Tax Efficient Fixed Income Market Commentary

July 2025

2nd Quarter Review

The municipal market posted solid returns during the second quarter, but it wasn't all smooth sailing as uncertainty kept volatility high. The heavy issuance, which began at the end of the third quarter, continued into April. Issuance was already depressing prices when "Liberation Day" arrived with the announcement of the Trump administration's initial tariff plans. As a result, municipal yields rose by close to 50 basis points before a pause was announced a week later, enabling some stability to return. Even so, uncertainty, including threats to fire Chairman Powell over monetary policy and concern that legislation championed by the Trump administration could affect the municipal tax-exemption caused continued volatility. However, as the quarter progressed, markets discounted the likelihood of major disruptions.

Issuance for the first six months of 2025 was $280 billion which is a record. Of note, universities, some of which saw their access to Federal funds threatened significantly, increased their municipal borrowings during the quarter. In the first half of the year, over $84 billion of bonds were issued by universities. For perspective, this is nearly as much as the full year average issuance of $110 billion in that sector for the previous five years. Demand was very weak at the start of the quarter with significant outflows, particularly from mutual funds. This reversed in May with higher yields driving broad demand for municipals. However, demand for longer bonds was notably weaker than for those with maturities of less than 10 years. Over the course of the quarter reported dealer inventories of 10 year and longer bonds increased from approximately $6 billion to over $8 billion. Demand's inability to keep up with supply for the longest municipal maturities contributed to the 35 basis points steepening of the municipal curve which was even larger than the 25 basis point steepening of the Treasury curve over the quarter.

During the quarter we maintained our bulleted portfolio positioning on the expectation that yield curves would steepen further and this is a key contributor to year-to-date performance. We also maintained our up in quality bias in the portfolios. Credit spreads widened during the early weeks of the quarter but recovered as volatility declined so the positioning had a little effect on performance, but we continue to see limited opportunity at current spreads. Late in the quarter, our duration targets were extended to take advantage of the cheapening that heavy issuance caused in longer municipals, as well as to acknowledge a slight economic slowdown. We expect this will benefit the portfolios if the municipal market continues its return to more normal conditions, as we expect.

Source: MMD, Bloomberg. As of June 30, 2025, unless otherwise indicated.

Kenneth Potts
Senior Vice President, Portfolio Manager

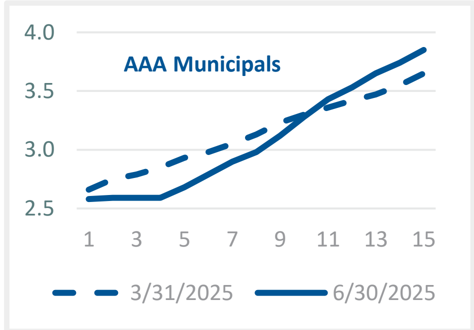
Reese Trucks
Senior Vice President, Credit Research, Fixed Income Investments

Market Returns (%)

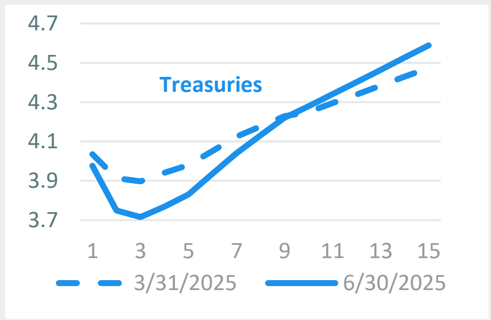
	2Q 2025	2025 YTD
Bloomberg Muni Index	-0.12%	-0.35%
1 Year	0.82%	1.88%
3 Year	1.05%	2.08%
5 Year	1.35%	2.27%
7 Year	1.28%	2.04%
10 Year	0.78%	1.04%
15 Year	-0.39%	-0.99%
20 Year	-1.45%	-2.73%
1-10 Year	1.04%	1.75%
1-15 Year	0.70%	1.09%
Prerefunded 5 Year	1.49%	2.47%
AAA	-0.09%	-0.43%
AA	-0.04%	-0.34%
A	-0.24%	-0.27%
BBB	-0.64%	-0.51%
U.S. Treasury	0.85%	3.79%

Source: Bloomberg

Yield Curves (%)



Source: Bloomberg



Source: Bloomberg

For more information on any indices, please see the "Index Definitions" sections in the "Important Disclosures" page at the end of this presentation.

Looking ahead

- The Trump Administration is planning to wind down most of the Federal Emergency Management Agency (FEMA), after the hurricane season. This move is part of a broader strategy to shift disaster management responsibilities to the states, making governors more responsible for responding to emergency situations in their states. However, it is important to note that we still feel the Federal Government would ultimately step in with financial resources in cases of major disasters, as we mentioned in our recent commentary, Will Changes to FEMA Affect Municipal Bonds?
- In New York City's closely watched Democratic mayoral primary, Zohran Mamdani won the nomination, receiving 44% of first place votes in a ranked choice election. Joining him on the ballot in November will be Eric Adams (I), Curtis Sliwa (R), Jim Walden (I), and Andrew Cuomo (I). Some of Mamdani's platform highlights include free public buses, no-cost childcare, city-run grocery stores, and a rent freeze, funded through higher taxes on businesses and the wealthy. Most of these initiatives would have to be approved by the state, which may prove challenging since New York Governor Kathy Hochul, has stated that she doesn't want to raise taxes because that would drive more business and high earners out of the state.

With the passage of H.R. 1, termed by Republicans, "the One Big Beautiful Bill Act," the TCJA was extended, preventing a significant increase in tax rates for 2026. This removes a cloud that had been hanging over the municipal market due to the uncertainty over possible changes to their tax treatment. The final version was largely positive for municipal investors and issuers. Some highlights of provisions affecting the municipal market are:

- The maximum Federal income tax rate remains 37% for 2026 and beyond rather than reverting back to 39.6%.
- The tax exemption remains for municipals and is slightly expanded to include the issuance of spaceport-related private activity bonds.
- The SALT deduction was increased to $40,000 for individuals making under $500,000 but the exemption rapidly declines above that income level. For taxpayers with Average Gross Income of over $600,000, the deduction remains $10,000.
- The Alternate Minimum Tax (AMT) exemption limits of $500,000 for single filers and $1 million for joint filers were made permanent with inflation adjustments. This should prevent most taxpayers from being subject to the tax and make AMT bonds attractive investments for many municipal investors.
- The Act raises the endowment tax from the existing 1.4% on certain private universities, to a top tax rate of 8%, using a tiered tax structure that measures endowment assets per enrolled student (Inclusive of International Students). A key last-minute change exempted private universities that enroll less than 3,000 students, providing relief to some 20-25 smaller colleges that would otherwise have been subject to the tax. The maximum tax rate of 8% is significantly smaller than the originally proposed 21% but it is a significant increase. Some of the wealthiest schools are forecast to each pay hundreds of millions per year which, while unlikely to impact their credit worthiness, will force them to adjust.
- Changes to the Medicaid program, intended to reduce Federal expenditures on this program will begin phasing in, starting in 2027. Over time the changes are likely to shift additional healthcare costs to states and add financial stress on hospitals with high amounts of Medicaid revenue.

Source: MMD, Bloomberg. As of June 30, 2025, unless otherwise indicated.

Municipal Credit Update

- New York's congestion pricing program passed its six-month anniversary on July 5th and continues to operate, even as the U.S. Department of Transportation's effort to shut it down remains tied up in court. New York City's congestion pricing toll has generated about $219 million, so far this year. The fee is the first of its kind in the nation and the program is on track to raise $500 million this year, having reportedly reduced traffic in Manhattan's central business district by 11%. MTA ridership has also improved across the region with NYC subway and bus ridership up some 7% and 12%, respectively. The MTA's commuter railroads also saw increased ridership with an 8% increase on the Long Island Rail Road and a 6% increase for Metro-North.
- Despite projecting a modest surplus at the beginning of the year, California is on track for a $12 billion deficit. Gov. Newsom blames the turnaround on broad economic uncertainty including tariff policies and a volatile stock market. He has proposed freezing enrollment in state-funded health care for migrants starting in 2026 and will begin charging those already enrolled a monthly premium the following year, as the program is costing more than the state expected.
- The US Treasury Department is considering rules that could revoke the tax-exempt status for colleges that consider race in student admissions, scholarships, and other areas. It would bar private, nonprofit schools from remaining tax-exempt if they favor any racial groups in matters such as financial assistance, loans, use of facilities, or other programs. As a result, there has been a noticeable increase in taxable issuance by some of the top universities, especially those affected by freezes in federal grants.

Source: MMD, Bloomberg. As of June 30, 2025, unless otherwise indicated.

Important Disclosures

Past performance is not a guarantee of future results. Inherent in any investment is the potential for loss.

This document is not intended as investment advice or a recommendation of any security or investment strategy for a specific recipient. Investments or strategies described herein are provided as general market commentary, and there may be no account or fund managed by Fiera Capital Inc. for which investments or strategies described herein are suitable due to the various types of accounts or funds that are managed by Fiera Capital Inc. Nothing herein constitutes an offer to sell, or a solicitation of an offer to purchase, any securities, nor does it constitute an endorsement with respect to any investment area or vehicle. This material is confidential and not to be reproduced or redistributed without the prior written consent of Fiera Capital Inc.
Certain information contained in this document may constitute "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," anticipate," "project," "estimate," "intend" "continue," or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of any strategy or market sector may differ materially from those reflected or contemplated in such forward-looking statements.
Statements regarding current conditions, trends or expectations in connection with the financial markets or the global economy are based on subjective viewpoints and may be incorrect.

The information provided is proprietary to Fiera Capital Inc. and it reflects Fiera Capital Inc.'s views as of the date of this document. Such views are subject to change at any point without notice. Some of the information provided herein is from third party sources and/or compiled internally based on internal and/or external sources and are believed to be reliable at the time of production but such information is not guaranteed for accuracy or completeness and was not independently verified. Fiera Capital Inc. is not responsible for any errors arising in connection with the preparation of the data provided herein. No representation, warranty, or undertaking, express or implied, is given as to the accuracy or completeness of such information by Fiera Capital Inc. or any other person; no reliance may be placed for any purpose on such information; and no liability is accepted by any person for the accuracy and completeness of any such information.

Any charts, graphs, and descriptions of investment and market history and performance contained herein are not a representation that such history or performance will continue in the future or that any investment scenario or performance will even be similar to such chart, graph or description. Any charts and graphs contained herein are provided as illustrations only and are not intended to be used to assist the recipient in determining which securities to buy or sell, or when to buy or sell securities. Any investment described herein is an example only and is not a representation that the same or even similar investment scenario will arise in the future, or that investments made will be as profitable as such examples or will not result in a loss to any such investment vehicles. All returns are purely historical and are no indication of future performance.
Allocations presented herein are as of the date noted and subject to change. Returns reflect the reinvestment of income and other investment proceeds.

Index Definitions:
It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the cost of fees and expenses that will reduce returns.
The Bloomberg Municipal Bond Index is a rules-based and market value weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least $7 million and be issued as part of transaction of at least $75 million. The bonds must be fixed rate, have a double date after December 31, 1990, and must be at least one year from maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark.
Subindices include: Bloomberg 1 Year (1-2 year maturities), Bloomberg 3 Year (2-4 year maturities), Bloomberg 5 Year (4-6 year maturities), Bloomberg 7 Year (6-8 year maturities), Bloomberg 10 Year (8-12 year maturities), Bloomberg 15 Year (12-17 year maturities), Bloomberg 20 Year (17-22 year maturities), Bloomberg 1-10 Year (1-12 year maturities).
The Bloomberg Pre-refunded Index is composed of general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and prerefunded bonds.
The Federal Open Market Committee (FOMC) is a committee within the Federal Reserve System (the Fed) that is charged under United States law with overseeing the nation's open market operations (e.g., the Fed's buying and selling of United States Treasury securities). This Federal Reserve committee makes key decisions about interest rates and the growth of the United States money supply. Under the terms of the original Federal Reserve Act, each of the Federal Reserve banks was authorized to buy and sell in the open market bonds and short-term obligations of the United States Government, bank acceptances, cable transfers, and bills of exchange. Hence, the reserve banks were at times bidding against each other in the open market. In 1922, an informal committee was established to execute purchases and sales. The Banking Act of 1933 formed an official FOMC.

Federal Funds Rate: The federal funds rate is the central interest rate in the U.S. financial market. It influences other interest rates such as the prime rate, which is the rate banks charge their customers with higher credit ratings. Additionally, the federal funds rate indirectly influences longer-term interest rates such as mortgages, loans, and savings, all of which are very important to consumer wealth and confidence. (Source: Board of Governors of the Federal Reserve System)

Personal Consumption Expenditures Price Index (PCE): A measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

Unemployment Rate: The unemployment rate represents the number of unemployed people as a percentage of the labor force (the labor force is the sum of the employed and unemployed). The unemployment rate is published by the US Department of Labor.

The unemployment rate is calculated as: (Unemployed ÷ Labor Force) x 100.

Core PCE: PCE excluding food and energy sector prices.

Consumer Price Index (CPI): The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending.

Core CPI: CPI excluding food and energy sector prices.