



CIM - Muni Market Performance Resurgent

October 2025

- Muni tax loss harvesting and opportunity to deliver tax alpha in the first 9 months was successful for our clients, as CIM has delivered over 0.30%, 30 basis points of tax alpha year-to-date. *
- The positive narrative shift and constructive outlook for the municipal bond market has resulted in the best total return for October in over 30 years.
- The scale of the opportunity in longer duration municipal bonds persists, as munis with longer maturities remain one to two z-scores/standard deviations cheap to corporates, indicating the scale of the opportunity for municipal bonds to continue outperforming.
- As we expected, the Fed has resumed cutting interest rates due to considerable weakening in the labor market and subdued inflation, despite tariff effects.
- Investors with large exposures to passive, short duration bonds and preferred savings are likely to experience significantly reduced cash flow, as short-term rates fall further and reinvestment opportunities dwindle.
- Munis continue to offer some of the highest returns, on an after-tax basis from an income perspective, compared to other fixed income alternatives.
- Our strategies, with an average credit quality of AA/A, are targeting taxable equivalent yields of 7% to over 8%, assuming an individual is in the highest tax bracket and a resident of high tax states like NY or CA.** Broader municipal sector credit fundamentals remain resilient notwithstanding a slowdown in the economy.
- Municipal bond defaults are rare and sector default rates are strikingly lower than their corporate peers.
- Expected further declines in CPI in 2026, as base effects of tariffs fade, appear not to be priced into fixed income markets.
- Technical conditions have historically had an outsized impact on municipal bond returns. Muni technicals have turned significantly positive in recent weeks as demand, in the form of asset class inflows into municipal bond mutual funds, have accelerated since September as supply has fallen by over 58% since 10/16/25.

Important Disclosure Information

*CIM defines Tax Alpha as the potential value created through tax-loss harvesting techniques that fully offset a capital gain and is derived by calculating the composite capital losses divided by the average composite assets and multiplied by the maximum capital gains tax rate of 23.8% (20% plus 3.8% Net Investment Income Tax), for any stated period. Tax-loss harvesting is any transaction resulting in a capital loss. Although realized capital losses can potentially offset capital gains, reduce taxes paid, and enhance after-tax returns, individual results will vary dependent upon an investor's actual tax rates, the presence of current or future capital loss carry forwards, and other investor specific tax circumstances. Tax-loss harvesting may not achieve actual value creation.

**The taxable equivalent yield represents the yield that must be earned on a fully taxable investment in order to equal the tax-exempt yield of the composite. The taxable equivalent yield is calculated by dividing the tax-exempt yield by 1- the maximum federal income tax rate of 40.8% (37% federal + 3.8% NII tax). For CA the calculation includes the addition of a maximum state tax rate of 13.30%. For NY the calculation includes the addition of a maximum state tax rate of 9.65% applicable to a single filer in the taxable income bracket between \$1,077,551 and \$5,000,000.

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