

JULY 2025

Municipal Markets Back On Track

MFS MUNI INSIGHTS

Following turbulence that peaked in April, the municipal market has shown renewed strength as policy uncertainty has receded, setting the foundation for a positive second half of the year.

Performance has improved

after April losses, underscoring the resiliency of the asset class

Yields are historically high

especially on a tax-equivalent basis versus corporates

Flows have rebounded

highlighting building investor demand for the asset class

Strong fundamentals

are reflected in solid revenues and reserves

Performance

Municipal performance has steadily improved since experiencing its worst week of returns since March 2020. After returning -4% the week of April 7, sentiment has stabilized, with municipals returning +2.50% since April 14¹, driven by the continuation of the municipal tax-exemption; an easing in rate volatility and the deferral of the most severe tariff threats.

Valuations

Municipal yields are historically high, with a yield-to-worst of 3.96%, which is well above the 20-year average of 2.92%. Furthermore, municipal yields can offer a compelling tax-equivalent yield, particularly when compared to investment-grade corporates. Even better, the higher yields come with higher credit quality compared to investment-grade corporates, which can potentially provide better downside mitigation characteristics if the economy slows. Notably, the long end of the municipal yield curve currently offers the most attractive value for investors, given historic levels of steepness. The yield differential between the 10- and 30-year maturity is at a decade high of 131 basis points versus only 54 bps for US Treasuries.

Investment Grade Munis - Yield to Worst



Source: Bloomberg. Weekly data from 1 January 2008 through 30 June 2025. Represented by the Bloomberg Municipal Bond Index. YTW = Yield to Worst. The yield-to-worst is computed by using the lower of either yield-to-maturity or the yield-to-call on every possible call date. The yield-to-worst is a bond's yield-to-maturity under the least desirable bond repayment pattern under the assumption that bond market yields are unchanged.

Technicals

Flows have rebounded with performance following a seven-week stretch of outflows that eased at the end of April. Since that point, net flows for the asset class have been positive for the past 10 weeks, bringing year-to-date net flows to \$9.5 billion.

Fundamentals

Remain in a position of strength. State and local government tax revenues continue to grow at healthy levels year-over-year, with gains across income, property, sales and corporate tax categories. Furthermore, state rainy-day fund reserves remain at historically high levels, credit rating upgrades continue to outpace downgrades and default rates remain low. The solid fundamentals offer financial flexibility and a cushion in the event of unexpected declines in tax revenues or federal funding levels.

Sector Spotlight: Airports

The airport sector has emerged as an opportunity for the MFS municipal team as tax-exempt issuance for the sector has been robust, helping to fund infrastructure upgrades across the United States. Often viewed as an essential service provider, airports favored by MFS® are generally highly rated, with solid passenger volumes, track records of financial stability and robust internal liquidity, which helps provide a cushion to absorb potential recessionary or tariff-related volatility in passenger traffic.

MFS National Municipal Bond Funds

FUNDS	A SHARES	I SHARES
MFS® Municipal Limited Maturity Fund	MTLFX	MTLIX
MFS® Municipal Intermediate Fund	MIUAX	MIUIX
MFS® Municipal Income Fund	MFIAX	MIMIX
MFS® Municipal High Income Fund	MMHYX	MMIIX

Class I shares are available without a sales charge to eligible investors.

¹Based on the Bloomberg Municipal Bond Index as of 6/30/25.

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