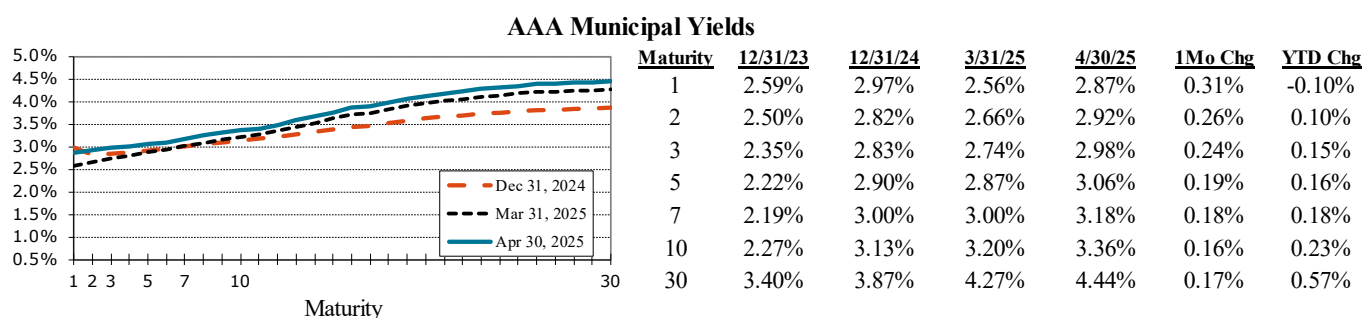


Baird Advisors
Municipal Fixed Income Market Commentary
April 2025

Municipal Yields Rise - Extreme Intra-Month Volatility in April

April was a volatile month in which aggressive tariff hikes were announced, and tax-exempt yields rose with a curve flattening bias; short-term rates rose more than long-term. Yet, the month over month yield changes mask the extreme intra-month/daily rate movements. Over five successive trading days (April 7th – 11th), the 10yr AAA yield adjusted by +34, +23, +30, -48 and +25 bps, respectively – extreme volatility for the tax-exempt market. Still, the 10yr AAA yield finished the month at 3.36%, up just 16 bps and +23 bps YTD. The unique municipal factors causing the volatility were: record new supply, April tax payment selling pressures, the growing influence of municipal ETFs leading to heavy intra-day buying/selling of securities, and lingering tax policy uncertainty. In April, municipal funds/ETFs experienced a total of \$3B of net outflows, while YTD net flows of \$6.7B remain positive. Even with the volatility, \$53B of municipal debt was issued, a new high for the month of April; YTD issuance is \$173B, 18% ahead of last year's record pace. With this backdrop, municipals underperformed Treasuries across all maturities, which improved the relative value of the sector. For example, the AAA municipal/Treasury yield ratio, a standard cross-market valuation metric, ended April at 80% for short/intermediate maturities and 95% for long-term yields; the highest ratios since late-2022. We expect a more favorable market tone over the summer months as reinvestment needs from maturities/calls and coupon payments reach the highest level of the year.



Uncertain Tariff Impact on Municipal Credits

Although President Trump has implemented a 90-day moratorium on the tariff increases announced in early-April, allowing time for negotiations with individual countries, higher U.S. tariff rates seem likely. The municipal credits most directly affected by higher tariffs would be U.S. ports, a relatively small municipal category with just \$20B of debt outstanding. Higher tariffs on China, which seem the most likely to stick, would likely decrease cargo volume to the west coast ports. But broadly higher tariff rates on other trading partners could negatively impact other U.S. ports as well. Port revenues vary, with some solely dependent upon cargo volume, others are primarily tied to shipping rates and a few receive state and/or local subsidies for support. Beyond the U.S. ports, shifting tariff and trading patterns could also impact select state revenues, depending on the volume of global trade that occurs. A recent analysis from Barclays Research identified states with the highest level of imports and exports as a percentage of state GDP and found the top five were: Kentucky, Louisiana, Michigan, Indiana and Texas. While it is too soon to know what the outcome of the tariff negotiations will bring and, therefore, too soon to draw any meaningful conclusions regarding specific municipal credits, it will be important to monitor trading patterns and how port and state revenues will be impacted.

Negative Returns in April, Mixed Returns YTD

Rising yields led to negative returns for the month across the municipal market. Shorter maturities outperformed longer maturities, however, even as the curve flattened, and short maturities were the only segment with a positive return YTD. Higher-quality issues outperformed lower-quality for the month and AAAs outperformed BBBs YTD. From a sector perspective, Prerefunded issues, given their shorter average duration, outperformed other sectors for the month and YTD.

Total Returns of Selected Barclays Municipal Indices and Subsectors

<u>Bloomberg Index/Sector</u>	<u>April</u>	<u>YTD</u>	<u>Duration</u>	<u>Bloomberg Quality</u>	<u>April</u>	<u>YTD</u>	<u>Duration</u>
Municipal Bond Index	-0.81%	-1.03%	6.55	AAA	-0.63%	-0.96%	6.72
General Obligation bonds	-0.69%	-0.97%	6.22	AA	-0.74%	-1.04%	6.42
Revenue bonds	-0.86%	-1.07%	6.75	A	-0.98%	-1.01%	6.52
Prerefunded bonds	-0.47%	0.44%	2.36	BBB	-1.30%	-1.16%	7.42
Long maturities (22+ yrs.)	-1.27%	-2.72%	10.55	High Yield	-1.78%	-0.98%	7.25
Intermediate maturities (1 - 17 yrs.)	-0.62%	-0.23%	4.92	HY, ex-Puerto Rico	-1.50%	-0.64%	7.15
Short maturities (1 - 5 yrs.)	-0.36%	0.64%	2.32				

Disclosures

Fixed income is generally considered to be a more conservative investment than stocks, but bonds and other fixed income investments still carry a variety of risks such as interest rate risk, credit risk, inflation risk, and liquidity risk. In a rising interest rate environment, the value of fixed-income securities generally decline and conversely, in a falling interest rate environment, the value of fixed-income securities generally increase. High yield securities may be subject to heightened market, interest rate or credit risk and should not be purchased solely because of the stated yield.

The Bloomberg Municipal Bond Index is a broad-based, total-return index. The bonds are all investment-grade, tax-exempt, and fixed-rate securities with long-term maturities (greater than 2 years). They are selected from issues larger than \$50 million. The components listed below the Municipal Bond Index (long maturities, intermediate maturities, short maturities, prefunded bonds, general obligation bonds and revenue bonds) are subsectors of the Bloomberg Municipal Bond Index and do not represent separate indices.

The Bloomberg High Yield Municipal Index includes bonds with a par value of at least \$3 million and must be issued as part of a transaction of at least \$20 million. The maximum rating for inclusion is Ba1/BB+/BB+ using the middle rating.

For more information about the Bloomberg Municipal Bond Index or Bloomberg High Yield Municipal Index, please visit https://index.barcap.com/Home/Guides_and_Factsheets.

Municipal securities investments are not appropriate for all investors, especially those taxed at lower rates. The alternative minimum tax (AMT) may be applicable, even for securities identified as tax exempt. Past performance is not a guarantee of future results.

Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest). Investment grade investments are those rated from highest down to BBB- or Baa3.

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