

# Thornburg Municipal Bond Strategies

## Portfolio Manager Commentary

31 December 2023



### Market Review

Interest rates began the fourth quarter on the same upward march that characterized the previous few months, with the 10-year Treasury in mid and late October briefly eclipsing 5%, the highest level in over 15 years. This set the stage for a meaningful reversal, with rates rallying significantly into year-end. The broad measure of the U.S. bond market, the Bloomberg U.S. Aggregate Index, generated the highest single quarterly total return since the 2nd quarter of 1989. The interest rate rally was powered by further optimism on falling inflation, with headline CPI falling to 3.1% in December from 3.7% two months prior. Most significantly, the output from the Federal Reserve's December meeting was judged by markets to be unexpectedly dovish, with the FOMC projecting three cuts in 2024 instead of the previous forecast of two. In response, risk assets rallied strongly into the year-end, with corporate, securitized, and municipal spreads all moving tighter for the quarter.

The fundamentals justified the Muni market's historic fourth-quarter rally. But the market may have overreached and climbed too far, too fast.

### Fourth Quarter 2023 Performance Highlights

- The Thornburg Municipal Bond portfolios posted strong absolute positive total returns over the quarter. November saw the highest total return for the broad market municipal bond index since its inception in the late 1980s. Despite the strong absolute returns, all portfolios underperformed their respective indexes, gross of fees, during the quarter.
- Municipal bond prices rose significantly during the quarter and given the inverse relationship, yields fell significantly as well. The decline in yields resulted in duration being the largest driver of absolute and relative performance during the period. Despite strong absolute returns, lower duration positioning against their respective indexes resulted in relative underperformance.
- The rally in yields was accompanied by a tightening of credit spreads as investors snapped up risk assets in anticipation of a Fed pivot. This led lower quality Munis to outperform higher quality Munis during the period. The higher quality bias of the Thornburg portfolios lead to slight underperformance versus their respective benchmarks.

### Portfolio Managers

**David Ashley, CFA**

Portfolio Manager

**Eve Lando, JD**

Portfolio Manager

**John Bonnell, CFA**

Portfolio Manager

Supported by the entire Thornburg investment team

### Current Positioning and Outlook

The ICE BofA Municipal Securities Index posted a 7.62% total return over the quarter with performance across the municipal market driven by falling Treasury yields.

The combination of the speed and magnitude of the rally in municipal bond yields in the fourth quarter was historic. While the changes in the fundamental outlook for the U.S. economy, and monetary policy in particular, did justify lower Treasury yields and thus lower municipal bond yields, we think it is likely that the market will see a period of consolidation.

Given the extent of outflows from municipal bond funds over the calendar year, it is possible that prices were driven higher by an unusual degree of demand to re-enter the market. And the sharp convergence of tax-equivalent yields – particularly in the highest credit ratings – offered by municipal bonds relative to their underlying Treasury yields, also suggests technical demand may have exceeded fundamental valuations. And while the increased chances of a soft landing are unequivocally good news for the broader economy and the possibility of lower Treasury yields to come, we are mindful of some of the challenges ahead. State budgets have come under increasing pressure, while a relatively high portion of large-scale municipal projects have been delayed and are likely to require funding in the coming year. Both of these factors could put upward pressure on municipal bond spreads, regardless of the direction of the underlying Treasury yields.

*The performance data quoted represents past performance; it does not guarantee future results. Please see the Composite standardized performance tables included herein.*

For investment in bonds with under 15-year maturities, the still inverted curve does make municipal bond investing challenging: with U.S. Government T-Bills setting the income benchmark at around 5.3%, adding duration in municipal bonds comes with the cost of lower income. Bonds with a maturity above 15 years, however, benefit from the steepness in the municipal curve – adding duration increases yield and thus more opportunities to lock in higher-yielding assets for the long term.

While 2023 rewarded patient municipal bond investors with unusually high returns, we remain optimistic on the market's ability to deliver attractive income in the year ahead. Yields may again rise, but we continue to believe the current, more volatile, environment offers opportunities for active managers like ourselves who focus on adding incremental income – not duration, credit, or macroeconomic risk – and thus have the potential to provide not just a higher income stream, but a more stable and durable one.

Thank you for your continued trust and support investing alongside of us in the Thornburg municipal strategies.

#### **ANNUALIZED RETURNS (AS OF 31 DECEMBER 2023)**

<b>THORNBURG SHORT DURATION MUNICIPAL STRATEGY (%)</b>	<b>QTR</b>	<b>YTD</b>	<b>1-YR</b>	<b>3-YR</b>	<b>5-YR</b>	<b>ITD (1 APR 14)</b>
Composite (Gross)	2.75	4.27	4.27	1.05	1.51	1.34
Composite (Net)	2.65	3.89	3.89	0.69	1.15	0.98
ICE BofA 1-3 Year U.S. Municipal Securities Index	2.74	3.35	3.35	0.53	1.32	1.12

<b>THORNBURG LIMITED TERM MUNICIPAL STRATEGY (%)</b>	<b>QTR</b>	<b>YTD</b>	<b>1-YR</b>	<b>3-YR</b>	<b>5-YR</b>	<b>10-YR</b>	<b>ITD (1 JAN 85)</b>
Composite (Gross)	4.88	4.93	4.93	0.26	1.79	1.96	5.10
Composite (Net)	4.85	4.68	4.68	0.01	1.53	1.69	4.35
ICE BofA 1-10 Year U.S. Municipal Securities Index	4.93	4.28	4.28	-0.01	1.78	1.90	N/A*

<b>THORNBURG INTERMEDIATE TERM MUNICIPAL STRATEGY (%)</b>	<b>QTR</b>	<b>YTD</b>	<b>1-YR</b>	<b>3-YR</b>	<b>5-YR</b>	<b>10-YR</b>	<b>ITD (1 NOV 91)</b>
Composite (Gross)	6.04	6.10	6.10	0.59	2.58	2.96	4.96
Composite (Net)	5.94	5.68	5.68	0.19	2.17	2.53	4.28
ICE BofA 3-15 Year U.S. Municipal Securities Index	6.55	5.41	5.41	-0.22	2.21	2.67	N/A*

<b>THORNBURG STRATEGIC MUNICIPAL INCOME STRATEGY (%)</b>	<b>QTR</b>	<b>YTD</b>	<b>1-YR</b>	<b>3-YR</b>	<b>5-YR</b>	<b>10-YR</b>	<b>ITD (1 MAY 09)</b>
Composite (Gross)	6.67	6.75	6.75	0.26	2.36	3.40	5.20
Composite (Net)	6.47	5.96	5.96	-0.38	1.71	2.70	4.41
ICE BofA U.S. Municipal Securities Index	7.62	6.52	6.52	-0.44	2.27	3.13	3.78

In US\$ terms. **Returns may increase or decrease as a result of currency fluctuations.**  
 Periods less than one year are not annualized. ITD is inception to date.

*Performance data for the Short Duration Municipal Strategy is from the Short Duration Municipal Composite, inception date of 1 April 2014. The Short Duration Municipal Composite includes all non-wrap discretionary accounts invested in the Short Duration Municipal Strategy.*

*Performance data for the Limited Term Municipal Strategy is from the Limited Term Municipal Composite, inception date of 1 January 1985. The Limited Term Municipal Composite includes all non-wrap discretionary accounts invested in the Limited Term Municipal Strategy.*

*Performance data for the Intermediate Term Municipal Strategy is from the Intermediate Term Municipal Composite, inception date of 1 November 1991. The Intermediate Term Municipal Composite includes all non-wrap discretionary accounts invested in the Intermediate Term Municipal Strategy.*

*Performance data for the Strategic Municipal Income Strategy is from the Strategic Municipal Income Composite, inception date of 1 May 2009. The Strategic Municipal Income Composite includes all discretionary accounts invested in the Strategic Municipal Income Strategy.*

*Returns are calculated using a time-weighted and asset-weighted calculation. Periods less than one year are not annualized. Individual account performance will vary. The performance data quoted represents past performance; it does not guarantee future results. Net of fee returns are net of transaction costs and investment advisory fees. For periods prior to 2011, net returns for some accounts in the composite also reflect the deduction of administrative expenses. Thornburg Investment Management Inc.'s fee schedule is detailed in Part 2A of its ADV brochure. Gross of fee returns are net of transaction costs. Performance results of the firm's clients will be reduced by the firm's management fees. For example, an account with a compounded annual total return of 10% would have increased by 159% over ten years. Assuming an annual management fee of 0.75%, this increase would be 142%.*

# THORNBURG MUNICIPAL BOND STRATEGIES

## Portfolio Manager Commentary | 31 December 2023

### CALENDAR YEAR RETURNS

THORNBURG SHORT DURATION MUNICIPAL STRATEGY (%)	2023	2022	2021	2020	2019	2018	2017	2016	2015
Composite (Gross)	4.27	-1.48	0.44	1.66	2.73	1.68	1.60	0.72	0.74
Composite (Net)	3.89	-1.84	0.09	1.34	2.37	1.33	1.25	0.38	0.34
ICE BofA 1-3 Year U.S. Municipal Securities Index	3.35	-2.03	0.34	2.16	2.88	1.76	0.99	0.33	0.76
THORNBURG LIMITED TERM MUNICIPAL STRATEGY (%)	2023	2022	2021	2020	2019	2018	2017	2016	2015
Composite (Gross)	4.93	-4.39	0.46	3.65	4.62	1.58	3.04	-0.01	2.31
Composite (Net)	4.68	-4.64	0.20	3.38	4.33	1.31	2.77	-0.28	2.04
ICE BofA 1-10 Year U.S. Municipal Securities Index	4.28	-4.61	0.48	3.81	5.28	1.69	2.83	-0.05	2.12
THORNBURG INTERMEDIATE TERM MUNICIPAL STRATEGY (%)	2023	2022	2021	2020	2019	2018	2017	2016	2015
Composite (Gross)	6.10	-5.57	1.57	4.65	6.65	1.47	4.44	0.48	3.03
Composite (Net)	5.68	-5.94	1.17	4.24	6.21	1.06	4.00	0.04	2.58
ICE BofA 3-15 Year U.S. Municipal Securities Index	5.41	-6.64	0.94	4.96	7.01	1.45	4.64	-0.06	3.16
THORNBURG STRATEGIC MUNICIPAL INCOME STRATEGY (%)	2023	2022	2021	2020	2019	2018	2017	2016	2015
Composite (Gross)	6.75	-7.53	2.10	4.65	6.57	1.82	5.07	0.88	3.55
Composite (Net)	5.96	-8.08	1.50	4.02	5.82	1.18	4.29	0.12	2.78
ICE BofA U.S. Municipal Securities Index	6.52	-9.03	1.83	5.26	7.74	1.04	0.00	0.44	3.55

In US\$ terms. **Returns may increase or decrease as a result of currency fluctuations.**

*The performance data quoted represents past performance; it does not guarantee future results. Please see the Composite standardized performance tables included herein.*

### Important Information

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31 December 2023

Investments in the Strategy carry risks, including possible loss of principal. Carefully consider the Strategy's investment objectives, risks, and expenses before investing. There is no guarantee that the portfolio will meet its investment objectives.

The views expressed are subject to change and do not necessarily reflect the views of Thornburg Investment Management, Inc. This information should not be relied upon as a recommendation or investment advice and is not intended to predict the performance of any investment or market.

Basis Point (bp) – A unit equal to 1/100th of 1%. 1% = 100 basis points (bps).

U.S. Treasury securities, such as bills, notes and bonds, are negotiable debt obligations of the U.S. government. These debt obligations are backed by the "full faith and credit" of the government and issued at various schedules and maturities. Income from Treasury securities is exempt from state and local, but not federal, taxes.

Fed Funds Rate – The interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.

Federal Open Market Committee (FOMC) – The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of the board of governors, which has seven members, and five reserve bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate their service of one-year terms.

Consumer Price Index (CPI) – Index that measures prices of a fixed basket of goods bought by a typical consumer, including food, transportation, shelter, utilities, clothing, medical care, entertainment and other items. The CPI, published by the Bureau of Labor Statistics in the Department of Labor, is based at 100 in 1982 and is released monthly. It is widely used as a cost-of-living benchmark to adjust Social Security payments and other payment schedules, union contracts and tax brackets. Also known as the cost-of-living index.

A bond credit rating assesses the financial ability of a debt issuer to make timely payments of principal and interest. Ratings of AAA (the highest), AA, A, and BBB are investment-grade quality. Ratings of BB, B, CCC, CC, C and D (the lowest) are considered below investment grade, speculative grade, or junk bonds.

Credit Spread/Quality Spread – The difference between the yields of securities with different credit qualities.

Duration – A bond's sensitivity to interest rates. Bonds with longer durations experience greater price volatility than bonds with shorter durations.

Yield Curve – A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates.

The ICE BofA 1-3 Year U.S. Municipal Securities Index (ICE BofA 1-3 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity less than 3 years.

The ICE BofA 1-10 Year U.S. Municipal Securities Index (ICE BofA 1-10 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity less than 10 years.

The ICE BofA 3-15 Year U.S. Municipal Securities Index (ICE BofA 3-15 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity greater than or equal to three years and less than 15 years.

The ICE BofA U.S. Municipal Securities Index (ICE BofA US Muni) tracks the performance of U.S. dollar-denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market.

The Bloomberg U.S. Aggregate Index (BBG US Agg TR Value) is composed of approximately 8,000 publicly traded bonds including U.S. government, mortgage-backed, corporate and Yankee bonds. The index is weighted by the market value of the bonds included in the index.

Portfolio construction will have significant differences from that of a benchmark index in terms of security holdings, industry weightings, asset allocations and number of positions held, all of which may contribute to performance, characteristics and volatility differences. The index shown is unmanaged, reflect total returns and assume the reinvestment of all income in U.S. dollars. It does not reflect any management fees or brokerage expenses associated with a portfolio's returns. Returns for an actual portfolio may differ from those of an index due to (among other things) differences in timing and the amount invested and fees and expenses. Investors may not make direct investments into any index.

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\*Includes assets under management (\$41.8B) and assets under advisement (\$1.1B).



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