



SECOND QUARTER 2025 OVERVIEW

Following a quarter in which the average closed-end fund (CEF) increased +2.16%, many CEFs continued the positive momentum during the second quarter. The average CEF increased a solid +3.90% for the second quarter and is now up +6.14% year-to-date (YTD). It was a mixed quarter with equity CEFs rising +8.50% and taxable fixed-income CEFs gaining +3.33%. Municipal CEFs were lower during the quarter by -1.66%. (Source: Morningstar. All data is share price total return).

Equity CEFs benefitted from the +10.94% gain in the S&P 500® Index and the +12.30% gain in the MSCI ACWI ex USA Index. Taxable fixed-income CEFs benefitted from positive returns in several key fixed-income indices. For the second quarter, the ICE BofA US High Yield Constrained Index gained +3.57%, the Morningstar® LSTA® U.S. Leveraged Loan Index returned +2.31%, the ICE BofA Fixed Rate Preferred Securities Index returned +0.93% and the ICE BofA US Investment Grade Institutional Capital Securities Index gained +1.79%. (Source: Bloomberg) Municipal CEFs were hurt by the negative -0.31% return in the S&P National AMT-Free Muni Bond Index. (Source: S&P Global)

Average Discounts to Net Asset Value Continued to Narrow During the Second Quarter of 2025

Average discounts to net asset value (NAV) narrowed during the second quarter to -4.19% from the -4.47% level they ended on 3/31/2025. I believe it is encouraging to see average discounts to NAV continue to narrow. It was only 18 months ago (12/29/2023), when average discounts to NAV were nearly -10% (-9.59% to be exact). Average discounts to NAV are narrower than the 10-year average discount to NAV of -5.76%. Average discounts to NAV for equity CEFs narrowed during the second quarter to -5.61% from the -6.24% level they ended on 3/31/2025. Average discounts to NAV for equity CEFs are narrower than the 10-year average discount of -7.22%. Average discounts to NAV for taxable bond CEFs widened slightly during the second quarter to -0.80% from the -0.42% level they ended on 3/31/2025. The 10-year average discount to NAV for taxable bond CEFs is -4.27%. (Source: CEFData.com)

Among the broad categories, municipal CEFs remain the only category where average discounts to NAV are wider than their historical average. Average discounts to NAV for municipal CEFs narrowed during the second quarter to -5.95% from the -6.40% level they ended on 3/31/2025 but remain wider than their 10-year average discount to NAV of -5.27%. (Source: CEFData.com) It remains my view that if the Federal Reserve lowers short-term interest rates later 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. More on the potential opportunity in municipal CEFs below.

Bullish Case for Municipal CEFs

I am often asked which category within the CEF marketplace is my favorite. While this is a fair question, it can be a difficult one to answer as I often see attractive opportunities in many categories. For example, I currently favor several categories of the CEF marketplace including but not limited to municipal, equity income, preferred and high yield CEFs. However, if hypothetically I could only invest in one category for the next 12 months, I would favor municipal CEFs. While municipal CEFs are slightly lower for the year (-0.26%) as of 6/30/2025, I believe the bullish case for municipal CEFs is very much intact and is centered around 3 key bullet points:

1. **Attractive Valuations:** As noted above, municipal CEFs are the only broad category of the CEF marketplace with average discounts to NAV which are wider than their long-term average. Average discounts to NAV of -5.95% are wider and more inexpensive than their 10-year average of -5.27% and 20-year average of -3.59% (Source: CEFData.com). I believe discounts for municipal CEFs could potentially narrow should the Federal Reserve lower short-term interest rates later this year.
2. **Potential for Short-Term Interest Rate Cuts:** If the Federal Reserve reduces short-term interest rates this year, it would likely lead to lower leverage costs and increased earnings rates for leveraged municipal CEFs. I believe this would be viewed favorably by investors and increase demand for municipal CEFs in the secondary market.
3. **Compelling Distribution Rates:** As of 6/30/2025, the average municipal CEF had a compelling distribution rate of 6.29%. (Source: Morningstar). It is also important to note that many municipal CEFs have an overall credit rating of investment grade, allowing investors to potentially earn an attractive distribution without having to take significant credit risk, in my opinion.

In short, while municipal CEFs are my favorite category of the CEF marketplace for the next 12-months, I remain a firm 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.

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 6/30/25, unless indicated otherwise.

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