



FIRST QUARTER 2025 OVERVIEW

Following a year in which the average closed-end fund (CEFs) increased +15.30%, the positive momentum for many CEFs continued during the first quarter of 2025. The average CEF returned +2.16% during the quarter. It was a broad rally with equity CEFs gaining an average of +3.06%, taxable fixed-income CEFs returning an average of +1.91% and municipal CEFs rising an average of +1.42%. (Source: Morningstar. All data is share price total return)

While the S&P 500® Index was lower for the quarter by -4.28%, global equity CEFs and international equity CEFs benefitted from the +5.36% gain in the MSCI ACWI ex USA Index. Taxable fixed-income CEFs benefitted from positive returns in several key fixed income indices. For the first quarter, the ICE BofA US High Yield Constrained Index gained +0.94%, the Morningstar® LSTA® U.S. Leveraged Loan Index returned +0.48%, the ICE BofA US Investment Grade Institutional Capital Securities Index gained +2.36% and the Bloomberg US Aggregate Bond Index returned +2.78%. Municipal CEFs benefitted from the +0.01% return in the ICE BofA 7-12 Year US Municipal Securities Index and the +0.82% gain in the Bloomberg Municipal High Yield Index. (Source: Bloomberg)

Average Discounts to Net Asset Value Narrowed During the First Quarter of 2025

Average discounts to net asset value (NAV) narrowed during the first quarter to -4.50% from the -6.02% level they ended on 12/31/2024. It was encouraging to see average discounts to NAV narrow during the first quarter. Average discounts to NAV are narrower than the 10-year average discount to NAV of -5.79%. Average discounts to NAV for equity CEFs narrowed during the first quarter to -6.24% from the -7.79% level they ended the fourth quarter of 2024. Average discounts to NAV for equity CEFs are narrower than the 10-year average discount of -7.23%. Average discounts to NAV for taxable bond CEFs narrowed during the first quarter to -0.49% from the -1.05% level they ended the fourth quarter. The 10-year average discount to NAV for taxable bond CEFs is -4.38%. (Source: CEFData.com)

Among the broad categories, the widest discrepancy between current discounts to NAV relative to the long-term average remains in the municipal CEF category where average discounts to NAV ended the first quarter at -6.36%. This is narrower than the -8.97% level they ended on December 31, 2024. While average discounts for municipal CEFs did narrow during the first quarter, they remain wider than the 10-year average discount of -5.25%. (Source: CEFData.com) It is my view that if the Federal Reserve continues to lower short-term interest rates in 2025, I expect average discounts for municipal CEFs to narrow further and potentially trade at discounts which are narrower than the long-term average.

Outlook: Volatility is Back

When I initially began preparing the data and my thoughts for this commentary piece, financial markets were relatively calm and many CEFs had a positive total return during the first quarter (see first paragraph above). The relative calm in the financial markets went away in a fairly dramatic manner after President Trump announced his tariff plans after the market close on April 2, 2025. Since that time, we have witnessed extreme volatility in the equity and credit markets. From my standpoint, trying to predict short-term movements in the financial markets is extremely difficult. However, I am an advocate for long-term investors to dollar-cost average across different categories of the CEF marketplace and seek to take advantage of the discount widening during these periods of significant volatility in the secondary market for CEFs. The meaningful sell-off that we have seen at the start of the second quarter has provided an opportunity for long-term investors to do just that. While it can be frustrating to endure these periods of extreme volatility, I believe long-term, disciplined CEF investors who dollar-cost average across different categories - especially the CEFs trading at discounts to NAV wider than their historical average—will be rewarded.

While it is difficult to know when this period of significant volatility will abate, I believe municipal CEFs, preferred CEFs, equity income CEFs and high-yield CEFs offer the greatest opportunity for dollar-cost averaging in this environment.

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 3/31/25, unless indicated otherwise.

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