abrdn National Municipal Income Fund

Quarterly Commentary

Quarter ended September 30, 2024

Fund performance

The abrdn National Municipal Income Fund returned 4.21%[1] for the third quarter of 2024 on a net asset value basis, outperforming the 2.71% return of its benchmark, the Bloomberg Municipal Bond Index[2].

The Fund's exposures to tobacco, hospital and education bonds contributed to performance relative to its benchmark. Conversely, our exposures to airport and utilities detracted from performance. In addition, leverage costs remained elevated, albeit somewhat lower, with the securities industry and financial markets association (SIFMA) rate averaging 3.26% during the third quarter of 2024, compared to an average of 3.59% in the previous quarter.

Individual contributors to the Fund's relative performance included Golden State Tobacco and DASNY Housing bonds. Meanwhile, Colorado St Healthcare bonds hurt performance.

Activity

During the quarter, we looked for opportunities to add to our exposure in lower investment grade 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 hospitals, sales tax and airport sectors in favour of higher exposure to the housing, education and industrial sectors.

Total returns (as of 09/30/24)

	NAV	Market Price	Bloomberg Municipal Bond Index
1 month	2.10	2.84	0.99
3 months	4.25	7.14	2.71
Year to date	5.48	13.53	2.30
1 year	26.03	36.06	10.37
3 years (p.a.)	-2.00	-2.90	0.09
5 years (p.a.)	0.88	1.01	1.39
10 years (p.a.)	3.25	3.62	2.52
Since inception (p.a.)	4.39	4.21	N/A

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.

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

Market review

The overall municipal (muni) bond market, as measured by the Bloomberg Barclays Municipal Bond Index, returned 2.71% for the third quarter. The short and long end of the muni market underperformed the belly of the curve, with the Bloomberg Barclays Municipal 17-22 Year Index returning

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[2] 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**

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2.72%, the Bloomberg Barclays Municipal 1-2 Year Index returning 1.64%, and the Bloomberg Barclays Municipal 4-6 Year Index returning 3.04%. The taxable muni bond market experienced relatively stronger performance over the quarter, with the Bloomberg Municipal Taxable Index returning 5.42% over the period, which compared favorably to the Bloomberg Barclays US Aggregate Bond return of 5.20% 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 3.21% over the period compared to a return of 5.28% of US Corporate High Yield.

US GDP grew 3% on an annualised basis in the second quarter of 2024, above all estimates, and posting a 2% or greater quarter of economic growth for the seventh time in eight quarters, demonstrating a sturdy US economy. Notably, the US economy continued its story of resilience as the labour market demonstrated its strength posting unemployment rate of 4.1% in September, down from 4.2% in August, reversing a concerning trend of a weakening jobs market. The US Federal Reserve (Fed) delivered its first cut of 50 basis points (bps) in September, pivoting to a more accommodative stance for the first time in four years. The yield spread between two- and 10-year treasuries normalised, beginning the quarter at -42 bps and ending at 13 bps, demonstrating a positively sloping yield curve in treasuries for the first time since 2022.

Outlook & strategy

As we move into the fourth quarter of 2024, we maintain a cautiously optimistic outlook for the muni bond market as inflation pressures abate and the Fed has pivoted to a more accommodative position. We continue to look for opportunities to lock in attractive yields as duration extension openings develop. From a fundamentals standpoint, we remain constructive on the credit strength of the market, as upgrades have outpaced downgrades at credit ratings agencies over the period and default rates have remained muted thus far.

Fund flows have continued to support the market as we have seen $28 billion in year-to-date inflows into the muni market as of October 3, 2024. From an issuance standpoint, issuance was up 43% year on year as of the end of the third quarter of 2024. We believe that we will continue to see a relatively elevated pace of issuance in the first half of the fourth quarter as we anticipate issuers wanting to get ahead of the potential volatility associated with the election cycle. We would, however, expect issuance to become more muted as the year comes to a close.

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

Important Information

Past performance is no guarantee of future results.

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.

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).

Derivatives are speculative and may hurt the portfolio's performance. They present the risk of disproportionately increased losses and/or reduced gains when the financial asset or measure to which the derivative is linked changes in unexpected ways.

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.

Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities.

The Fund may, from time to time, invest substantially in municipal securities whose interest is paid solely from revenues of similar projects. The risks to the municipal bond market can include unusual volatility, liquidity issues, the inability of the issuer to repay the obligation and a tax risk to the investor if the municipal obligation fails to meet requirements. There is no guarantee that all of the Fund's income will remain exempt from federal or state income taxes. The credit quality and liquidity of the Fund's investments in municipal obligations and other debt securities may be dependent in part on the credit quality of third parties, such as banks and other financial institutions, which provide credit and liquidity enhancements, or insurance to the Fund's investments. Adverse changes in the credit quality of these third parties could cause losses to the Fund and affect its share price. Changes in the financial condition of the issuer of an obligation, or economic changes that affect the issuer may impact its actual or perceived willingness or ability to make timely payments of interest or principal.

The Fund might also be adversely impacted by the inability of an insurer to meet its insurance obligations.

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AA-231024-184811-4