Goldman Sachs Asset Management

MUNICIPAL FIXED INCOME

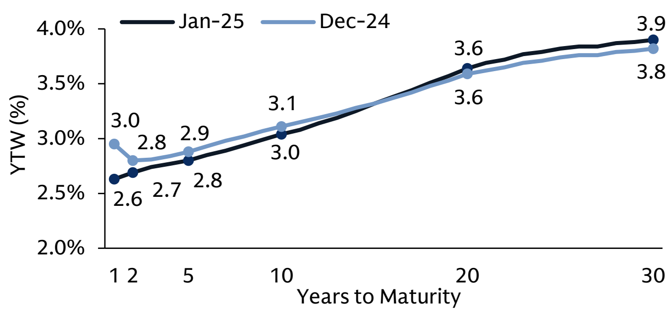
A Choppy Start to the Year

Municipal Yield Curve: Yields Mainly Moved Lower: January was a volatile month for fixed income yields. The 10-year Treasury yield steadily rose during the first few weeks of the month before reaching its highest level in more than a year after stronger than expected non-farm payroll data. However, yields subsequently fell during the final two weeks of the month with below consensus inflation readings serving as the primary catalyst. Municipals were not immune to this broader volatility but were able to finish the month on a positive note with yields largely lower. Outperformance was driven in part by a slowdown in new issue supply during the final two weeks of the month.

Muni Index Performance: Positive Returns: The Bloomberg Muni Index returned 0.50% in January —its first positive January in two years, while the Bloomberg Muni High Yield Index returned 0.76%, also its first positive January since 2023. Bonds with maturities in the 7-to-10-year range exhibited the most favorable relative returns, whereas those with maturities of 22 years and longer underperformed. Within investment grade rating categories, lower-rated credits (A-BBB) outperformed higher-rated credits (AAA-AA).

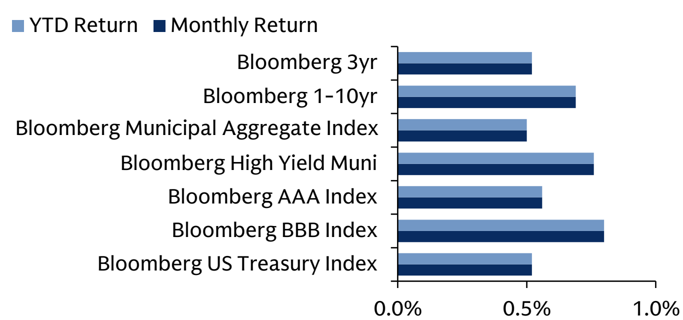
Valuations: Running Low Muni yields were lower by 10bps on average across the curve versus UST yields which went lower by 2bps on average. The muni yield curve steepened by 22bps, and as of January 31, 2025, the difference between 1yr and 30yr maturity munis stands at 131bps. Muni/UST ratios were lower across the shorter end of the yield curve as munis outperformed UST. 2-5yr ratios fell 1-2%, while longer maturity ratios were mixed. Ratios ended January at 66/68/81% respectively for 5/10/30 years.

Municipal Yield Curve: Yields Mainly Moved Lower



Source: Goldman Sachs Asset Management. Bloomberg

Muni Index Performance: Positive Returns



Source: Goldman Sachs Asset Management. Bloomberg

Valuations: Running Low

	AAA Muni Yields	Monthly Yield Δ	UST Yields	Monthly Yield Δ	Ratios	Ratios Δ
2 Year	2.69	-11 bps	4.20	-4 bps	64%	-2%
5 Year	2.80	-8 bps	4.33	-5 bps	65%	-1%
10 Year	3.04	-7 bps	4.54	-3 bps	67%	-1%
30 Year	3.9	-8 bps	4.79	+1 bps	81%	2%

Source: Goldman Sachs Asset Management. Bloomberg

Credit Research Spotlight

Wildfires: Large wildfires started in the Los Angeles area in early January with high winds leading to significant growth and slower containment. The total amount of damage is still not known, but it is expected that the two largest fires (Palisades and Eaton) will be the costliest fires in US history. We continue to monitor any potential credit impact but have seen limited rating action and believe in the long-term strength of municipal credits.

Federal Grants: At the end of January, the White House OMB announced a pause on federal grants. They later rescinded the proposal but are expected to make some more targeted changes in the future. We continue to review potential credit impacts and will be closely monitoring upcoming policy changes.

Source: Goldman Sachs Asset Management as of January 31, 2025. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document. **Past performance does not predict future returns and does not guarantee future results, which may vary.**

Muni Musings

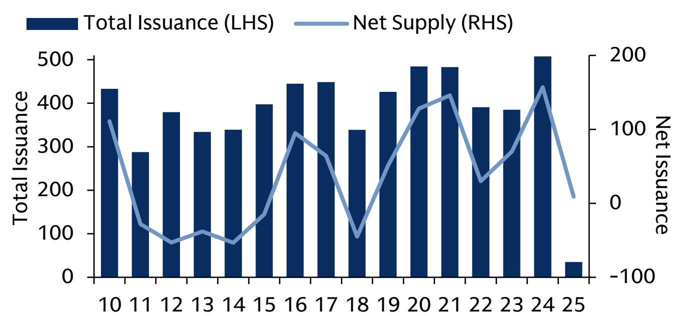
Supply/Demand: Market expectations are for supply to hit close to record levels this year. We may see front-loaded supply again this year as headlines surrounding legislative uncertainty around tax policy increases. Demand for municipals will likely remain positive, particularly if yields continue to be elevated and are above short-term instruments on a tax equivalent yield basis.

Valuations: Most maturities along the yield curve are at their average valuation range versus recent history. Attractive absolute yields and stable credit fundamentals should continue to support munis trading at the tighter end of historical valuations.

Credit and Spreads: Boosted by healthy reserve balances, investment grade issuers remain on solid footing. This strong starting point may provide a needed cushion given a normalization in both revenues and federal aid. Credit spreads are fair after significant outperformance versus high grades. We believe investors should be ready to opportunistically add risk during market volatility.

Supply: Starting The Year Strong

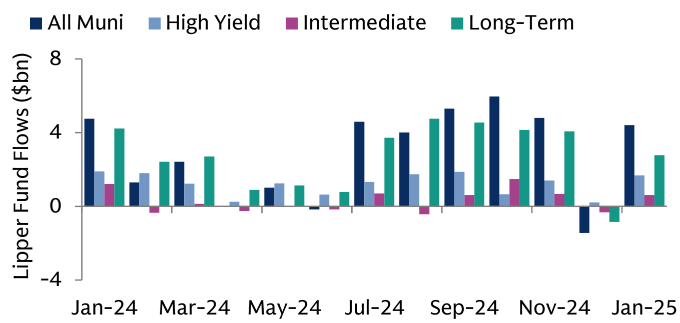
January new issue supply amounted to ~$35 billion ($33 billion tax-exempt and $2 billion taxable). This was 11% higher than January 2024, and above last month's volumes. The busy start to the year was driven by deals for new projects, while refinancing activity was more muted. The transportation sector was particularly busy as airports and toll road issuers brought large deals to the market.



Source: Goldman Sachs Asset Management. The Bond Buyer, Barclays

Demand: Mostly Positive Flows

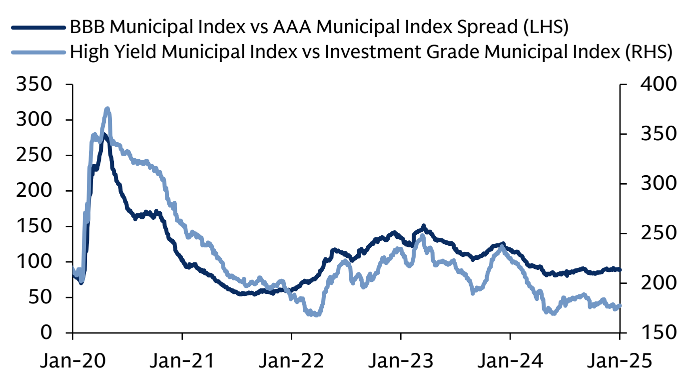
Municipals enjoyed mostly positive inflows throughout the month with each week seeing an average of $840 million into the asset class from those funds that report weekly. The pace of inflows was choppy however — there was one week with +$2 billion of inflows, while another had +$250 million of outflows. What remained consistent was that long-term and high yield funds garnered most of the inflows. Municipal fund inflows totaled $4.4 billion for the month. Mutual Funds and ETFs saw almost identical flows in aggregate for the month.



Source: Goldman Sachs Asset Management. Refinitiv

Spreads: High Yield & BBB Slightly Tighter

BBB spreads tightened, or decreased, by 1bp and ended the month at 88bps, while high yield muni spreads decreased by 1bps to close at 177bps. Within the high yield segment of the muni market, 15-year maturity securities outperformed, while 20-year maturities underperformed. Tobacco and transportation sectors had the best relative returns for the month versus electric and education credits which underperformed. The tobacco sector was a notable outperformer as it was helped in part by the withdrawal of the menthol cigarette ban which was seen as a positive for the sector. In general, the market views that there may be less regulatory hurdles for the sector going forward. In 2024, the sector was a notable laggard within the high yield municipal market.



Source: Goldman Sachs Asset Management. Bloomberg

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GLOSSARY

Bps/ basis point is 1/100th of a percent

Municipal/Treasury ratio is a comparison of the current yield of Municipal bond to US treasuries. It aims to measure whether or not Municipal bonds are an attractive investment in comparison.

Option adjusted duration is a measure of the sensitivity of a bond's price to interest rate changes, assuming that the expected cash flows of the bond may change with interest rates.

Yield to worst is calculated by making worst-case scenario assumptions (excluding issuer default) on the bond by calculating the returns that would be received if provisions, including prepayment, call, put, and sinking fund, are used by the issuer. YTW may be the same as YTM, but never higher. YTW does not represent the performance yield for the Fund.

Taxable equivalent yield is the return that is required on a taxable investment to make it equal to the return on a tax-exempt investment.

White House OMB is the Office of Management and Budget.

RISK CONSIDERATIONS

Municipal securities are subject to credit/default risk and interest rate risk and may be more sensitive to adverse economic, business, political, environmental, or other developments if it invests a substantial portion of its assets in the bonds of similar projects or in particular types of municipal securities. While interest earned on municipal securities is generally not subject to federal tax, any interest earned on taxable municipal securities is fully taxable at the federal level and may be subject to tax at the state level.

When interest rates increase, fixed income securities will generally decline in value. Fluctuations in interest rates may also affect the yield and liquidity of fixed income securities.

Investments in fixed income securities are subject to the risks associated with debt securities generally, including credit, liquidity, interest rate, prepayment and extension risk. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. The value of securities with variable and floating interest rates are generally less sensitive to interest rate changes than securities with fixed interest rates. Variable and floating rate securities may decline in value if interest rates do not move as expected. Conversely, variable and floating rate securities will not generally rise in value if market interest rates decline. Credit risk is the risk that an issuer will default on payments of interest and principal. Credit risk is higher when investing in high yield bonds, also known as junk bonds. Prepayment risk is the risk that the issuer of a security may pay off principal more quickly than originally anticipated. Extension risk is the risk that the issuer of a security may pay off principal more slowly than originally anticipated. All fixed income investments may be worth less than their original cost upon redemption or maturity.

GENERAL DISCLOSURES

High-yield, lower-rated securities involve greater price volatility and present greater credit risks than higher-rated fixed income securities.

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Index Benchmarks

Indices are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, as applicable, but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indices.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. The index composition may not reflect the manner in which a portfolio is constructed. While an adviser seeks to design a portfolio which reflects appropriate risk and return features, portfolio characteristics may deviate from those of the benchmark.

The indices referenced herein have been selected because they are well known, easily recognized by investors, and reflect those indices that the Investment Manager believes, in part based on industry practice, provide a suitable benchmark against which to evaluate the investment or broader market described herein.

Portfolios and benchmarks are not rated by an independent ratings agency. Goldman Sachs Asset Management may receive credit quality ratings on the underlying securities of portfolios and their respective benchmarks from the three major rating agencies: Standard & Poor’s, Moody’s and Fitch. Goldman Sachs Asset Management calculates the credit quality breakdown and overall rating for both portfolios and their respective benchmarks according to the client’s preferred method or such other method as selected by Goldman Sachs Asset Management in its sole discretion. The applicable method may differ from the method independently used by benchmark providers. Securities that are not rated by all three agencies are reflected as such in the breakdown. For illustrative purposes, Goldman Sachs Asset Management converts all ratings to the equivalent S&P major rating category when reporting the credit rating breakdown. Ratings and portfolio credit quality may change over time. Unrated securities do not necessarily indicate low quality, and for such securities the investment adviser will evaluate the credit quality.

Municipal 3yr: Bloomberg Municipal 3 Year Index

The Bloomberg Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable Municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark. This index is the 3 Year (2-4) component of the Municipal Bond index.

Municipal 1-10yr Blend: Bloomberg Municipal 1-10 Yr Blend Index

The Bloomberg Municipal Bond 1-10 Year Blend Index is a market value-weighted index which covers the short and intermediate components of the Bloomberg Municipal Bond Index, an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market. The Bloomberg Municipal Bond 1-10 Year Blend Index tracks tax-exempt Municipal General Obligation, Revenue, Insured, and Prerefunded bonds with a minimum $5 million par amount outstanding, issued as part of a transaction of at least $50 million, and with a remaining maturity from 1 up to (but not including) 12 years. The index includes reinvestment of income.

Municipal Aggregate: Bloomberg Aggregate Municipal Index

The Bloomberg Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment- grade. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable Municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark.

Municipal High Yield: Bloomberg High Yield Municipal Index

The Bloomberg Municipal High Yield Bond Index is an unmanaged index made up of bonds that are non-investment grade, unrated, or rated below Ba1 by Moody's Investors Service with a remaining maturity of at least one year. The Index figures do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

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