WELLS FARGO
Investment Institute

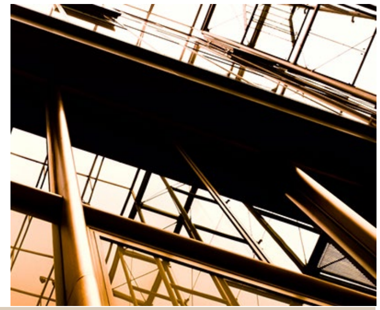
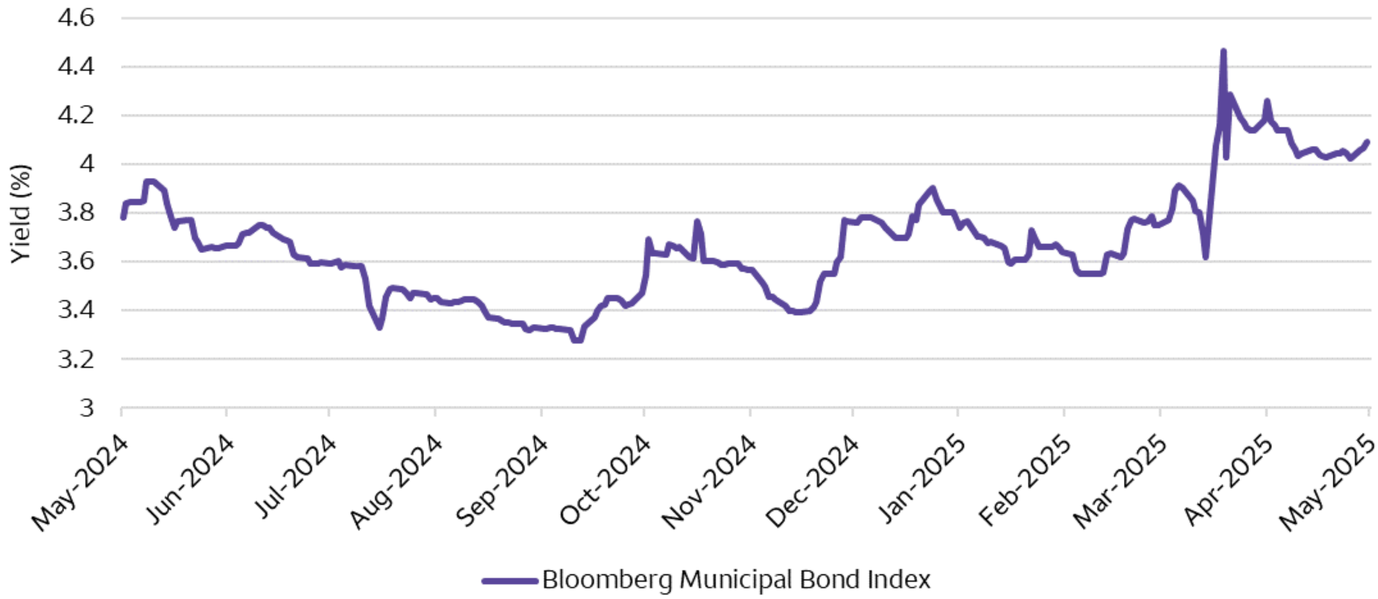


Chart of the Week

Weekly analysis of key themes in markets **May 28, 2025**

Why we see a potential buying opportunity for munis



Sources: Bloomberg and Wells Fargo Investment Institute. Data as of May 21, 2025. Municipal bond yield represented by the Index yield to worst of the Bloomberg Municipal Bond Index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Yields on municipal bonds have spiked since early April and remain elevated

The past several months have seen an increase in reports on the potential for changes to the tax-exempt status of municipal bonds. Budget negotiations in Congress have sparked volatility in municipal-bond markets, as in early April, an advisor to President Donald Trump publicly discussed curtailing the tax-exempt status of municipal bonds.

As shown in the chart above, municipal yields spiked following this commentary, and they remain significantly elevated from the rest of the trailing 12-month period. However, Republican majorities in the House and Senate are both razor thin, meaning any controversial tax changes could withstand little disagreement before being a nonstarter. Even as budget reconciliation discussions have heated up, nothing has verified exemption as a topic of further discussion.

What it may mean for investors

Given our view that there are not significant risks to the tax-exempt status of municipal bonds, we view the recent rise in yields as a buying opportunity. We are favorable on U.S. Municipal Bonds, though we believe that a focus on quality and selectivity remains essential. Investors should undertake meticulous, professional credit research in municipal bonds as a result of this somewhat unwarranted spike in yields.

Tony Miano, CFA; *Investment Strategy Analyst* Excerpted from Investment Strategy report (May 19)

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. **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.

Disclosures

An index is unmanaged and not available for direct investment.

Bloomberg Municipal Bond Index represents municipal bonds with a minimum credit rating of at least Baa, an outstanding par value of at least $3 million and a remaining maturity of at least one year. The index excludes taxable municipal bonds, bonds with floating rates, derivatives and certificates of participation.

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