

## Closed-End Fund Review

Jeff Margolin, Senior Vice President, Closed-End Fund Analyst

Commentary | 3/31/26



### 1st Quarter 2026 Review

Following a year in which the average closed-end fund (CEF) increased +14.20%, the first quarter of 2026 was a mixed one. The average CEF was lower by -0.96% during the quarter. Equity CEFs posted an average gain of +0.40%, while taxable fixed-income CEFs were lower by -3.52% and municipal CEFs gained an average of +0.75%. (Source: Morningstar. All data is share price total return)

While the S&P 500 Index was lower by -4.35% for the first quarter, equity CEFs benefitted from positive returns in the S&P MidCap 400 Index (+2.50%) and the S&P SmallCap 600 Index (+3.58%). Furthermore, equity CEFs with overweight positions in the energy sector benefitted from the sector's significant +38.25% gain. Taxable fixed-income CEFs were impacted by negative returns across several key indices, including the ICE BofA US High Yield Constrained Index (-0.55%), Morningstar® LSTA® US Leveraged Loan Index (-0.55%), ICE BofA Fixed Rate Preferred Securities Index (-1.40%), and Bloomberg US Aggregate Bond Index (-0.05%). Despite a -0.87% decline in the ICE BofA 7-12 Year US Municipal Securities Index, municipal CEFs still managed to gain +0.75% for the quarter. (Source: Bloomberg)

### Average Discounts to Net Asset Value Widen During the 1st Quarter

Discounts to net asset value (NAV) for the average CEF widened to -6.53% from -5.39% at year-end 2025, exceeding the 10-year average of -5.46%.

By category: Equity CEF discounts widened to -7.61% from -6.53%, slightly wider than the 10-year average of -6.67%. Taxable fixed-income CEFs experienced the most significant discount widening—from -4.47% to -7.04%—now substantially wider than the 10-year average of -3.84%. Municipal CEFs were the only category where discounts narrowed, tightening to -3.65% from -4.59% and remaining well inside the 10-year average of -5.56%.

It remains my view that if the Federal Reserve lowers short-term interest rates at some point 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.

### Backdrop Becomes Challenging but Potentially Creates Long-Term Opportunities

The First Trust Closed-end Fund Composite Total Return Index (UPCEFT) returned a solid +4.60% in the first two months of 2026. However, the environment became far more challenging after the war in Iran commenced and the index declined -5.71% in March, erasing the year's earlier gains. Oil prices surged shortly after the war began, which led to heightened concerns about the potential for higher inflation later this year and caused a steep sell-off in bond prices. Furthermore, concerns about the global economy helped to cause equities to sell-off in the month of March. In short, what was a solid backdrop for many asset classes the first two months of the year became far more challenging during the month of March. While I cannot predict when the war in Iran will end, I do firmly believe in the discipline of dollar cost averaging across asset classes during periods of weakness, heightened volatility and discount widening. To that end, I believe recent weakness and discount widening in equity, preferred and municipal CEFs represents a good buying opportunity for long-term oriented investors.

History has shown us that CEF investors that take advantage of these periods of heightened volatility and discount widening through dollar cost averaging are often rewarded for their discipline in the long term. Indeed, we need look no further than last year, when many CEFs experienced extreme volatility and discount widening following President Trump's initial tariff announcements. Ultimately, the sell-off roughly a year ago represented a fruitful buying opportunity for investors who had the discipline to take advantage and dollar cost averaged across different categories during the volatility. (Please see my CEF Quarterly Commentary piece from 4/11/2025 for more on this.) I encourage CEF investors to maintain this same discipline during the current period of enhanced volatility and dollar cost average across categories including but not limited to municipal, preferred and equity 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 3/31/26, unless indicated otherwise.

All opinions expressed constitute judgments as of the date of release, and are subject to change without notice. There can be no assurance any forecasts will be achieved. The information is taken from sources that we believe to be reliable but we do not guarantee its accuracy or completeness.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.