

Closed-End Fund Review

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Commentary | 12/31/25



Fourth Quarter 2025 Review

Four for four. The average closed-end fund (CEF) was up every quarter in 2025. The average fund was up +1.29% during the fourth quarter of the year. The fourth quarter was a mixed one with equity CEFs up +4.31% and municipal CEFs up +1.40%. Taxable fixed-income CEFs were lower by -1.59% during the quarter. For the year, the average CEF returned a solid +14.20%. This represented the third straight year CEFs returned double digits as CEFs were up on average +15.30% in 2024 and +10.55% in 2023. (Source: Morningstar. All data is share price total return).

It was a broad rally for CEFs in 2025 with the average equity CEF returning +24.42%, municipal CEFs returning +9.83% and taxable fixed-income CEFs returning +8.08%. (Source: Morningstar. All data is share price total return). During 2025, equity CEFs benefitted from the +17.86% return in the S&P 500 Index and the +33.11% gain in the MSCI ACWI ex USA Index. Taxable fixed-income CEFs benefitted from positive returns in several key fixed-income indices. For 2025, the ICE BofA US High Yield Constrained Index gained +8.50%, the Morningstar® LSTA® US Leveraged Loan Index returned +5.90%, the ICE BofA Fixed Rate Preferred Securities Index gained +5.13% and the Bloomberg US Aggregate Bond Index returned +7.30%. For the year, municipal CEFs benefited from the +5.75% return in the ICE BofA 7-12 Year US Municipal Securities Index and the +2.46% gain in the Bloomberg Municipal High Yield Index. (Source: Bloomberg)

Average Discounts to Net Asset Value Widened Slightly During the Fourth Quarter but End the Year Virtually Unchanged from 2024 Level

Average discounts to net asset value (NAV) for the average CEF widened during the fourth quarter to -5.67% from the -4.38% level they ended on 9/30/2025. Average discounts of -5.67% are close to being unchanged from the -5.83% level they ended on 12/31/2024 and are essentially in-line with the 10-year average discount to NAV of -5.54%. Average discounts to NAV for equity CEFs widened slightly during the fourth quarter to -6.57% from the -5.86% level they ended on 9/30/2025 and are very close to the 10-year average discount to NAV of -6.73%. Average discounts to NAV for taxable bond CEFs widened during the fourth quarter to -5.00% from the -2.27% level they ended on 9/30/2025 and are wider than the 10-year average discount to NAV of -3.91%. Average discount to NAV for municipal CEFs widened slightly during the fourth quarter to -5.04% from the -4.62% level they ended on 9/30/2025 and are slightly narrower than the 10-year average discount to NAV of -5.64%.

It is my view that if the Federal Reserve continues to lower short-term interest rates in 2026, we could see average discounts to NAV narrow this year—particularly for both municipal and taxable fixed-income CEFs—as they potentially benefit from lower leverage cost and increased demand from investors.

Outlook for 2026

Following three consecutive years where the average CEF posted a positive double-digit total return, it is my view that the backdrop for many CEFs remains a solid one as 2026 commences. The recent reductions in short-term interest rates and the potential for short-term rates to decline even further in 2026 helps to lower borrowing cost for CEFs that employ the use of leverage. Declining borrowing cost for levered CEFs is expected to lead to improved earnings rates and could potentially lead to distribution increases or result in CEFs paying out less return of capital in their current distributions. In my view, both of these potential outcomes are positive.

In the fixed-income landscape, I continue to very much favor municipal and preferred CEFs. I believe they are a beneficiary of the recent Federal Reserve reductions in short-term interest rates and could potentially benefit from further reductions in short-term rates should they occur in 2026. Furthermore, I believe investors in municipal and preferred CEFs are potentially able to earn attractive income without taking on significant credit risk. As of January 7, 2026 the average municipal CEF had a distribution rate of 5.99% and the average preferred CEF had a distribution rate of 7.75%, according to Morningstar. I also remain an advocate for long-term, diversified CEF investors maintaining exposure to equity income CEFs as they not only provide an income stream but also can potentially provide a growth engine in a diversified CEF portfolio.

Lastly, I have written about this before, but I think it is worth repeating. In addition to the Federal Reserve potentially further reducing short-term rates in 2026, another potential positive for the CEF structure for 2026 relates to the increase in demand and improved sentiment we could see if overall interest rates decline and yields on competing income-oriented investments including CDs, money market funds, U.S. Treasuries etc. decline. If competing and alternative rates decline this year, investors may be more likely to consider the CEF structure given the very high and attractive distribution rates that exist in the secondary market for CEFs. As of 1/7/26, the average CEF had a distribution rate of 9.43%, according to Morningstar.

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 12/31/25, unless indicated otherwise.

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