

# Thornburg Municipal Bond Funds

## Portfolio Manager Commentary

31 March 2024



### Market Review

Economic data released during the first quarter of 2024 was supportive of the narrative that U.S. growth would not only remain resilient but resume a cyclically upward trend. Both nonfarm payroll releases in January and February exceeded analyst expectations, while the final measure of fourth quarter GDP was revised up from 3.2% to 3.4%. The downward trajectory in inflation remained stalled, with year-over-year CPI down only a tenth of a percentage point to 3.8%. Given this backdrop, Fed communication focused on patience and the need for better inflation data before committing to a rate cut. Markets repriced a higher for longer path, resulting in the 10-year U.S. Treasury yield rising from 3.88% to 4.20% over the quarter. Solid economic data helped keep the broader risk rally going, with spreads tightening across fixed income sectors and lower quality outperforming higher quality on a relative basis.

Munis showed resiliency during the quarter by outperforming Treasuries, investors' buying behavior was undeterred by valuations.

### First Quarter 2024 Performance Highlights

- The Thornburg Municipal Bond portfolios posted flat to slightly positive total returns over the quarter as coupon payments were more than offset by price declines as interest rates rose across the yield curve. Despite their negative absolute performance, all strategies outperformed their respective indexes, gross of fees, during the quarter.
- Performance during the quarter was driven by a rise in absolute yields - the result of rising U.S. Treasury yields - across the curve. As a result, duration was the primary detractor from absolute total returns but given the shorter-duration bias of the portfolios relative to their benchmarks, it was the primary source of relative outperformance.
- During the quarter, the market experienced spread tightening broadly across the space which lead sector and credit quality returns to be positive contributors to absolute and relative performance during the quarter.

### Portfolio Managers

#### **David Ashley, CFA**

Portfolio Manager

#### **Eve Lando, JD**

Portfolio Manager

#### **John Bonnell, CFA**

Portfolio Manager

Supported by the entire Thornburg investment team

### Current Positioning and Outlook

The Bloomberg Municipal Index posted a total return of -0.39% in a quarter whose performance was dominated by a rise in bond yields. Markets' expectations for an interest rate cut were dashed by the economic reality that emerged during the quarter, which chiseled away at the hopes a Fed rate cut was imminent. The year began on the heels of a fierce rally in November and December that saw the 10-year AAA yields fall by 140 bps, but the rally subsided abruptly upon entering the new year. What followed was a slow drift higher in Munis yields, punctuated with brief rallies, that pushed the 10-year AAA yield 50 bps higher on the quarter and lead to slightly negative total returns for the asset class.

Despite the slightly negative performance during the quarter, Munis showed resiliency by outperforming Treasuries, thanks to Munis lower yield volatility. The yield of the 10-year Treasury rose 90bps during the quarter which was almost double that of the 10-year AAA. The short-term outperformance versus Treasury was welcomed by Muni investors, however, it did leave Muni valuations in a precarious position. Judging by the historic relative value metric, the Muni-to-Treasury ratio, the asset class looks frothy as ratios have sunk to the lowest levels in 20-years.

Despite Muni-to-Treasury ratios being low in historical context, it did not affect the buying behavior of investors. After suffering outflows of \$17.9B in 2023, the tide turned as retail investors committed \$10.1B to Muni funds during the quarter. We can ascertain that flows into separately managed accounts were also strong during the period as judged by uneconomic buying that took place in parts of the curve. Such strong demand may have driven down yields if it had not been for the \$107B of new issue bonds that came to market. It marked a sizable increase from the \$82B issued in first quarter of 2023.

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Portfolio actions were driven by the supply and demand tug-of-war that played out during the quarter and their impact on the yield curve and credit spreads. The yield remained inverted with the low point in yields hovering around 7-year maturities. The yield curve, which looks like a soup ladle, provided opportunity to add yield inside of 2-year and beyond 13-year maturities. There were also opportunities in daily and weekly Muni bonds that spent most of the quarter outyielded by the 30-year AAA.

While yields rose, credit spreads tightened as investors moved into municipal credit. High yield municipal bond funds were a large recipient of the inflows during the quarter which drove the Bloomberg High Yield Municipal Index yield-to-worst to the lowest level in a year. The tightening occurred across the entire credit spectrum but was less pronounced in the lower end of the investment grade space. Purchases during the quarter were selective and centered around A- and BBB-rated bonds that offered additional spread from the sector, structure, or deal size. Areas such as pre-paid gas and smaller school districts bonds with insurance provided opportunities during the quarter by adding incremental yield to the portfolios.

As we look ahead to the remainder of 2024, rich valuations for Munis may be the new normal investors must come to terms with. Since 2009, total household net worth in the U.S. has grown from \$55T to \$147T but the Municipal market has only grown from \$3.8T to \$4.0T. With more dollars chasing a static amount of bonds, Munis, and the monopoly they maintain on tax-exempt income, lower ratios versus Treasuries makes more sense.

This isn't to say there is no opportunity to generate attractive returns in Munis because there is. How to go about finding the opportunities is changing. Moving forward it is likely that market volatility - created by investor reactions, or overreactions, interest rate policy, or exogenous events - and the ability to execute quickly during times of dislocation could be the true keys to success. The last few years has proven that the once boring and sleepy Muni market is gone, and the Muni market of today is one that is to be navigated with the help of professional management.

Thank you for your continued trust and support investing alongside of us in the Thornburg municipal strategies.

### AVERAGE ANNUAL TOTAL RETURNS (AS OF 31 MARCH 2024)

THORNBURG SHORT DURATION MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares TLMAX (Incep: 30 Dec 13)									
Without sales charge	0.17	0.17	2.46	0.26	0.56	0.57	0.56	--	--
With sales charge	-2.12	-2.12	0.19	-0.49	0.25	0.42	0.41	1.06	0.70
I Shares TLMIX (Incep: 30 Dec 13)	0.22	0.22	2.75	0.49	0.78	0.77	0.76	0.60	0.50
ICE BofA 1-3 Year U.S. Municipal Securities Index (Since: 30 Dec 13)	0.05	0.05	2.27	0.48	1.12	1.09	1.09		
THORNBURG LIMITED TERM MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares LTMFX (Incep: 28 Sep 84)									
Without sales charge	-0.14	-0.14	2.55	-0.36	0.76	1.12	4.18	--	--
With sales charge	-2.42	-2.42	0.26	-1.13	0.45	0.97	4.14	0.74	0.74
I Shares LTMIX (Incep: 5 Jul 96)	-0.01	-0.01	2.87	-0.11	1.01	1.40	3.23	0.51	0.51
ICE BofA 1-10 Year U.S. Municipal Securities Index (Since: 28 Sep 84)	-0.20	-0.20	2.23	0.00	1.32	1.76	N/A*		
THORNBURG INTERMEDIATE MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares THIMX (Incep: 22 Jul 91)									
Without sales charge	0.38	0.38	3.87	0.05	1.44	1.92	4.10	--	--
With sales charge	-1.61	-1.61	1.79	-0.61	1.03	1.72	4.03	0.92	0.72
I Shares THMIX (Incep: 5 Jul 96)	0.37	0.37	4.12	0.29	1.67	2.19	3.83	0.67	0.48
ICE BofA 3-15 Year U.S. Municipal Securities Index (Since: 22 Jul 91)	-0.31	-0.31	2.59	-0.16	1.59	2.39	N/A*		
THORNBURG STRATEGIC MUNICIPAL INCOME FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares TSSAX (Incep: 1 Apr 09)									
Without sales charge	0.67	0.67	4.35	-0.32	1.23	2.06	4.20	--	--
With sales charge	-1.36	-1.36	2.23	-0.98	0.82	1.86	4.06	1.27	0.81
I Shares TSSIX (Incep: 1 Apr 09)	0.72	0.72	4.58	-0.12	1.45	2.31	4.47	1.01	0.59
ICE BofA U.S. Municipal Securities Index (Since: 1 Apr 09)	-0.31	-0.31	3.27	-0.43	1.62	2.71	3.83		

\*Index not inception yet.

Returns for less than one year are not annualized. ITD is inception to date.

Class I shares may not be available to all investors. Minimum investments for the I share class may be higher than those for other classes.

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted. For performance current to the most recent month end, visit [thornburg.com](http://thornburg.com) or call 877-215-1330. Short Duration Municipal and Limited Term Municipal: The maximum sales charge for the Fund's A shares is 2.25%. Intermediate Municipal and Strategic Municipal Income: The maximum sales charge for the Fund's A shares is 2.00%. There is no up-front sales charge for class I shares. Thornburg Investment Management and/or Thornburg Securities LLC have contractually agreed to waive fees and reimburse expenses through at least 1 February 2025, for some of the share classes; these are reflected in the net expense ratio. For more detailed information on fund expenses and waivers/reimbursements, please see the fund's prospectus.

# THORNBURG MUNICIPAL BOND FUNDS

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### AVERAGE ANNUAL TOTAL RETURNS (AS OF 31 MARCH 2024)

THORNBURG CALIFORNIA LIMITED TERM MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	EXPENSE RATIOS (%)	
								GROSS	NET
A Shares LTCAX (Incep: 19 Feb 87)									
Without sales charge	0.00	0.00	2.72	-0.17	0.57	0.99	3.60	--	--
With sales charge	-2.25	-2.25	0.38	-0.93	0.27	0.83	3.56	0.96	0.74
I Shares LTCIX (Incep: 1 Apr 97)	0.14	0.14	3.05	0.08	0.84	1.27	3.02	0.71	0.49
ICE BofA 1-10 Year U.S. Municipal Securities Index (Since: 19 Feb 87)	-0.20	-0.20	2.23	0.00	1.32	1.76	N/A*		
THORNBURG NEW MEXICO INTERMEDIATE MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares THNMX (Incep: 18 Jun 91)									
Without sales charge	-0.09	-0.09	2.21	-0.64	0.70	1.40	3.63	--	--
With sales charge	-2.12	-2.12	0.21	-1.30	0.30	1.20	3.57	1.02	0.99
I Shares THNIX (Incep: 1 Feb 07)	0.07	0.07	2.62	-0.30	1.04	1.73	2.67	0.74	0.67
ICE BofA 3-15 Year U.S. Municipal Securities Index (Since: 18 Jun 91)	-0.31	-0.31	2.59	-0.16	1.59	2.39	N/A*		
THORNBURG NEW YORK INTERMEDIATE MUNICIPAL FUND	QTR	YTD	1-YR	3-YR	5-YR	10-YR	ITD	GROSS	NET
A Shares THNYX (Incep: 5 Sep 97)									
Without sales charge	-0.16	-0.16	2.96	-0.16	0.91	1.48	3.13	--	--
With sales charge	-2.18	-2.18	0.94	-0.82	0.50	1.28	3.05	1.33	0.99
I Shares TNYIX (Incep: 1 Feb 10)	-0.08	-0.08	3.29	0.16	1.23	1.80	2.51	1.11	0.67
ICE BofA 3-15 Year U.S. Municipal Securities Index (Since: 5 Sep 97)	-0.31	-0.31	2.59	-0.16	1.59	2.39	4.21		

\*Index not inception yet.

Returns for less than one year are not annualized. ITD is inception to date.

Class I shares may not be available to all investors. Minimum investments for the I share class may be higher than those for other classes.

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted. For performance current to the most recent month end, visit [thornburg.com](http://thornburg.com) or call 877-215-1330. California Limited Term Municipal: The maximum sales charge for the Fund's A shares is 2.25%. New Mexico Intermediate Municipal and New York Intermediate Municipal: The maximum sales charge for the Fund's A shares is 2.00%. There is no up-front sales charge for class I shares. Thornburg Investment Management and/or Thornburg Securities LLC have contractually agreed to waive fees and reimburse expenses through at least 1 February 2025, for some of the share classes; these are reflected in the net expense ratio. For more detailed information on fund expenses and waivers/reimbursements, please see the fund's prospectus.

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### Important Information

Unless otherwise noted, the source of all data, charts, tables and graphs is Thornburg Investment Management, Inc., as of 31 March 2024.

Investments carry risks, including possible loss of principal. Portfolios investing in bonds have the same interest rate, inflation, and credit risks that are associated with the underlying bonds. The value of bonds will fluctuate relative to changes in interest rates, decreasing when interest rates rise. This effect is more pronounced for longer-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. Investments in lower rated and unrated bonds may be more sensitive to default, downgrades, and market volatility; these investments may also be less liquid than higher rated bonds. Investments in derivatives are subject to the risks associated with the securities or other assets underlying the pool of securities, including illiquidity and difficulty in valuation. Investments in the Funds are not FDIC insured, nor are they bank deposits or guaranteed by a bank or any other entity.

The views expressed are subject to change and do not necessarily reflect the views of Thornburg Investment Management, Inc. This information should not be relied upon as a recommendation or investment advice and is not intended to predict the performance of any investment or market.

There is no guarantee that investment objectives will be met.

Basis Point (bp) – A unit equal to 1/100th of 1%. 1% = 100 basis points (bps).

Income earned from municipal bonds is exempt from regular federal and in some cases, state and local income tax. Income may be subject to the alternative minimum tax (AMT).

U.S. Treasury securities, such as bills, notes and bonds, are negotiable debt obligations of the U.S. government. These debt obligations are backed by the "full faith and credit" of the government and issued at various schedules and maturities. Income from Treasury securities is exempt from state and local, but not federal, taxes.

Fed Funds Rate – The interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.

Federal Open Market Committee (FOMC) – The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of the board of governors, which has seven members, and five reserve bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate their service of one-year terms.

Consumer Price Index (CPI) – Index that measures prices of a fixed basket of goods bought by a typical consumer, including food, transportation, shelter, utilities, clothing, medical care, entertainment and other items. The CPI, published by the Bureau of Labor Statistics in the Department of Labor, is based at 100 in 1982 and is released monthly. It is widely used as a cost-of-living benchmark to adjust Social Security payments and other payment schedules, union contracts and tax brackets. Also known as the cost-of-living index.

A bond credit rating assesses the financial ability of a debt issuer to make timely payments of principal and interest. Ratings of AAA (the highest), AA, A, and BBB are investment-grade quality. Ratings of BB, B, CCC, CC, C and D (the lowest) are considered below investment grade, speculative grade, or junk bonds.

Credit Spread/Quality Spread – The difference between the yields of securities with different credit qualities.

Duration – A bond's sensitivity to interest rates. Bonds with longer durations experience greater price volatility than bonds with shorter durations.

Yield Curve – A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates.

The ICE BofA 1-3 Year U.S. Municipal Securities Index (ICE BofA 1-3 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity less than 3 years.

The ICE BofA 1-10 Year U.S. Municipal Securities Index (ICE BofA 1-10 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity less than 10 years.

The ICE BofA 3-15 Year U.S. Municipal Securities Index (ICE BofA 3-15 Yr US Muni) is a subset of the ICE BofA U.S. Municipal Securities Index including all securities with a remaining term to final maturity greater than or equal to three years and less than 15 years.

The ICE BofA U.S. Municipal Securities Index (ICE BofA US Muni) tracks the performance of U.S. dollar-denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market.

The Bloomberg Municipal Index covers the USD-denominated, investment-grade, long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

The Bloomberg High Yield Municipal Bond Index is a rules-based, market-value-weighted index that measures the non-investment grade and non-rated U.S. tax-exempt bond market.

The performance of any index is not indicative of the performance of any particular investment. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index.

### Not FDIC Insured. May lose value. No bank guarantee.

*Before investing, carefully consider the Fund's investment goals, risks, charges and expenses. For a prospectus or summary prospectus containing this and other information, contact your financial advisor or visit [thornburg.com](http://thornburg.com). Read them carefully before investing.*

Thornburg is a global investment firm delivering on strategy for institutions, financial professionals and investors worldwide. The privately held firm, founded in 1982, is an active, high-conviction manager of fixed income, equities, multi-asset solutions and sustainable investments with \$44.4\* billion in total assets across mutual funds, institutional accounts, separate accounts and UCITS.



\*Includes assets under management (\$43.2B) and assets under advisement (\$1.1B).