



The Investment Conversation: What's Ahead for Municipal Bonds?

Andy D'Souza & Dan Solender



Andrew D'Souza
Partner, Chief Marketing Officer



Dan Solender
Partner, Director of
Tax Free Fixed Income

In this podcast, Lord Abbett Portfolio Manager Dan Solender examines the factors likely to drive municipal-bond market performance in the coming year.

ANDY D'SOUZA: Welcome back to The Investment Conversation. I'm Andy D'Souza, partner and chief marketing officer here at Lord Abbett. As part of our 2025 investment outlook, we're going to talk with our investment leaders about key themes for the markets in the coming year. In this podcast, our guest is Lord Abbett's head of tax-free fixed income, Dan Solender, who's also a partner of the firm. Dan, welcome to the show.

DAN SOLENDER: Thank you. Great to be here.

D'SOUZA: It's great to have you, Dan.

Let's get right into it today. Want to cover a few different topics to follow up on our written outlook for 2025. Namely, wanted to go through sort of the backdrop as we enter into now, we are now in 2025. I also want to touch on fiscal policy, as this is something that's very topical in the markets currently.

And then, looking ahead more about the challenges and opportunities, looking at things like credits, maturities, sectors, and industries. But if we take a step back and go back to the idea of where we are in '25 in January looking ahead, let's paint the landscape for the listener a little bit here across these four metrics.

Let's talk about rates, supply, demand, and credit fundamentals overall. So, I guess first one, Dan, talk to us about rates. The Fed [U.S. Federal Reserve] made a few moves late last year taking rates down a bit 100 basis points overall across three moves. How has that affected your market and what are your thoughts how that set us up for 2025 here?

SOLENDER: Well, first of all, thanks for giving us a chance to speak today. We appreciate it. It's been an interesting start to the year, and not just an interesting start to the year, an interesting end to last year too. And kind of even stepping back a little bit a few years, kind of giving you a little bit of history.

D'SOUZA: Sure.

SOLENDER: 2022 obviously was the toughest year pretty much in the history of fixed income, a very tough year, rates going up pretty much throughout the year, a lot of pressure on the market. 2023, we got through the first ten months, and it looked like it was going to be another tough year for the markets.

Then we had a big rally in November and December, and when we got to this January this point last year, we'd come through this rally and a lot of people were thinking they missed the opportunity. Rates had come down and they should hesitate a little bit.

But then we went through a 2024 where rates were going up most of the year. We went up 50 to 75 basis points depending on where you were on the yield curve. And it was a little more of a challenging year for rates than expected. I think kind of getting back to the question with the Fed.

At this point last year, everyone was expecting a lot of Fed cuts and we've only gotten a few. So, now as we get into this year, the expectations are very few, very little Fed action going forward. And that's where we've been, in the backdrop of the last few months, with the Fed not lowering rates as much, Trump being elected and [the potential] impact on the economy and inflation. And that's kind of led to rates rising. No political statement, just expectations of things coming out of his policies. So, as we come into this year, we're now at a point where rates are back up, not as high as they were before the big rally, but they're up again.

So, people have not missed the opportunity. We have an environment where everything's pretty much attractive in the market. Credit quality's good, and now we're just waiting to see if inflation comes down and if the Fed can actually take more action going forward, which is more uncertain now than it was a year ago.



D'SOUZA: So, rates now across the spectrum, it feels like they're higher, to your point, than recent history. What about the shape of the yield curve? It matters where you are on the curve, right?

SOLENDER: It does. And what we've gone through has been kind of dramatic for me and it was a very dramatic last couple years, because until about two years ago we always were able to say the muni yield curve never inverts the way the taxable yield curve does. We never had seen that happen.

And then two years ago, we got it inverted from about three years out to about 12 years out on the yield curve. And that's where we were a year ago at this time. Now we're at the point where everything is upward sloping again, not as steep as it has been historically but we're back to a more normal yield curve.

And what's even more interesting in munis, too, is that we had this inversion, which has made that intermediate part of the curve to be lower in rates than the shorter part. But the long part of our yield curve was steepening the last few years while other markets were not.

So, a lot of people when they come talk to us, they get surprised that our yield curve is not flat. We have an upward sloping yield curve. It's pretty much as steep as it gets from 10 years to 30 years. So, there is a lot of opportunity to pick maturities. Things are changing from where they were a year or two years ago, and we're getting back closer to normal.

D'SOUZA: Maybe the last thing on rates and yields in general--as far as the relationship between municipals and Treasuries, how has that relationship changed or has it changed, and where are we heading to going forward?

SOLENDER: A lot of people, when they look at the relative value of municipals, they start with a triple-A muni yield compared to a Treasury yield for different points on the yield curve. And the key thing with this is that the Treasury is an actual Treasury market where the bonds are trading at those yields.

In municipals, it's a benchmark yield, so it's a hypothetical yield. And pretty much every bond we're buying is at a higher yield than that triple-A benchmark. But it is a good starting point for relative value. And the ratios, if you look at those, are average particularly on the 10 years and [shorter] part of the market.

But where we get steeper out long, they're more attractive than they had been historically. But I think there's opportunity in all different parts of the curve, depending on--right now there could be more spread for things like call protection or coupons than there can be for credit in certain circumstances. So, it is a different type of a market. Looking compared to Treasuries, the relative value is not screaming at you cheap, but there's a lot of opportunity in different parts of the yield curve.

D'SOUZA: Yeah. For an active manager, it's probably a great time to be looking across to the yield curve here. Dan, as far as rates go, if we put that aside for a second and move into the second topic, we wanted to set the landscape around was the supply. I think you had said in recent history here that last year's supply was a record-setting number, something like \$500 billion--

SOLENDER: Yeah, \$507 billion, right.

D'SOUZA: \$507 roughly billion, yes, right. So, talk about that. Why was that, and how did that affect the market?

SOLENDER: Sure. And that was a surprise. We were coming off an environment out of COVID, [where] the economy did better than expected. Then there was all the fiscal stimulus from the different administrations. A lot of the city and local governments and all the different sectors were being able to live off a lot of the stimulus money for a while and the strong economy, so they didn't really have to borrow a lot a couple years after COVID.

We get into 2024, and there is a backup of a lot of infrastructure projects that they'd been kind of holding off. I think a lot of issuers might have been waiting for rates to come down, hoping that we'd get back to the environment of 2021 and earlier.

But it wasn't happening, so they had projects, they couldn't wait for rates to come down anymore. And then you also had an election coming up, and once again, no politics but just a lot of them wanted to get their issuance in before things changed.

So, we saw this issuance. It was very strong. We typically get, say, \$7-\$8 billion a week in supply, and last year it was \$12-\$13 billion most weeks, which was much bigger. But the market handled the supply very well. What was interesting about the supply too is that when a lot of people think of municipals they think of general obligation bonds to states [and local governments], which is about 30% of the market so it is a big part of the market.

But the bulk of our market is revenue bonds, and that's where the real big increase came. And healthcare, which hadn't been issuing a lot found it was a good time to issue. They had a lot of infrastructure needs. They had made it through some tough times after COVID where nursing costs were higher, and people couldn't do elective surgeries.

They really were coming on, and it was a good time to borrow and they needed to borrow. Airports are another example where you look at the numbers they keep reporting of how much people are flying. The airports are at capacity, a lot of infrastructure needs, so a lot of borrowing in sectors like that.

So, that's where a lot of the issuance came, a lot of attractive issuance. And one final thing on the issuance, which is interesting too is that it's the investment grade part of the market that saw a big increase in issuance. The high-yield part of the market did not. So, it was a very different dynamic in both parts. And as we kind of come into this year, we obviously usually have a slowdown over the New Year's time period, but it seems like it's going to pick up pretty fast again this year.

D'SOUZA: Got it. And I guess you can't talk about supply without talking about demand. So, let's complete that equation. What's been happening with demand, and what do you see going forward there?

SOLENDER: That's been a fascinating thing for us because there's a lot of components to it. The headline is the demand, and you can break it down in separately managed accounts and funds. Separately managed accounts have had very, very strong demand for a few years now.



And that's one part of the demand. The mutual fund side, the demand is slowly coming back. To kind of put some numbers on it, in 2021 when rates were at record lows, we had record inflows, well over \$100 billion of flows in a low-rate environment.

In 2022 with rates shooting up, record outflows of about \$140 billion coming out of funds. 2023 first 10 months were weak, and then we got strong pretty much unchanged, maybe even a little bit negative in flows. 2024 about \$30 to \$40 billion coming in demand into funds.

D'SOUZA: These are mutual fund flows in the industry overall.

SOLENDER: Yeah. And the mutual funds are the ones everyone tracks. It's easiest to track. Separately managed accounts are always anecdotal based on what people are kind of sharing.

D'SOUZA: Now, the last of the four. We've been through rates, supply, demand. Last of the four things I want to talk about as far as the backdrop looking at the year ahead here will be credit fundamentals. How do we stack up today? How healthy are we in terms of things like revenues, rainy day balances, upgrades, downgrades, stuff like that?

SOLENDER: So, credit quality's really good and when we go back and talk about 2022 as a backdrop, 2022 was a terrible total return year because rates were going up. But probably it was one of the best credit years the market has had in terms of how good credit quality was.

And that's continued on, because you kind of came out of that environment and you had budgets coming in. Everyone was kind of projecting these tough budget situations out of COVID. They ended up being okay. Then the stimulus money. So, we come into this environment, and credit quality is very strong across the board.

We continued to have more [ratings] upgrades than downgrades through all of 2024. If you look into the high-yield market, default rates are historic lows, and they've been there for a couple years in a row. Some of the headlines about states have been good, people look at states in our market as kind of the headlines for how the market is doing.

D'SOUZA: Yeah.

SOLENDER: And you kind of look at how Illinois was coming into COVID in 2020, it was a triple-B-minus credit on negative outlook. And we were actually preparing for potentially seeing it move down to below investment grade. They got their budget under control.

They got some stimulus money. They've got new revenue sources, and now they're an A-minus credit and stable in that range. You look at New Jersey, which is another one that kind of gets in that category, it was going through similar struggles, not as low rate as Illinois.

It hadn't made a full pension payment since 1996 until about four years ago. And now it's making its full pension payments. It's found new sources [of revenue], and it's under control. The final one I wanted to mention, everyone talks about California, because then numbers in California when you look at the budget numbers, they're just huge.

I mean, on its own, it's something like the fifth largest economy in the world. And so when they have a deficit, it's a big number. But then you kind of go back to 12 years or so ago or somewhere in that range. They were triple-B-minus being compared to--

D'SOUZA: Greece, that's right.

SOLENDER: --Greece. And what they've done over the years is they've gotten more control over the budget. When they've had good moments, they've built up the rainy day or surplus funds, which are now as high as they can be. So, when they have volatility right now, they have reserve funds.

They have good budgeting, a lot of revenue sources, and everything. So, it was a long answer that credit quality is very good. It probably can't stay this good, not that it's going to get bad, but we'll probably see some more stress in some pockets of the high-yield market potentially. But overall, things are pretty good.

D'SOUZA: I want to touch on the "pockets of stress" theme here. When speaking with a couple of your colleagues, Steve Rocco and Rob Lee, co-heads of taxable fixed income this week, they had mentioned that in some of the more credit-sensitive parts of the market, they used the phrase it's "adult swim only" at this point. Would you kind of characterize the high-yield municipal market in the same way?

SOLENDER: I think I would say that. I think we're almost always like that though. It's kind of like I think I find on our high yield side, we have some really amazing investments we can make, opportunities people wouldn't even think of as being municipal bonds where you can make investments in real estate, project finance, all kinds of different corporate below investment grade corporate bonds, things like that.

There are a lot of great opportunities, but it is always the case where you have to really know what you're looking at. And in municipal high yield too, more than half the market doesn't even get a rating from the rating agencies. So, you have to really know how to analyze them yourself. Great opportunities.

I mean, default rates are below 2%, so they hold up very well. But it is kind of that environment. And one thing that we're seeing too is that the demand for that market is really increasing, kind of getting back to the mutual fund flows. Of that 30-plus billion we saw in flows last year, more than half of it came into high yield. So, that I think investors are seeing the opportunity as well.

D'SOUZA: Gotcha. Okay, excellent. So then, that's our backdrop and landscape right now in January looking ahead into 2025. The second part we wanted to talk about today, which is not a political conversation, but we can't talk about municipals without discussing fiscal policy. And with a new administration coming in, there are a few headlines out there that people want to know your thoughts on. One of them might be the SALT [state and local taxes] cap. Talk to us about the SALT cap. What's going on there?

SOLENDER: So, that's an interesting one, and as everyone knows, there's a cap on how much state and local taxes you can deduct from your taxes. And that was under the first Trump administration, that cap was created. Previous to that, there was not a cap.



And it kind of has been good in a way for municipal bonds, because municipal tax-exempt dividend interest is separate from the cap. So, it's been a good way to get tax-exempt dividend interest. As part of [upcoming budget] negotiations though, a lot of the Congress people from the states that were hit with this, New York, California, New Jersey, states like that really want to have the cap increased as part of this tax bill, which I don't think it can be increased a huge amount.

Because with all the things they want with tax cuts and spending, it's going to be hard to make a major move. But it is something that'll be in the headlines that'll impact the negotiations and could have a small impact on our market, but nothing major I think in terms of a negative or a positive. Just kind of we already have the cap, so it's just a question of what it's going to be.

D'SOUZA: Got it. And then if we I guess take a bigger step back and ask ourselves the question we'll get asked again with the new administration coming in here, the question about even the tax-exempt status of tax-free bonds in general will be called into question. And I think it's happened before. What are your thoughts on that?

SOLENDER: Yeah, that's one of those things we get concerned about them focusing on the munis. But as I've been doing this over 30 years, [I've seen that] it comes up almost every time there's a budget discussion in Washington. Because there's always a confusion between one side [thinking that] a lot of the tax benefit is the best for high-net-worth investors.

So, there's a thought that the benefits just go to the high-net-worth investors. But in reality, the tax exemption and ability to borrow at low tax-exempt rates helps everybody, because the borrowing costs are lower for your water and sewer systems, your utilities, your schoolhouses.

I mean, everything would have to be funded at a higher rate and everyone's taxes would have to go up somewhere to offset that. So, it is one of those topics that I think when people look into it, it is a bigger deal, and it benefits everyone. But it does come up in every conversation in different ways, and we anticipate it'll come up again this time.

Because there's always some people who would like to bring it into the debate. I don't think there's much of a risk in terms of the whole thing going away. It's just too important. All the infrastructure spending in the country, I joke around with my family and others that you kind of look out the door [and see what's been financed by muni bonds].

I used to take my kids to all kinds of travel sports and drive down the New Jersey Turnpike, and we'd be stuck in traffic. And I'd say, "Isn't this fantastic?" And they're saying, "No, we're going to miss the game." And I'd say, "No, but look at all these tolls that people are paying. Isn't this great that people want to use this?" So, I think the tax exemption is going to be open for debate, but it should be minor changes if anything, and the benefits are too big for it to go away.

D'SOUZA: Anything else in the fiscal front that you think might affect your market? There's been talk about tariffs and stuff like that. Anything else you think that might affect the muni market overall?

SOLENDER: That's something. We have to spend a lot of time on that, because one of the things we find when they come up with these tax bills and these agreements over the years, there's always some little surprise that I'm sure a lot of people voting on aren't even aware that they're voting on. The last time around, not only did they put the SALT cap on, but they changed the way municipal bonds could be refinanced, which I'm sure was something that people weren't even aware was in the bill.

D'SOUZA: What was the big change there-?

SOLENDER: Well, when you bring a municipal bond deal, you can refinance it one time before your call date on the bonds. And prior to that, you could refinance it with tax-exempt bonds. And they changed it there so that you're going to have to use taxable municipals to refinance, not tax-exempt, which was a big change.

D'SOUZA: So, the net effect would have been what then on the market?

SOLENDER: Well, when the rates were low in 2021, we had a huge increase in taxable municipal bond issuance because of refinancing with taxable bonds. And actually, part of the supply last year, which was interesting too, which boosted the tax-exempt supply was a lot of the taxable munis were being refinanced.

And because it was a good time to refinance, they were [tendered] for, meaning issuers put out bids to buy the taxable bonds and then reissued using tax-exempt [bonds]. So, that was another reason why our supply went up. Might be too in the weeds there, but it is an impact. But so, some of the things they're working on more on the fiscal side, I think they have to find revenue somewhere.

There's a lot of things they want. If they want tax cuts, and they want all these different ways to spend, they have to find some revenue. And we're kind of just thinking about all the different sectors. And as I mentioned, a lot of people think of us as general obligations, but there are all these different sectors.

So one, which is a reasonably decent-sized sector in our market is universities, higher education. And it seems like that there'll be some kind of a tax increase or tax on endowments, which just seems like for what they're trying to do it's a good possibility.

And we don't think this will have a real material impact on the credit quality of universities, but it's something some of them have to prepare for and it's something we might see. Through other parts of our market, a lot of people aren't always aware that industrial development bonds are a big part of our market. And what those are opportunities for corporations in a lot of cases with household names you might think of in the corporate market to issue. Intel, for example, has a lot of municipal bonds in the last few years.

D'SOUZA: What would be the premise there how that becomes how Intel issues a bond that's actually tax-free?

SOLENDER: So, we have what's called a private activity bond, but if you want to build a plant in a certain location around the country, if they get a huge tax-exempt financing and they build a plant in a certain area where that creates jobs, it creates revenue, they realize economic benefit to that area. So, there's a certain amount of issuance allowed, and each state gets a certain amount each year to



use in that way. So, Intel does invest and does get to borrow a certain amount with tax-exempt interest.

D'SOUZA: So, not calling the demise of these things or the end of it, but you're saying looking ahead based on sort of fiscal policy and to your point the need to actually pay for a lot of things, to find revenue somewhere, a couple areas you might keep an eye on would be universities and these private activity bonds. Is that right?

SOLENDER: In some part, yeah, something within private activities. I mean, it might not be this corporation because the economic benefit is huge. It could be something like they're also used to finance stadiums. You look around the country, in New York Yankee Stadium or Citi Field for the Mets, both municipal bond deals.

You could see that being a sector that they could say, maybe it's not tax-exempt going forward. But overall, I think kind of getting in too much of the details here, I think overall there's going to be limited impacts. But we do have to watch things like education and healthcare too.

There are constantly efforts to change Medicaid and Medicare, and they cover a lot of the revenues of the not-for-profit hospitals. So, something we have to watch how that changes too, but overall, I think everything's in great shape. It's just we'll have some minor changes we'll have to react to.

D'SOUZA: That makes sense. And that kind of takes us from our second point on fiscal policy to the third and next to last part of the conversation here around challenges, which we just touched on a couple of them in some of these like in education, maybe some healthcare, maybe even some of the private activity bonds going forward, just to keep an eye on those.

What about some of the opportunities that you see out there? And maybe we take this again across a few different metrics. Let's talk about maybe credits, high yield versus high quality. Do you see any opportunities that stand out to you looking ahead here in the first part of the year?

SOLENDER: It's funny, kind of comparing high yield to investment grade, and most of the commentary people hear away from people like us when they hear television or whoever, it's about the taxable market. So, kind of when we start talking to people a lot of times they come in if credit spreads are tight on the taxable side, they think they're tight on our side.

And it's not the case. There are certain parts of our market that have tighter spreads, but there's still a lot of opportunity in the high-yield market. And kind of the main point of everything right now in the fixed-income environment is our yields are higher than they've been in a decade, so there's a lot of opportunity in all parts of the market.

And if you're getting more yield for high yield, that's a good thing. So, there's a lot of opportunity in both parts of the market. Because credit quality's strong, you are getting compensated for taking credit risk. You kind of look at sectors, like I mentioned airports had a lot of issuance last year.

They're probably going to continue to have a decent amount of issuance going forward, and they're typically in locations where they kind of can raise fees and do what they need to. But they just have

to take on a lot of debt to do it, which sometimes keeps them in the A-rated range instead of higher. A lot of opportunity there.

I mean, we went through COVID, we were watching that category, and they never had real credit problems because they had such big reserves that they made it through in a time where people weren't even flying really. So, there's a lot of opportunity in revenue sectors, airports, hospitals, transportation, toll roads, different parts of that.

Within the high-yield market though, there are a lot of really good opportunities. Default rates are low, and there's a lot of different areas around the country that--it's all region to region--you look at some areas like Utah and Colorado, tremendous amount of growth in those areas.

And there's a lot of deals in municipals where you can invest in some of the real estate growth in those parts of the country. There's senior living sector's one that's been under pressure for a while since COVID, because people couldn't move in for a couple years.

You couldn't sell your house or even go visit a facility, and they had the high healthcare costs for a while. Now they're catching up on the people moving in and it's getting better. But that's one that's had some defaults in the last year, so it really could be opportunity as we look forward.

So, in a lot of different parts of the market, the spreads are attractive. And the key thing we watch in the market that we focus on the most in terms of our concerns, credit quality in certain sectors, obviously that's a big deal. We spend a lot of time on credit quality, looking at the structures.

The bonds you kind of mentioned before it's kind of for adults. You have to really look at the covenants and everything to make sure you know what you're getting in these situations, and if there is a problem that you have something really secure to work with or to negotiate.

But what we focus on, the most concern we have, is away from credit. It's liquidity. If we go through an environment like 2022, are we prepared with enough liquidity? We think we are. We constantly are using them and testing them, but that is kind of when we're watching a lot of what individuals are going to do with mutual funds and if the demand's going to pick up the pace from where it was last year.

D'SOUZA: When looking at liquidity, are there a couple of measures that look at or things that you point to to kind of give you insights into how liquid the market is at any given time?

SOLENDER: Some of it is you can look at the volume of dealer inventories. You can look at the volume of trading on the day-to-day trading. So, we can look at the type and number of bonds that sell on "bid wanteds" when people try to put them out for sale to see how much success they're having in finding good bids.

And then, just anecdotally, every day we have a separately managed account side of our business where we have over 20,000 accounts. So, everyday we're doing trades for those accounts. But with 20,000 accounts, you have money coming in and money going out, accounts opening, and all kinds of different factors, so we're doing trades all the time. So, we're constantly seeing what the spread is. And every week in our Monday morning meeting, we go through the



details and check in, how much that cost liquidity was the week before. So, it is something we monitor a lot.

D'SOUZA: The other topic that we spoke about with your taxable counterparts here at Lord Abbett in terms of the growth of the private fixed-income markets, and wanted to get your thoughts and understanding of is there a parallel on the tax-free side? Are there deals coming to market on the private side, or is there a private market in tax-free bonds? Maybe start with that.

SOLENDER: So, the evolution of the high-yield market and munis, you have to go back. I started this in 1992. Until the late '90s, there weren't even really high-yield focused funds. Kind of around the turn of the century is when they kind of started coming out.

We were buying high yield, as part of a fund. And then the money really came in. And pre-credit crisis, a lot of the high-yield deals were very small deals a handful of people were buying. So, kind of what they talk about in private lending has kind of been the history of municipals for a lot of years.

Since the credit crisis and even the few years before, there's been a tremendous flow of money coming into high-yield municipals, so now it's a bigger category. And there's also a lot more issuance because a lot of issuers know the money's there to lend to them, and all kinds of different things come into the market that didn't exist before.

So, it's a big evolving market, but it is a market where there are a handful of firms that have the bulk of the assets. And that makes it a lot like what I hear about in the private lending market where they'll come to the market and even on certain deals, and we're top 10 in terms of high-yield muni assets, so, there's a certain group of us who kind of see everything in advance and participate in the flow. But one thing I've seen become more interesting in the last couple years, the banks have really been pulling back. And you hear about this in the taxable side, but it's also on the tax-exempt side where they're pulling back.

And a lot of the borrowing that didn't happen in the municipal bond market a few years ago would be bank loans that banks would be making to issuers of municipal bonds. We wouldn't even see those deals. Those things didn't really have to be disclosed.

But now banks are really pulling back and we kind of saw what happened to Silicon Valley Bank and a bunch of others. And they're pulling back, so some of these deals that the banks used to do themselves, now they're coming to the market. So, we'll see deals now where they come to three, four, five, under 10 firms and just talk to us in advance and see if we're interested in trying to get a group of investors together to help structure the deal and put it into the market.

So, it's always been a market where a small group of people see it, but now in certain situations, these things that used to just go to the banks are now coming to us. And they're attractive yield. Fortunately, we have the research to look at them and we're buying deals that are fascinating that we wouldn't have seen a few years ago.

D'SOUZA: That's awesome. I love it. So, overall, I'm hearing from you today attractive yields in the municipal bond marketplace, strong fundamentals as well, but a dynamic space overall. And it's not sort of one size fits all, and maybe it is adult swim in some areas, but as long

as you have well-resourced, experienced team, an active manager can find some great opportunities here going forward in 2025.

SOLENDER: And I would say, the yields are definitely attractive. You kind of look at a year like last year where rates went up in 2024, and because our starting point with the yields now is so much higher than it was a few years ago, [the levels] yield are going to be lead to positive returns in pretty much every category. So, your starting point, you're making a lot of tax-exempt income better than you have been in a while. And the market just has to stay a little calm, and the Fed has to do what they need to do, and we have a good outcome.

D'SOUZA: Given all we've spoken about today, Dan, where do you see the best opportunities?

SOLENDER: So, given the backdrop of where we are and with rates being higher than they've been in more than a decade for the most part, it really depends on what the investor's looking for. But there is opportunity for everyone. If you're really worried about rates continuing to go up, a ladder is perfect because you're buying at today's rates and you're actually hoping rates go up.

Because as you reinvest, rates will be higher. So, that's some of that perspective. But if you're looking to invest in an actively managed portfolio, kind of the answer's kind of similar no matter what the market looks like. Because our yield curve is upward sloping typically.

So, if you want to get maximized returns, and you can leave your money in there for some period of time, there's going to be more volatility to go out longer, but the returns and income are always going to be better with the upward sloping yield curve.

If you're looking for the best risk-return tradeoff, that intermediate part of the curve is going to give you that. You're going to get a good portion of the yield but with a lot less volatility.

So, there is a little bit of something for everyone. And then in terms of credit risk too, the credit spreads are attractive enough given the opportunity, so if you want to take credit risk, that's a really good opportunity too. There's a little more volatility but great returns.

D'SOUZA: Sounds like a dynamic market with a little bit, to your point, opportunity for everyone in some sense, depending on what your risk tolerance is, your profile overall. But, Dan, thank you for the time today.

SOLENDER: Thank you.

D'SOUZA: I appreciate the conversation. It's been very helpful and enlightening. So, thanks a lot. And looking for a great 2025.

Thank you all for listening. Be sure to visit the Insights section of lordabbett.com to find our complete investment outlook and other market commentary.



GLOSSARY OF TERMS USED IN THIS BROADCAST

A **bid wanted** is an announcement that a holder of securities wants to sell and will entertain bids.

The Federal Reserve (Fed) is the central bank of the United States. The federal funds (fed funds) rate is the target interest rate set by the Fed at which commercial banks borrow and lend their excess reserves to each other overnight.

General obligation (GO) bonds are backed by the “full faith and credit” of a government and are issued by entities such as states, cities, counties, and school districts. Revenue bonds are backed by revenues from a specific projects or facilities (such as toll roads, water/sewer systems, or airports).

A **ladder** investment strategy allows an investor to stagger bond investments over time with different dates of maturity.

Private activity bonds are municipal bonds that are used to attract private investment for projects that have some public benefit.

Rainy-day funds, also known as budget stabilization funds, allow states to set aside surplus revenue for use during unexpected deficits.

Relative value assesses an investment’s value by considering how it compares to valuations in other, similar investments.

Spread is the percentage difference in current yields of various classes of fixed-income securities versus Treasury bonds or another benchmark bond measure. A bond spread is often expressed as a difference in percentage points or basis points (which equal one-one hundredth of a percentage point).

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment’s cost, current market value, or face value. **Yield-to-maturity** (YTM) represents the expected return (expressed as an annualized rate) from the bond’s future cash flows, including coupon payments over the life of the bond and the bond’s principal value received at maturity. **Yield-to-worst** refers to the lesser of a bond’s (a) yield-to-maturity or (b) the lowest yield-to-call calculated on each scheduled call date.

The **tax-equivalent yield** is the pretax yield that a taxable bond needs to possess for its yield to be equal to that of the tax-exempt yield on a municipal bond. This calculation can be used to fairly compare the yield of a tax-free bond to that of a taxable bond to see which bond has a higher applicable yield.

Yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. A normal, upward-sloping (steep) curve means that long-term securities have a higher yield, whereas an inverted curve shows short-term securities have a higher yield.

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Municipal bond default rate information based on data from Moody's.

Municipal bond mutual fund flow information based on data from Lipper.

Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of the entire principal amount that you invest, and there is no assurance that an investment will provide positive performance over any period of time.

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