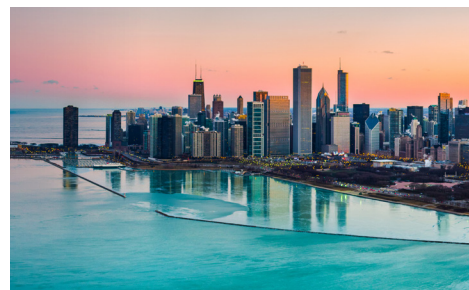


Closed-End Fund Review

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Third Quarter 2026 Overview

Following a quarter in which the average closed-end fund (CEF) was higher by +7.24%, many CEFs struggled in the third quarter and declined on average -6.09%. The average CEF is now slightly lower year-to-date (YTD) by -0.21% through September 30, 2026. It was a broad decline with equity CEFs declining on average -3.10%, taxable fixed-income CEFs declining -5.72% and municipal CEFs falling on average -11.99%. (Source: Morningstar. All data is share price total return)

Despite a +2.30% gain for the S&P 500 Index during the third quarter, many equity CEFs still struggled during the quarter but on average are higher +7.73% YTD. Taxable fixed-income CEFs were negatively impacted by lower returns from several key fixed-income indices in the quarter. For the third quarter, the ICE BofA US High Yield Constrained Index was lower by -1.82%, the ICE BofA Fixed Rate Preferred Securities Index declined -4.44%, the Bloomberg US Aggregate Bond Index declined -3.51% and the ICE BofA Global Corporate Index was lower by -3.42%. (Source: Bloomberg) Municipal CEFs were negatively impacted by the -6.57% return in the S&P National AMT-Free Muni Bond Index. (Source: S&P Dow Jones Indices)

Average Discounts to Net Asset Value (NAV) Widen During the Third Quarter

Average discounts to NAV widened during the third quarter to -8.40% from the -6.02% level they ended on 6/30/2026. Average discounts to NAV ended the third quarter meaningfully wider than the 10-year average discount to NAV of -5.36%. The last time CEFs ended a quarter with average discounts to NAV wider than -8% was on 12/29/2023 when they were -9.44%. Average discounts to NAV for equity CEFs widened during the third quarter to -8.96% from the -7.32% level they ended on 6/30/2026 and are wider than the 10-year average discount to NAV of -6.21%. Average discounts to NAV for taxable fixed-income CEFs widened significantly during the third quarter to -9.98% from the -6.60% level they ended on 6/30/2026 and are meaningfully wider than the 10-year average discount to NAV of -4.16%. From a purely valuation perspective, taxable fixed-income CEFs represent the best value among the broad categories of CEFs as average discounts to NAV ended the third quarter more than twice as wide as the long-term average. Lastly, average discounts to NAV for municipal CEFs widened during the third quarter to -4.69% from the -2.26% level they ended on 6/30/2026 and are narrower than the 10-year average discounts to NAV of -5.45%. (Source: CEFDData.com)

While I believe a CEF's or category of CEFs' average discount to NAV relative to its historical average is one important data point to focus on when analyzing CEFs, at this point in time, I am following the long end of the interest rate curve as closely as I am tracking average discounts to NAV. In my view, should we see long-term interest rates begin to trend lower, I would expect many categories of fixed-income CEFs to rally. However, if long-term interest rates continue to trend higher, it creates a more challenging environment for many fixed-income CEFs.

Outlook for Remainder of the Year and Initial Thoughts on 2027

As the fourth quarter of the year commences with the average CEF slightly lower for the year (-0.21%), it is important to remember the last three calendar years (2023-2025) were three consecutive years when the average CEF had double-digit returns. When 2026 started, many economists were expecting the Federal Reserve ("Fed") to continue lowering short-term rates as they did at the end of 2025. However, as the year progressed and inflation ticked higher in part as a result of significantly higher oil prices, sentiment shifted and the Fed raised interest rates in September. As reflected in the performance data discussed above, the rise in interest rates across the curve hurt the performance of many fixed-income CEFs during the third quarter. On the fixed-income side of the equation, I continue to favor municipal and preferred CEFs for investors looking for attractive income without having to take on significant credit risk in my view. However, many municipal and preferred CEFs do take on meaningful duration risk and as the Fed recently increased short-term interest rates (and could potentially increase rates further this year or in 2027), I think it is prudent for diversified CEF investors to consider adding shorter duration, floating rate senior loan CEFs to a portfolio. Senior loan CEFs can still potentially provide high income to investors but also help to lower the overall duration risk in a diversified portfolio. Furthermore, valuations are very compelling among senior loan CEFs. As of 9/30/2026, the average senior loan CEF was at a -11.79% discount to NAV which is significantly wider than the 10-year average of -6.85%. (Source: CEFDData.com) I also continue to believe that investors seeking to build a diversified CEF portfolio should have exposure to equity income CEFs as a way to not only earn income but also provide a potential growth engine to a portfolio.

While it can be challenging to endure these periods of heightened volatility and weakness for many CEFs, I remain a big advocate for using these periods of volatility and discount widening as dollar cost averaging buying opportunities across favored categories. As discussed above, four CEF categories I currently favor for the remainder of 2026 and into 2027 are senior loan, municipal, preferred and equity income.

Lastly, as the fourth quarter begins, I am often asked about the potential for tax-loss selling in CEFs. Tax-loss selling is when investors sell securities to realize losses in order to offset gains within their portfolios. Due to the fact that several categories of CEFs are lower for the year (particularly fixed-income CEFs), there could be some tax-loss related selling this quarter. From my standpoint, I think it is important to keep in mind that this type of selling is generally a short-term, seasonal technical factor which leads to discounts widening at the end of the year only to narrow again as the calendar switches over to the new year. At the end of the year investors and their financial advisors often look at their portfolios and say, "Where can I take a tax-loss?" However, at the beginning of the next year investors and their financial advisors say, "Where are the opportunities in closed-end funds that got beat up at the end of the previous year and are now trading at attractive discounts and yields?" It is this phenomenon that could potentially lead to closed-end funds performing well in the beginning of the first 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 9/30/26, unless indicated otherwise.

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