation risk. CLOs bear similar risks to investing in loans directly, such as credit, interest rate, counterparty, prepayment, liquidity, and valuation risks. Loans are often below investment grade, may be unrated, and typically offer a fixed or floating interest rate.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Corporate Funding, LLC, Guggenheim Wealth Solutions, LLC, Guggenheim Partners Europe Limited, Guggenheim Partners Japan Limited, GS GAMMA Advisors, LLC, and Guggenheim Private Investments, LLC.

Not FDIC insured. Not bank guaranteed. May lose value.

© 2025, Guggenheim Partners, LLC. All Rights Reserved. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Guggenheim Partners, LLC. GPIM 65519