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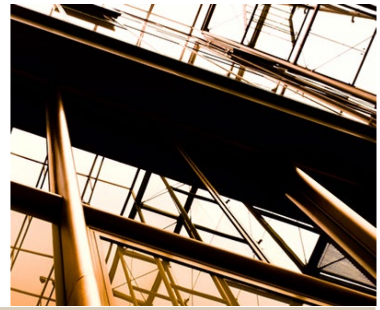
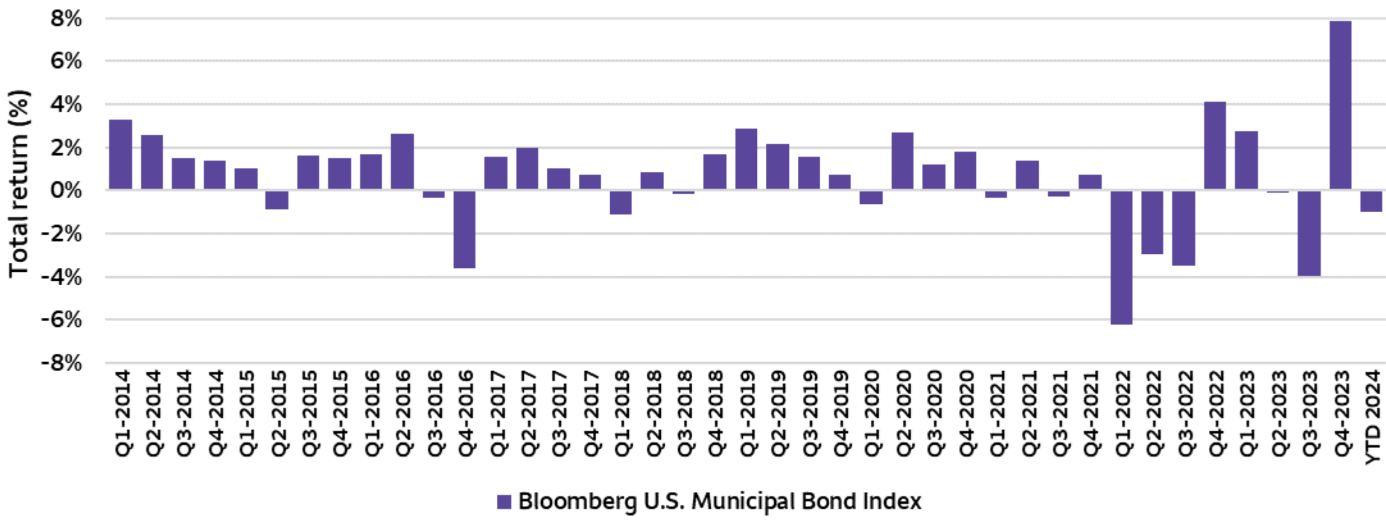


Chart of the Week

Weekly market analysis on key market indexes **January 30, 2024**

Muni market starts year slow after hitting record highs



Sources: Bloomberg, Wells Fargo Investment Institute. Data from January 1, 2014 through January 19, 2024. YTD 2024 = year to date through January 19, 2024. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

First-quarter pullback could offer an attractive entry point for investors

The municipal bond market saw its best quarter of performance in the past 10 years during the fourth quarter of 2023 by a wide margin, shown in the chart above. The Bloomberg U.S. Municipal Bond Index returned 7.9%, nearly double the next-highest returning quarter during the period and well above the 10-year average of 0.8%. This has, however, given way to a slow start in the new year, with year-to-date returns through January 19 falling to -1.01%.

The pullback aligns with historical patterns as municipal bond returns have often seen first-quarter declines — over the past 10 years, returns have averaged 0.5% during the first quarter compared to 1.7% during the fourth quarter. This trend is driven primarily by increased supply as new issuance typically falls during the fourth quarter before picking back up in the new year. Ultimately, we expect that the resulting lower returns could translate to lower prices for investors.

What it may mean for investors

We think a pullback in municipal bond prices would offer an attractive entry point for investors. We remain favorable on U.S. Municipal Bonds, especially as they have historically been resilient during economic slowdowns. In our view, the short and intermediate portions of the curve offer attractive value while mitigating duration risk (duration is a measure of interest rate sensitivity). We continue to prefer A-rated or higher general obligation bonds in the traditional tax-free sector. Compared with the broader municipal market, we believe general obligation bonds have the potential to offer an attractive opportunity for strong performance in 2024.

Dorian Jamison; *Municipal Analyst*

Excerpted from *Quarterly Municipal Market Update (January 25)*

Risk Considerations

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. **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.

Definitions

Bloomberg U.S. Municipal Bond Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

An index is unmanaged and not available for direct investment.

Investment Grade bonds - A rating that indicates that a municipal or corporate bond has a relatively low risk of default. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as "junk bonds".

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