



CEF Advisors 3Q 2026 Update: Wide Discounts, Sturdy Income, and a Fed That Might Hike

Discounts widened faster than NAVs fell, munis had their toughest quarter in years, and the BDC, PIMCO, and interval fund data behind where we see opportunity into tax-loss season.



By John Cole Scott, President & CIO, CEF Advisors — October 2026

Our 60th Session

We just held our 60th consecutive quarterly session — every quarter since January 2012, without a miss. If 2Q was the quarter the market stopped panicking, 3Q was the quarter discounts did most of the talking. Prices fell roughly twice as far as the net asset values underneath them. Fear moved prices far more than it moved the portfolios, and that is the story I want you to take away from this piece.

Our 15 Major CEF Sectors Index fell 4.93% on market price in the third quarter but only 2.50% on NAV. Over the past year, NAV total return is up 8.52% while price total return is up just 2.42% — roughly six points of discount widening for a diversified basket that, by and

large, kept paying its distributions. Fundamentals bent; sentiment broke.

The audience reflected that. Just under half of registrants were individual investors, the rest professionals — advisors, fund sponsors, board members, and the financial press — and 42% were first-time attendees, which usually happens when a sector gets uncomfortable. Eighty percent of submitted questions landed in five areas: rates and the macro outlook; BDCs and private credit; discounts and premiums; distributions, return of capital, and NAV erosion; and munis.

As I said live, this article is a companion to the session, not a replacement for it. The full 90-plus-slide deck, the edited transcript, and the replay are at CEFdata.com/Quarterly. What follows is the shape of the quarter, the questions you asked, and where we're positioned into year-end.

“Fundamentals bent; sentiment broke.”

What Investors Were Actually Asking

The largest block of questions was about discounts and the outlook. Jim (Ohio) pointed to PIMCO funds and BlackRock Credit Allocation Income Trust (BTZ) trading near their COVID-era discount lows and asked the question half the room was thinking: is this repricing, or opportunity? Ruth (New York) and Mark (Virginia) wanted to know how much wider it could get. Randy (South Carolina), Rick (Texas), Leonard (Illinois), Sandra (New York), and Jeff (Florida) asked whether CEFs are still good investments over the next one to two years — especially U.S. equity funds now competing with options-income ETFs.

BDCs and private credit drew about a fifth of all questions. John (Pennsylvania), Al (Georgia), and others asked how to separate the “fire” from the “smoke” in BDC discounts. Arthur (New York), Viviane (Florida), Bruce (North Carolina), and Jakob (Denmark) asked how rates and Fed policy flow through levered funds. Kelly (Texas), Karl (Iowa), and Jesse (Missouri) asked about return of capital and NAV erosion. Ross (New York) and David (Arizona) asked where the value

is in munis after the repricing, and Bradley (California) and three others asked specifically about PIMCO. Cliff (New York) and Ryan (California) asked what is really happening with private credit redemptions in interval and tender offer funds — a question the financial press is asking too.

Closing the Loop: Questions We Didn't Get To Live

Every quarter I promise that anything we don't reach live gets picked up here. Here are my answers:

On which sectors look cheapest on a relative-discount basis (Mark (New York), Ryan (Texas), James (Florida), Richard (California), Dominick (Texas), Darrell (Georgia)): compared with their own 10-year averages, BDCs are the outlier at 19.1 percentage points wider, followed by multisector bond (8.1 points), preferreds (7.2), U.S. stock (5.2), and senior loans (4.9). Only MLP funds and munis sit narrower than their 10-year averages. That's why we're overweight BDCs, senior loans, and high yield, and market weight to underweight REITs, fixed-rate taxable bonds, and munis. We never avoid a sector entirely — an "underweight" for us is 2% to 4% versus a normal 6% to 8% — but the discount data points toward credit.

On BDC credit trends — non-accruals, the shift from cash to PIK income, and software stress (Michael (Missouri), John (Virginia), Peter (Washington), Barry (Michigan), Jordan (New York)): our ROE cohort work, covered below, is the cleanest answer. The bottom-third BDCs carry 1.86% non-accruals versus 1.40% for the top third, PIK income of 8.3% versus 5.7%, and fair value 6.04% below cost versus 0.93%. Those differences are real, but they're far smaller than the 27-point difference in discounts between the two groups.

On how much BDC debt is tied to AI and technology, and how we measure it (Francis (New York), Barry (Michigan)): based on CEF Advisors' methodology using CEFData, the higher-ROE cohort actually has less AI portfolio exposure — 18.0% versus 26.8% — but a slightly higher relative AI risk score (5.07 versus 4.83). Translation: exposure alone doesn't explain outcomes. Underwriting and life-of-loan monitoring do. We're

refining our AI risk model after two quarters of running it, with feedback from partners and peers.

On whether the industry is forming or shrinking funds (Bradley (Florida), Jim (Pennsylvania), Mark (Colorado), Liz (New Jersey)): both. Six IPOs and direct listings have raised \$7.2 billion so far in 2026, the non-listed universe keeps growing, and the traditional listed CEF count keeps drifting lower through mergers (four announced this year) and deaths (three). The universe is getting fewer, larger funds — the average traditional CEF now has about \$782 million in net assets, roughly double where it was in 2013.

Why Discounts Widened — and Why We Lean In

The headline number: the average traditional CEF closed September at an 8.40% discount. Only 6% of months over the past 25 years ended wider. The 25-year average is 4.34% and the median is 4.16%.

Underneath that average, the extremes are in credit. Taxable bond CEFs closed the quarter in the 9% to 10% discount range — a level only four of 299 months have exceeded, two in late 2008 and two in late 2015. Even COVID's month-end low didn't get this wide. Debt-focused BDCs ended at a 26% to 27% discount range; only 12 of 262 months since 2004 were wider. Equity CEFs, at 8% to 9%, are wider than 91% of their history. Munis, at a 4.7% average discount, are the exception, which I'll explain below.

So why now? In my opinion it's three things: higher long-term rates (the 20-year Treasury hit 5.64% as of October 12), late-cycle nerves about when the economy turns, and headline pressure from private credit that spilled into listed BDCs. None of those is a reason a diversified basket of closed-end funds should trade at its 94th-percentile discount when its NAVs are still positive for the year.

"Only 6% of months over the past 25 years ended with a wider average CEF discount than September 30."

We added a slide this quarter because so many investors tell me their CEF portfolio "goes down just as

much as stocks." The data says otherwise. Excluding the COVID crash, our 15 Sector Index and the S&P 500 moved in the same direction 79% of the time — 599 of 758 weeks. But on the 90 days the S&P fell 2% or more, CEFs fell less 91% of the time, with a median decline of 1.45% versus 2.50%. On 4% days, CEFs fell less 88% of the time.

The exceptions are worth naming: June 11, 2020, and April 4, 2025 — the tariff tantrum — when CEF prices fell as far as stocks. And when CEFs and stocks do part ways, which happens about one week in five, it is usually discount sentiment, not the portfolio. Over the past 12 months, the index discount widened from about 3.0% to 7.7%. The holdings didn't get 4.7 points worse; the price investors would pay for them did.

How far can it go? I answered Ruth and Mark honestly: wider than you expect. Markets have surprised me regularly in my 25 years and my father in his 50. But once discounts get this wide — we now track relative strength alongside discount levels for CEFs, not just BDCs — future returns from here have historically been better, though history is no guarantee. I can't tell you when. You can manage some of the risk through sector, structure, and your own cash flow needs.

Then there's the calendar. In each of the last 10 tax-loss seasons, CEF discounts bounced between the November–December low and the January–February high, by an average of 2.7 points, with an average market price gain of 9.8% across that window. Our timing work says 2026 is a "buy late" year: when CEFs were positive the prior year, waiting for the second half of December has worked 63% of the time. We're not up 10% year to date, which would flip the signal to "buy early." Our educated guess is a 3% to 4% discount bounce from the bottom into early 2027.

Where the Data Landed at Quarter-End

The broad picture: the 15 Sector Index is up 3.36% on price and 6.89% on NAV year to date. Equity held up best — our All Sector Equity CEF Index fell 3.04% on price in 3Q but is up 11.66% for the year — while credit did the damage. The Taxable Bond CEF Index fell 5.88% on price against only 2.30% on NAV, and our All Municipal Bond Index dropped 11.93% on price and 9.79% on NAV.

The best corners were the ones with floating rates or option income: senior loans gained 2.07% on price, covered call funds 0.64%, and tax-advantaged equity dividend funds 0.53%. The worst were the most rate-sensitive: utilities and infrastructure fell 11.60%, convertibles 10.76%, and preferreds 9.12%. Positive NAV returns were rare; U.S. equity, covered call, and senior loan funds were among the few.

Munis had their toughest quarter in years. Rising long rates hit the sector with the longest duration in our universe — about 11 years on average, with roughly 33% leverage. Our rule of thumb: a 50-basis-point move in long rates moves the median muni CEF NAV by about 5.5%, in either direction. So why is the average muni discount still only 4.7%? Because munis are probably the bond sector most aggressively paying distributions in excess of what the portfolio earns. Investors want tax-free cash flow, and when it's bought at a discount it isn't necessarily a problem. But spend every dollar from a fund that's overpaying, and you'll have a problem if you live long enough.

We rebuilt the tax-equivalent yield math this quarter to make that visible. A national muni CEF basket's 7.00% market yield breaks down as a 4.99% unlevered portfolio yield, plus 1.59 points from leverage, plus 0.42 points from the discount. Take out the 1.72 points that is return of capital — 24.6% of distributions over the past year — and the earned yield is 5.28%. That 5.28% already excludes return of capital, which lowers your cost basis rather than counting as income. To make it concrete, we ran one illustrative case: a married couple with \$1 million or more of W-2 income in New York City, assuming top federal, New York State, and New York City brackets plus the 3.8% net investment income tax. On those assumptions, the earned yield is worth about 9.5% on a tax-equivalent basis, versus 6.7% for the iShares National Muni Bond ETF (MUB). A tax-equivalent yield is the tax-free yield divided by one minus the investor's combined marginal tax rate, so the higher the bracket, the bigger the boost. This is a hypothetical example, not a prediction or guarantee of return. Results differ with state of residence, tax bracket, AMT exposure, and whether a fund is national or single-state. Individual situations vary, and this is not tax advice. One more signal I'm watching: the correlation between muni CEF prices and NAVs just hit 96.5 — the 99th percentile since

2012, versus a 69 average. That kind of lockstep selling tends to show up near the end of discount widening, not the beginning.

“Muni price and NAV correlation hit the 99th percentile — the kind of lockstep selling that tends to show up near the end of discount widening, not the beginning.”

On distributions and return of capital (Kelly (Texas), Barry (Missouri), Karl (Iowa), Bradley (California), Robert (California), Donn (California)): return of capital is expected in this asset class, and it isn't the enemy. Destructive return of capital — paying out more than NAV performance supports — is. By our measure, only 2.3% of distributions in our 15 Sector Index are destructive return of capital. The average CEF classifies 23% of its distributions as return of capital, and it's most normal in MLP and real asset funds, where it's built into the accounting of the underlying holdings. Return of capital is currently running at one of its lowest levels for covered call funds (14%), because their NAVs have done well, and trending higher for REIT funds (53%), because theirs haven't.

You can see return of capital for free on every listed fund profile page at CEFData.com; our destructive return of capital (DRoC) calculations are available to data clients. Our test for NAV erosion — Jesse (Missouri), Warren (Oklahoma), and Bruno (Portugal) asked — is simple to state and harder to apply: compare the leverage-adjusted NAV yield, which is the number the manager has to hit, with what the holdings can realistically earn after fees and leverage costs. If what the manager has to hit is well above what the holdings can earn, you need a wide enough discount and you need to reinvest part of the cash flow. In munis, our work generally assumes reinvesting about 25% of distributions, or 5% to 10% for funds already screened for return of capital.

Distribution announcements were benign. Of 991 announcements in the quarter, 91.7% were maintains. Increases averaged 7.8% and decreases 5.2%, and only three funds cut by more than 15%. The pain is concentrated: on a one-year basis, debt BDCs and

senior loan funds have the most net cuts, simply because short-term rates came down. Distributions are policies, not promises — but this quarter, the policies mostly held.

On rates and leverage (Arthur, Viviane, Bruce, Joel, Thomas, Jakob; Joseph, Zach, and Pierre): our base case changed this quarter. We now think the Fed's next move is more likely a hike than a cut — roughly 65% to 35% — with a steeper yield curve. For leverage itself, a 25- to 50-basis-point move in either direction is broadly benign; this is nothing like 2022. What matters more is how rates hit the assets. Higher rates help senior loans and BDCs and hurt munis and preferreds, which is exactly why we pair them. Leverage analysis is a secondary screen, not a primary one: it's how we narrow 10 candidate funds to five, not how we pick a sector.

PIMCO Premiums: Competition and the ATM Effect

No fund family generates more questions on this call than PIMCO, and this quarter four of you — Bradley (California), Efim (Connecticut), Scott (Illinois), and William (Georgia) — asked about PIMCO Dynamic Income Fund (PDI), PIMCO Corporate & Income Opportunity Fund (PTY), and PIMCO Access Income Fund (PAXS) specifically. If you've owned a PIMCO CEF at a premium recently, you've watched that premium compress.

On a podcast about a month ago, I said I thought the main driver was competition. PIMCO now runs active ETFs and interval funds that can recreate much of the same exposure at NAV, and when a sponsor can offer the "same" portfolio without a premium, the premium has a ceiling. The hedging, swaps, and leverage inside the closed-end funds are more unique than what an ETF or interval fund can do — but not unique enough to support every premium.

Since then, a conversation with another experienced CEF investor changed my weighting. They asked me to check their research on at-the-market (ATM) offerings across PIMCO's closed-end funds over roughly the last three years. It adds up to billions of dollars, with share counts in some funds growing 20% to 50% from their prior base. Issuing shares above NAV is accretive — it

adds to NAV total return for existing holders — but it also continually supplies new shares into the market and pulls premiums down. As more investors notice that, I think the ATM effect is an even bigger pull on future premiums than the competition alone.

“Heavy ATM use is probably an even bigger pull on future premiums than the competition alone.”

Barron's recently noted that several of these funds now trade at wide discounts relative to their own history. Before expecting any PIMCO premium to snap back, it helps to understand the ATM activity, the competing ETFs, and the interval funds. This isn't unique to PIMCO — other sponsors use ATMs too — but PIMCO uses them the most.

BDCs: Separating the Fire From the Smoke

BDCs remain the most bifurcated opportunity in our universe, and the ROE cohort work is how we separate the fire from the smoke. Based on CEF Advisors' methodology using CEFDData, we sorted the 36 largest listed debt BDCs — all with market caps of at least \$240 million — by one-year return on equity, using final second-quarter data, and compared the top 18 with the bottom 18.

The top cohort earned a 10.27% ROE, delivered an 11.4% one-year NAV total return, yields 10.2%, and trades at a 0.6% discount — essentially book value. The bottom cohort earned 0.15%, delivered a 0.6% NAV total return, yields 13.9%, and trades at a 27.8% discount. Dividend growth tells the rest: down 6.7% for the top group versus 15.9% for the bottom. And it isn't a one-year fluke — the five-year average ROE is 11.1% for the top cohort versus 5.4% for the bottom, across what were some of the best years BDCs have had.

My read: ROE is far more predictive of future dividends and future NAV than the discount, or how much of the portfolio is in software. In my opinion, the average 10% yielder at book is a better bet than the average 14% yielder at a 28% discount. We do own some names in

the lower cohort, but only after more research and more conversations with management.

“ROE is far more predictive of future dividends and NAV than the discount — or how much of the portfolio is in software.”

Our broader three-way split makes the same point. Over the past year, the top third of BDCs returned about 7% on an 11% ROE. The middle third lost about 2% on a 5% ROE. The bottom third lost about 15% on a 1% ROE — and that's after dividends of more than 10%, so roughly a 25% price decline. Deep BDC discounts can reflect governance, credit quality, or the market's view of future dividends, not just fear. Discount-shopping alone is how you buy the bathwater.

So why are we overweight? BDC dividends in our equal-weight index are down about 10% over the past year — a bit better than we forecast — and have now stabilized. We expect NII to grow roughly 8% for the average BDC in the earnings reports over the next 60 days; the busiest day is November 5, with 15 reports. Leverage averages just under 50%, about half of the regulatory maximum, and SBIC borrowings don't count toward that limit. Listed BDC discounts are wider than in all but 5% of months since 2004, yet we're not in a recession.

Size still matters. Our large-cap BDC index is down 2.24% on price this year; small caps are down 10.73%. You can fish in the small-cap pond, but you have to do far more work. And there are a handful of large-cap BDCs we have avoided and still do.

On CLOs inside BDCs (William (California), Vlad (Texas), Chad (Florida), David (Florida)): about 22% of listed BDCs — roughly 11 — own any CLO exposure. Among those that do, the average is 7.3% and the median 3.5%, and CLOs can only sit inside the 30% non-qualifying basket. CLO equity CEFs are a different story: our CLO index is down nearly 30% on price over the past year. We've largely avoided it, and for most clients we get CLO debt exposure by pairing an active AAA-tranche ETF with an interval fund in the lower tranches.

I'll be presenting this BDC analysis, and more, to the CFA Society of San Francisco on October 21.

Activism, Tenders, and New Listings

One quarter after the Supreme Court's Saba ruling, activism isn't gone. It has just changed shape. Focused activist and institutional investors have about \$12.7 billion at work across CEFs and BDCs. Twenty-one funds — 5.1% of the universe — received a 13D filing in the third quarter, 59 over the past year, and 109 over three years.

Saba Capital remains the most active. In September, Saba filed an amended 13D on Bluerock Private Real Estate Fund (BPRE) — the large direct listing from last December — disclosing a 5.1% stake and a proposal to terminate the investment manager. That's a big swing at a highly illiquid portfolio. Saba also took a stake in BlackRock TCP Capital (TCPC), a rare move into a BDC, and is running a board declassification proxy at BNY Mellon Municipal Bond Infrastructure Fund (DMB). And the ASA Gold and Precious Metals (ASA) saga reached its conclusion: ASA's board approved converting the fund into a BDC managed by Saba. We're sad to see ASA's old life end; we thought it offered access to a good manager. Elsewhere, SIT Investment Associates raised its stake in abrdn Government Markets Income Fund (MGF) to 34.8%, and Virtus Dividend, Interest & Premium Strategy Fund (NFJ) launched a tender for up to 25% of shares at 99% of NAV.

Activist and follower ownership totals about \$23.1 billion, and BDCs and taxable bond funds make up roughly half of it. Flows reversed this quarter: these investors were net sellers of about \$1.0 billion across all sectors in 3Q, after net buying of about \$2.2 billion in 2Q. Twelve of 15 sectors saw flows fall. The biggest inflow was REIT and real asset funds (about \$388 million); the biggest outflow was hybrid/balanced funds (about \$447 million). I'd expect net buying to return in the fourth quarter, when discounts typically bottom. I also expect a busy 2027 proxy season.

On why funds do tenders, rights offerings, and liquidations (Alberto (Mexico City), Alex (Texas), Kendyl (Colorado), Sheryl (Connecticut), Liz (New Jersey), Robert (Ohio), Adam (California)): tenders are usually negotiations. In our database of 232 tenders since

2012, \$14 billion was offered, the average executed at 97% of NAV, and investors who oversubscribed captured about 6.4% of "tendering alpha." Tenders rarely cure a discount long-term, but they're a tool you should use. Rights offerings are the opposite: on average, about 9.5% of relative underperformance, and you get roughly half of it back. Honestly, it's easier to do a rights offering than to raise a new closed-end fund right now, so I expect 2026 to finish at 32 or more, versus 31 in 2025. Liquidations have historically delivered about 4.8% of alpha. Most funds don't liquidate by choice.

On IPOs (and Pershing Square, which several of you asked about): the window for traditional CEF IPOs is still shut. This year's listings have been direct listings, conversions, and a new breed of private equity, venture, and retail-oriented funds like the Robinhood funds and Pershing Square. Robinhood Ventures Fund II (RVII) was the only third-quarter listing. It came out at \$25 in August and closed September at \$21.55, a 9.8% discount. Of 31 funds listed in the last 20 quarters, 28 trade below their IPO price. Pershing Square USA (PSUS) is at a 24.4% discount, a reminder that the strategy matters more than the structure. Powerlaw Corp. (PWRL) adopted a 6% annual dividend policy, based on NAV, as part of its discount management — new for the emerging private equity CEF sub-group, though not for traditional CEFs. Our base case: no traditional IPOs yet, possibly a target term trust, and more direct listings and rights offerings.

Interval Funds and Private Credit Redemptions

The non-listed universe — interval funds, tender offer funds, and non-listed BDCs — reached \$483 billion in net assets at September 30, up \$54 billion this year and 9.6 times its 2015 level, about 23% a year. I expect it to cross \$500 billion by year-end. Non-listed BDCs are the largest piece at \$202 billion (42%), followed by tender offer funds at \$144 billion and interval funds at \$137 billion. There are 179 interval funds and 152 tender offer funds, with 61 more in SEC registration — 22 of them credit.

The product cycle looks healthier, not weaker. Interval funds have launched 30 or more funds in each of the

last three years, with only three to five closures a year. Non-listed BDC launches have slowed sharply — 10 this year, with nine closures — from a peak of 31 in 2022. The top sponsors by assets are Cliffwater (\$39.2 billion), StepStone (\$21.5 billion), and SilverBay Capital (\$18.7 billion). First Trust runs the most funds, with 23.

On redemptions (Cliff (New York), Ryan (California), Jon (New York), Moritz (Florida)): non-traded BDCs, tender offer funds, and interval funds all have gates, and some are facing angry headlines right now. I actually support interval funds sticking to their 5%-a-quarter repurchases and not doing more. Sadly, I think some investors and advisors weren't as educated about these structures as they should have been, which is why I'm working with a committee at the Institute for Portfolio Alternatives (IPA.com) on getting better education to platforms and custodians.

Here's the part the headlines miss: gating is a tailwind for listed BDCs. If a non-listed BDC or interval fund ever has to move assets off its books, the best buyers are the listed BDCs, which have stable share counts and room to add leverage. Secondary loan sales aren't historically common, but I expect more of them over the next three to six months.

"If a non-listed fund ever has to sell assets, the best buyers are the listed BDCs."

Are interval funds worth the illiquidity (Richard (New York), David (Pennsylvania), Ronald (California))? In our view, only when they provide an exposure you can't get elsewhere and are sized so liquidity never becomes the issue. We generally use 2% to 3% per fund in client portfolios. Fixed ticket charges at a custodian can stack up quickly in portfolios under \$1 million.

4Q and 2027 Outlook: Wide Discounts, Sturdy Income

Our base case for year-end 2026 and into 2027:

- Below-trend growth, no recession. U.S. GDP around 1.75% to 2%, with unemployment ticking up to about 4.5%.

- One more Fed move, more likely a hike than a cut, and a steeper yield curve. Core inflation near 3%, headline 3% to 3.5%.
- Stocks are expensive. The CAPE ratio is 41.9, near its 1999 record. Our 10-year S&P 500 base case is about 6% a year — just 0.4 points above the 20-year Treasury's 5.64%.
- Discounts narrow 3% to 4% into 2027, and we expect our 15 Sector Index to beat the equal-weight S&P 500 (RSP) on NAV and price in the fourth quarter, though there is no assurance it will.
- Tax-loss selling hits most CEFs, less so covered call and U.S. equity funds. We look to buy the dislocation.
- BDC dividends stay stable; NAVs gain if rates rise. In 2027, the BDC focus is ROE, leverage, credit quality, and AI risk.
- Overweight BDCs, senior loans, and high yield. Market weight to underweight REITs and fixed-rate taxable bonds; munis only in taxable accounts. Actual positioning varies by client.

On whether CEFs, including U.S. equity CEFs, are still good investments over the next one to two years (Randy, Rick, Leonard, Sandra, and Jeff): in our view, wide discounts have historically been a better starting point for forward returns, though history is no guarantee and suitability depends on each investor's goals, risk tolerance, and tax situation. Options-income ETFs compete for the same income dollars, but they can't offer a discount, and at today's discounts that is a potential tailwind. The trade-off is discount volatility, which can surprise even experienced investors.

Sixty quarters in, the lesson is the same one I gave attendees: this is still an event-driven asset class, and both panic and euphoria tend to be overdone relative to what the data supports. This quarter it was panic — and the income, so far, has held.

Review the quarterly session's slides, transcript, and replay at CEFdata.com/Quarterly.

You can register now to attend the 4Q 2026 CEF, BDC and Interval Fund Research Call on January 20, 2027, at 2pm ET.

About CEF Advisors

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