

CLOSED-END FUND REVIEW

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THIRD QUARTER 2025 OVERVIEW

Following a quarter in which the average closed-end fund (CEF) gained +3.90%, many CEFs continued the positive momentum during the third quarter. The average CEF increased a solid +6.21% for the third quarter and is now up +12.73% year-to-date (YTD). It was a broad-based rally, with equity CEFs rising +6.65%, taxable fixed-income CEFs gaining +4.29% and municipal CEFs rising +8.60%. (Source: Morningstar. All data is share price total return).

Equity CEFs benefitted from the +8.11% gain in the S&P 500[®] Index and the +7.03% gain in the MSCI ACWI ex USA Index. Taxable fixed-income CEFs benefitted from positive returns in several key fixed-income indices. For the third quarter, the ICE BofA US High Yield Constrained Index gained +2.40%, the Morningstar[®] LSTA[®] U.S. Leveraged Loan Index returned +1.77%, the ICE BofA Fixed Rate Preferred Securities Index returned +4.41%, the ICE BofA US Investment Grade Institutional Capital Securities Index gained +2.65% and the ICE BofA Global Corporate Index returned +1.93%. Municipal CEFs benefitted from the +3.06% gain in the ICE BofA 7-12 Year U.S. Municipal Securities Index. (Source: Bloomberg)

Average Discounts to Net Asset Value Widened Slightly During the Third Quarter of 2025

Average discounts to net asset value (NAV) for the average CEF widened slightly during the third quarter to -4.44% from the -4.13% level they ended on 6/30/2025. Average discounts to NAV are narrower than the 10-year average discount to NAV of -5.72%. Average discounts to NAV for equity CEFs widened slightly during the third quarter to -5.95% from the -5.65% level they ended on 6/30/2025. Average discounts to NAV for equity CEFs are narrower than the 10-year average discount of -6.95%. Average discounts to NAV for taxable bond CEFs widened during the third quarter to -2.40% from the -0.82% level they ended on 6/30/2025. Average discounts to NAV for taxable bond CEFs are narrower than the 10-year average discount of -4.13%. (Source: CEFDData.com)

Municipal CEFs were the only broad category of CEFs that had average discounts to NAV narrow during the third quarter. Average discounts to NAV for municipal CEFs narrowed to -4.55% from the -5.87% level they ended on 6/30/2025. Average discounts to NAV for municipal CEFs are narrower than the 10-year average discount to NAV of -5.73%. (Source: CEFDData.com) It remains my view that if the Federal Reserve continues to lower short-term interest rates in the 4Q of 2025 and first half of 2026, that average discounts for municipal CEFs will narrow further.

In Our View Preferred CEFs Look Compelling

In the previous quarterly CEF Review, I made the bullish case for municipal CEFs. I was pleased to see municipal CEFs perform well in the third quarter, and I still very much believe the bullish case is intact for municipal CEFs. In response to last quarter's CEF Review, I received inquiries related to which taxable fixed-income CEF category was my favorite. To that end, I believe preferred CEFs are very compelling over the short term in the taxable fixed income category. My bullish thesis for preferred CEFs is stated below and in many regards is similar to my bullish thesis for municipal CEFs:

1. **Attractive Valuations:** Preferred CEFs are trading at discounts to NAV that are wider (more inexpensive) than their 10-year historical average. As of 9/30/2025, preferred CEFs were trading at an average discount to NAV of -2.49%, which is wider than their 10-year historical average discount to NAV of -1.15%. (Source: CEFDData.com) I believe average discounts to NAV for preferred CEFs could narrow over the coming quarters should the Federal Reserve continue to lower short-term interest rates in the fourth quarter and first half of 2026.
2. **Potential for Further Short-term Interest Rate Reductions:** If the Federal Reserve continues to lower short-term interest rates in the fourth quarter and first half of 2026, it will likely lead to lower leverage costs and increased earnings rates for leveraged preferred CEFs. I believe this would be viewed favorably by investors and potentially increase demand for preferred CEFs in the secondary market.
3. **Attractive Distribution Rates:** As of 10/3/2025, the average preferred CEF had an attractive distribution rate of 7.77%. (Source: Morningstar) Furthermore, several preferred CEFs have an overall credit rating of investment grade, allowing investors to potentially earn an attractive distribution rate without having to take excessive credit risk, in my opinion.

I think it is important to note that while I believe preferred CEFs are the best positioned to do well in the taxable fixed-income CEF category for the next 12-months, I remain a strong advocate for CEF investors building broadly diversified portfolios across many compelling categories, including but not limited to equity income, preferred, high-yield and municipal CEFs.

Lastly, during this time of the year, I get inquiries related to my thoughts on whether I think there will be a lot of tax-loss selling in the CEF structure. Tax-loss selling is when investors sell securities to realize losses for tax purposes in order to offset gains within their portfolios. Tax-loss selling tends to be most prevalent in November and into December. It also tends to be most widespread in years when the average CEF is lower for the year. Given the fact the average CEF has returned 12.73% YTD and gains have been broad, I am not expecting a particularly bad season of tax-loss selling during this year's fourth quarter.

Source for CEF performance: Morningstar. All performance is based on share price total return.

Past performance is not a guarantee of future results. All data as of 9/30/25, unless indicated otherwise.

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