aberdeen Investments

abrdn National Municipal Income Fund

Quarterly Commentary

Quarter ended March 31, 2025

Fund performance

The abrdn National Municipal Income Fund returned -1.40% for the first quarter on a net asset value basis, underperforming the -0.22% return of its benchmark, the Bloomberg Municipal Bond Index.[1]

The Fund's exposure to education revenue bonds, including Huntington General Authority bonds, weighed on performance. Leasing backed bonds, and especially, New York Liberty Development Corporation's Liberty Revenue bonds, were also unfavourable as commercial real estate underperformed during the period. Conversely, health revenue bonds, including New Hope Cultural Education bonds, contributed to performance. Tax revenue bonds were also positive.

In addition, leverage continued to grind lower, with the securities industry and financial markets association (SIFMA) rate averaging 2.65% during the first quarter of 2025, compared to an average of 3.18% in the previous quarter.

In terms of credit quality, the Fund's exposures to AA and BBB-rated bonds were key detractors from performance. Conversely, non-rated bonds were particularly favourable as these credits continued to outperform.

Activity

During the quarter, we looked for income generating opportunities, which we found in high-quality AA and non-investment grade issuers in credits with strong fundamentals that stand to benefit from macroeconomic tailwinds. The activity in the portfolio resulted in a lower exposure to education in favour of higher exposure to housing and airports.

Total returns (as of 03/31/25)

	NAV	Market Price	Bloomberg Municipal Bond Index
1 month	-4.12	-5.73	-1.69
3 months	-1.40	1.55	-0.22
Year to date	-1.40	1.55	-0.22
1 year	0.25	3.36	1.22
3 years (p.a.)	-1.01	-2.46	1.53
5 years (p.a.)	1.09	0.98	1.07
10 years (p.a.)	2.19	2.31	2.13

Past Performance is no guarantee of future results. Investment returns and principal value will fluctuate and shares, when sold, may be worth more or less than original cost. Current performance may be lower or higher than the performance quoted. NAV return data includes investment management fees, custodial charges and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions.

abrdn Inc. assumed responsibility for the management of the Fund as investment adviser on July 10, 2023. Performance prior to this date reflects the performance of an unaffiliated investment adviser.

The Fund is subject to investment risk, including the possible loss of principal. Returns for periods less than one year are not annualized.

[1] The Bloomberg Municipal Bond Index is a broad, market value-weighted index that seeks to measure the performance of the tax-exempt U.S. municipal bond market. The index tracks general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected.

For current holdings information, please visit **abrdn National Municipal Income Fund - Portfolio Holdings**

Market review

The overall municipal (muni) bond market, as measured by the Bloomberg Barclays Municipal Bond Index, returned -0.22% for the first quarter of 2025. The short end outperformed the longer duration structures of the muni market with the Bloomberg Barclays Municipal 1-2 Year Index returning 1.05%, the Bloomberg Barclays Municipal 4-6 Year Index returning 0.91% and Bloomberg Barclays Municipal 17-22 Year Index returning -1.29%. The taxable muni bond market experienced relatively stronger performance over the quarter, with the Bloomberg Municipal Taxable Index returning 2.99% over the period, which compares favourably to the Bloomberg Barclays US Aggregate Bond return of 2.78% over the same period. In the high-yield space, high-yield muni bonds underperformed their corporate counterparts, with the Bloomberg Municipal High Yield Index returning 0.82% over the period compared to a return of 1.00% of US Corporate High Yield.

US GDP grew 2.4% on an annualised basis in the fourth quarter of 2024, below estimates, but still posting a 2% or greater quarter of economic growth for the ninth time in ten quarters, demonstrating a sturdy US economy. The US Federal Reserve (Fed) paused from its cutting cycle, deciding to keep policy rates unchanged at both the January and March meetings. The yield spread between two- and 10-year Treasuries remained relatively stable, beginning the quarter at 32 basis points (bps) and ending at 31 bps.

Outlook & strategy

As we move into the second quarter, we maintain a cautiously optimistic outlook for the muni bond market as momentum towards the Fed's 2% inflation target has slowed. We continue to find attractive income generating opportunities in the intermediate to long end of the curve. From a fundamentals standpoint, we remain constructive on the credit strength of the market, as tax collections are up year over year and the overall credit picture remains stable in municipals at this point.

Fund flows have continued to support the market as we have seen US$10 billion in the first quarter of 2025. From an issuance standpoint, issuance was up 15% year on year during the period. We believe that we will continue to see a relatively elevated pace of issuance in 2025 as projections are for US$500-US$550 billion in issuance for the year.

Given this backdrop, we are focusing more on fundamentals, and adding marginally to lower credit quality names as opportunities to lock in attractive yields arise. We continue to find opportunities in select issuers in sectors that we believe may outperform in an economic slowdown.

Important Information

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund's investment return and principal value will fluctuate so that an investor's shares may be worth more or less than the original cost. Shares of closed-end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the Fund. The net asset value (NAV) is the value of an entity's assets less the value of its liabilities. The market price is the current price at which an asset can be bought or sold. There is no assurance that the Fund will achieve its investment objective. Past performance does not guarantee future results.

This commentary is for informational purposes only, and is not intended as an offer or recommendation with respect to the purchase or sale of any security, option, future or other derivatives in such securities.

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Fixed income securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in the market value of an investment), credit (changes in the financial condition of the issuer, borrower, counterparty, or underlying collateral), prepayment (debt issuers may repay or refinance their loans or obligations earlier than anticipated), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

Municipal bonds can be significantly affected by political and economic changes, including inflation, as well as uncertainties in the municipal market related to taxation, legislative changes, or the rights of municipal security holders.

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Non-investment-grade debt securities (high-yield/ junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

Please see the Fund's most recent annual report for more information on risks applicable to the Fund.

For more information visit aberdeeninvestments.com

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