# abrdn National Municipal Income Fund

## Quarterly Commentary

Second Quarter 2024

## Fund performance

The abrdn National Municipal Income Fund returned 0.86%[1] for the second quarter of 2024 on a net asset value basis, outperforming the -0.02% return of its benchmark (the Bloomberg Municipal Bond Index).[2]

The Fund's exposure to education, hospitals, and airport bonds contributed to performance relative to its benchmark. Conversely, our exposure to tobacco and sales tax secured bonds detracted from relative performance. In addition, leverage costs remained elevated, with the securities industry and financial markets association (SIFMA) rate averaging 3.59% during the second quarter of 2024, compared to an average of 3.35% in the previous quarter.

Individual contributors to the Fund's relative performance included Chicago Board of Education and GDB debt recovery of the commonwealth of Puerto Rico's bonds. Meanwhile, Colorado St Healthcare and Puerto Rico sales tax bonds detracted from relative performance over the period.

## Fund 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 cash, and the appropriation and power sectors in favor of higher exposure to the housing, transportation, and airports sectors. In addition, we reduced our exposure to Puerto Rico over the period.

## Market review

The overall municipal (muni) bond market, as measured by the Bloomberg Barclays Municipal Bond Index, returned -0.02% for the second quarter. The short and long end of the muni market outperformed the belly, with the Bloomberg Barclays Municipal 17-22 Year Index returning 0.29%, the Bloomberg Barclays Municipal 1-2 Year Index returning 0.82%, and the Bloomberg Barclays Municipal 4-6 Year Index returning -0.42%. The taxable muni bond market experienced relatively weaker performance over the quarter, with the Bloomberg Municipal Taxable Index returning -0.19% over the period, which compares unfavorably to the Bloomberg Barclays U.S. Aggregate Bond return of 0.07% over the same period. In the high-yield space, high-yield muni bonds outperformed their corporate counterparts, with the Bloomberg Municipal High Yield Index returning 2.59% over the period compared to a return of 1.09% of U.S. Corporate High Yield.

U.S. GDP grew 1.4% on an annualized basis in the first quarter of 2024, in line with most estimates of 1.4%, posting a sub 2% quarter of economic growth for the first time in seven quarters, demonstrating a slowdown in the U.S. economy. The U.S. Federal Reserve (Fed) continued to hold interest rates at the same level as they ended the fourth quarter, deciding on no rate action in the May and June meetings. The yield spread between two- and 10-year Treasuries normalized, beginning at -42 basis points (bps) and ending the quarter at -36 bps.

[1] **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. Net asset value return data include investment management fees, custodial charges and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions.**

[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.

## Outlook

As we move into the third quarter of 2024, we maintain a cautiously optimistic outlook for the muni bond market as inflation pressures abate, and the Fed is expected to be at the end of its rate-increase cycle. We are comfortable with the level of duration[3] in the portfolio but are looking to add higher yield opportunities wherever possible. Additionally, while we feel that the Fed could potentially keep rates at elevated levels for a longer period, leverage remains accretive to the Fund's distribution yield. 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 rising default rates have been kept at bay thus far.

In terms of market technicals, fund flows have continued to support the market as we have seen US$11.6 billion in inflows into the muni market as of June 30, 2024. From an issuance standpoint, we have seen an uptick in issuance of 32% year-on-year in the second quarter of 2024. We believe that we will continue to see a relatively elevated pace of issuance in the third quarter as we anticipate issuers wanting to get ahead of the potential volatility associated with the election cycle.

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.

### Total returns (as of 06/30/24)

| | 1 month | 3 months | Year to date | 1 year | 3 years (p.a.) | 5 years (p.a.) | 10 years (p.a.) | Since inception (p.a.) |
|---|---|---|---|---|---|---|---|---|
| NAV | 3.36 | 0.91 | 1.19 | 6.58 | –3.68 | 0.58 | 3.14 | 4.27 |
| Market Price | 6.37 | 3.29 | 5.97 | 10.04 | –4.87 | 0.19 | 2.95 | 3.98 |
| Bloomberg Municipal Bond Index | 1.53 | –0.02 | –0.40 | 3.21 | –0.88 | 1.16 | 2.39 | 0.00 |

### Annual calendar year returns (as of 12/31/23)

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| NAV | 8.59 | –19.44 | 6.83 | 5.44 | 10.49 | 0.24 | 8.44 | 0.56 | 5.99 | 20.21 |
| Market Price | 3.04 | –23.12 | 12.12 | 3.64 | 17.52 | –5.74 | 5.48 | 6.54 | 5.32 | 18.88 |
| Bloomberg Municipal Bond Index | 6.40 | –8.53 | 1.52 | 5.21 | 7.54 | 1.28 | 5.45 | 0.25 | 3.30 | 9.05 |

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.

**Important Information**

**Past performance is no guarantee of future results.**

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.

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's portfolio. The 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.

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.

**Investors should carefully consider a fund's investment objectives, risks, fees, charges and expenses before investing any money. To obtain this and other fund information, please call 866-667-9231 to request a summary prospectus and/or prospectus or download at www.abrdn.com. Please read the summary prospectus and/or prospectus carefully before investing any money.**

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