Seelaus Asset Management
Municipal Bond Market Commentary
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2025: A Year For Shaking Things Off…So Far

If there were prizes given to individual years where financial markets repeatedly shake off a litany of shocks and unusual news events, 2025 would be a worthy recipient, perhaps earning a place toward the top of the all-time list. And that is just in 2025's first six months. Consider for a moment what stock and bond markets have had to digest in the first half of 2025:

- A full-throated attempt to remake the established international trade order through dramatic increases in tariff rates.
- A tax and budget bill that by many estimates appears to add meaningfully to the Federal budget deficit.
- National guard troops policing protests in our second largest city.
- Ongoing geo-political eruptions in Ukraine, Gaza, and now Iran (including the unprecedented use of American air power against specific nuclear targets).

Though not exhaustive, the list above is an impressive plate of morsels to digest for any market.

Not only has the muni market had to respond to the above, but it's also had to manage persistent talk earlier in the year about modifying or eliminating the municipal bond tax exemption. It is no wonder municipal bonds have reacted sharply to all these serial eruptions. For example, in a turbulent one-month period from the end of March to the end of April, 10-year high grade muni bond yields moved from 3.26% to 2.95% and then rose up to 3.82% before they settled back down to 3.35%.

And yet, here we are in early July only to find stock markets quite close to or somewhat higher than previous 2025 highs. On the bond side of things, ten-year Treasury bond yields are currently at 4.35%, not terribly far from the early January level of 4.56%. The ability of markets so far this year to shake things off and demonstrate bounce-back resilience has been remarkable indeed.

There are various supportive factors contributing to financial market resilience in 2025:

- A steady, patient Federal Reserve policy has provided a consistent, no-surprises kind of contrast to the tumultuous news cycle.
- Looking through the noise at data on economic growth, inflation, and the labor markets, there have been few surprises (some weakness here, some strength there) with no dramatic new trends established.
- Markets have also been supported by investors' apparent reluctance to cast aside a buy-on-the-dip mentality which has served them well in recent years.
- With such a steady stream of shocks flooding the zone, weary markets in May and June seemed determined to cut through the fog and eventually focus on likely probabilities instead of initial headlines.

For the municipal bond market, one result of all the stresses outlined above has been a certain skittishness and a desire throughout May and June to reduce volatility by crowding into the one-to-five-year maturity space. The strength of that movement has resulted in a decline of 39 basis points for two-year high-grade muni yields since May 1. Echoing that move, five-year muni yields have tumbled 41 basis points. In contrast, ten-year muni yields have declined just 14 basis points since May 1st. Overall, the municipal bond market has been supported by strong fundamentals and a reduction in the concern about the tax-exemption going away. Supply has been above average but has been absorbed without incident given the strong demand for muni bonds in May, June, and throughout July so far. This was evident in a sizable bounce back in demand from March and April's net negative numbers on muni bond ETF and Fund flows.

We can not know of course if financial market resilience will continue in the same way it has so far this year. Any changes in the factors supporting market resilience outlined above could be early indicators of a change in the market's ability to bounce back. The tariff issue, in its previously-stated most draconian form, remains a scenario that would surely test the market's resilience again.

In the past two months, we have focused much of our muni bond investment in the 1-7 year maturity range, seeking to limit potential volatility and also to balance out the 8-15 year range we had previously filled. Going forward, we believe an increased focus on the 8-15 year part of the intermediate yield curve could reap benefits as the shorter end becomes more fully priced, and the longer part of the intermediate space likely plays catch up from a total return perspective.

In these volatile times, we continue to believe in the long-term effectiveness of seeking to capture value and spread at various points of the short/intermediate yield curve and at various points in the interest rate cycle. Tracking every 2025 tax-exempt muni bond purchase we have made for our clients in our intermediate muni bond strategy through 7/8/2025, we have captured an average yield to call of 98 basis points and an average yield to maturity of 109 basis points above similar maturity, standard high-grade triple A muni bond scales. All bond purchases were investment grade rated with maturities of 15 years and under, an average rating of single A, an average maturity of 8 years, and an average call of 3 years.

Currently, single A-rated municipal bonds in the attractive 8 to 15-year range offer yields of 3.70% to 4.30% tax-free, or a 5.87% to 6.82% taxable equivalent yield for top tax bracket investors. We continue, as always, to use careful judgment on the pace at which we invest cash. We remain committed to our dogged and judicious search for value in the investment grade, intermediate maturity space of the municipal bond market.

Tom Dalpiaz, Portfolio Manager – Municipal Bonds

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To be a best-in-class asset manager that leads with value in a client driven, partnership model.

Our Values

- *Innovative*
- *Diverse Perspective*
- *Impactful*
- *Authentic*

Our Mission

To be an agent for change in the finance industry by demonstrating a straight line between the support we receive as a women-owned firm and the support we provide to women in the industry and in the community.

To learn more about our investment offerings, please call 212-935-0755, email ir@seelausam.com or visit https://www.rseelaus.com/asset-management/

26 Main Street, Suite 304, Chatham, NJ 07928

Tel: 212-935-0755   Fax 888-901-4201

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