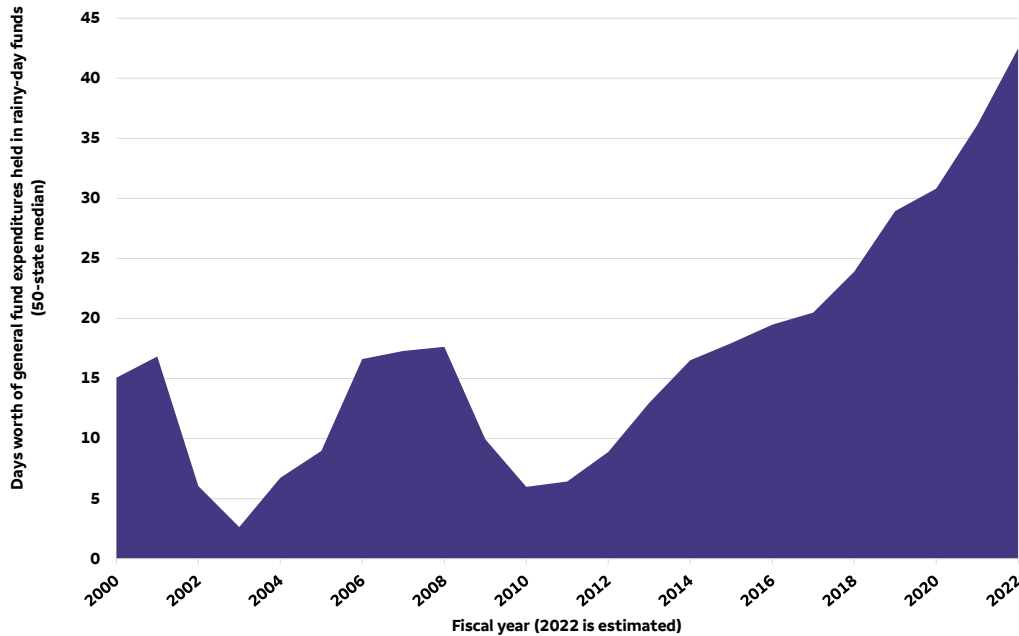


Muni bonds — A potentially attractive entry point



Sources: The Pew Charitable Trusts, the National Association of State Budget Officers, and Wells Fargo Investment Institute. Annual data, 2000 – 2022. Data as of October 18, 2022.

States' rainy-day funds are poised to cushion budget strains in the near term

States held a record \$134.5 billion in rainy-day funds during the past fiscal year, according to the National Association of State Budget Officers. The chart shows that states held 42.5 days' worth of general fund expenditures at the end of 2022, the highest level of budgetary cushion this century.

We believe elevated reserve funds should leave state and local governments equipped to weather our forecasted economic downturn. Municipal bond defaults remain a low probability, in our view, but trading volatility could increase for some lower-quality municipal issuers.

What it may mean for investors

We reiterate our favorable rating on municipal bonds due to a positive supply-demand backdrop, federal infrastructure spending, and lingering support from pandemic relief packages. We view absolute yields on municipal bonds as attractive compared with pre-pandemic levels.

We believe higher-income investors can benefit from the tax advantage provided by most municipal bonds. The period leading up to the April 18 tax-filing deadline could potentially constitute an attractive entry point, as some investors tend to sell municipal bonds this time of year to fund tax liabilities.

This chart was excerpted from *Policy, Politics & Portfolios* (March 28, 2023), "The state of state and local finances."

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

Risk Considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. **High yield (junk) bonds** have lower credit ratings and are subject to greater risk of default and greater principal risk. **Municipal bonds** offer interest payments exempt from federal taxes, and potentially state and local income taxes. Municipal bonds are subject to credit risk and potentially the Alternative Minimum Tax (AMT). Quality varies widely depending on the specific issuer. Municipal securities are also subject to legislative and regulatory risk which is the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

General Disclosures

Global Investment Strategy (GIS) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Investment Strategy. Opinions represent GIS' opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GIS does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company. CAR-0423-00606