PORTFOLIO STRATEGY COMMENTARY | Q4 2022

BNY Mellon Opportunistic Municipal Securities Fund

CLASS A **PTEBX** CLASS I **DMBVX**

Market Review

“Looking ahead to the first quarter we expect the supply-and-demand backdrop to remain favorable led by a relative dearth of anticipated new issuance coupled with solid reinvestment demand of maturing bonds from income-seeking investors.”

The bond markets rallied strongly during the fourth quarter, led by better-than-expected inflation declines and a growing consensus for a slowdown in the pace of Federal Reserve (Fed) rate hikes. Municipal bond prices further benefited from a favorable supply-and-demand backdrop highlighted by light primary issuance and steady reinvestment of proceeds from maturing bonds as investors were enticed attractive yields and higher income levels compared to recent years. Municipal mutual fund selling remained elevated due to heavy outflows which added some pressure to the market. Liquidity conditions were solid throughout much of the quarter helped by the supply-demand imbalance although conditions weakened late in December as dealers looked to keep inventories light. The Bloomberg Municipal Index outperformed the Treasury index and corporate bond indices during the fourth quarter. The Bloomberg Municipal Index had a fourth quarter total return of 4.10% compared to the Bloomberg Treasury Index return of 0.72% and the Bloomberg Corporate Index return of 3.63%.

The supply and demand forces within the municipal bond market remained imbalanced throughout the final quarter led by a dearth of new supply of state and local government debt. Total issuance was $71 billion during the fourth quarter of 2022 and $384 billion for the full year, a level that was 21% lower versus the prior year according to data reported by The Bond Buyer. New money issuance only decreased 5% in 2022 which helped counterbalance the large decline in refunding issuance particularly from taxable deals. Taxable municipal bond issuance plummeted 56% year-over-year drive most of the total issuance decline. On the demand side, municipal mutual funds continued to experience significant outflows in 4Q22 topping around $39 billion and over $140 billion for all of 2022, the highest annual amount on record per ICI data.

Municipal yields rallied lower during the fourth quarter reflecting market strength and displaying a relative divergence in trend from Treasury bonds. For example, during the quarter 10-year municipal AAA yields declined by 62 basis points compared to Treasury 10-year rates which increased by 5 basis points. The slope of the municipal curve ended the year with a modest inversion, while the Treasury curve slope approached record levels, suggesting a heightened risk of higher fed funds rates and over-tightening. Municipal bonds ended the year looking expensive relative to US Treasury debt a likely result of the strong performance backdrop during the final quarter. Muni-to-Treasury ratios ended 4Q22 much lower across the curve compared to last quarter end. The 10-year AAA Muni-to-Treasury ratio dropped significantly to 68%, the same as the start of the year, from 85%, representing the richest part of the curve. The 30-year ratio also dipped to 90% from 103% in 4Q22 but still higher than the 78% ratio from the year beginning. During the fourth quarter, longer-duration bonds outperformed their shorter counterparts reflected in the Bloomberg Municipal Long Index return of 5.19%, compared to the Bloomberg Municipal 3-year Index return of 2.08%.

From a quality perspective, the strongest returns during the fourth quarter were experienced among the higher rated segments reflected by the Bloomberg Municipal AAA Index return of 4.29%, outperforming the Bloomberg Municipal BBB Index return of 3.88%. Revenue sub-sectors, hospital, education and water/sewer performed relatively better than tobacco and prepaid gas. Among general obligation bonds, states lagged local issuers, led by weak performance among Illinois and New York. Credit spreads widened further among lower rated BBB segments while held steady among higher rated AA and A segments during the quarter. The Bloomberg Municipal High-Yield Index returned 3.48% during the fourth quarter 2022, lagging the investment-grade Bloomberg Municipal Index, which returned 4.1%. The Bloomberg Taxable Municipal Index returned 1.45% during the fourth quarter, outperforming the Bloomberg US Treasury Index return of 0.72%, while significantly underperforming the Bloomberg U.S. Corporate Index return of 3.63%.

Quarterly Performance

For the quarter ended December 31, 2022, the fund's class I shares returned 3.44%, excluding sales charges. In comparison, the fund's unmanaged benchmark, the Bloomberg U.S. Municipal Bond Index, retuned 4.10% for the same time period.

Average Annual Total Returns (12/31/22)[1]

Share Class/Inception Date	3 Month	1 Year	3 Year	5 Year	10 Year
Class A (NAV) 11/26/86	3.48%	-9.87%	-1.20%	0.93%	2.00%
Class A (4.50% max. load)	-1.17%	-13.90%	-2.70%	0.00%	1.53%
Class I (NAV) 08/31/16	3.44%	-9.72%	-0.99%	1.17%	2.16%
Bloomberg U.S. Municipal Bond Index	4.10%	-8.53%	-0.77%	1.25%	2.13%

The performance data quoted represents past performance, which is no guarantee of future results. Share price and investment return fluctuate, and an investor's shares may be worth more or less than original cost upon redemption. Current performance may be lower or higher than the performance quoted. Performance for periods less than 1 year is not annualized. Go to im.bnymellon.com for the fund's most recent month-end returns. Total Expense Ratios: Class A 0.72%, Class I 0.49%. Not all classes of shares may be available to all investors or through all broker-dealer platforms. Other share classes are subject to different fees and expenses and would have achieved different returns.

[1]The total return performance figures for Class I shares of the fund represent the performance of the fund's Class A shares for periods prior to 8/31/16, the inception date for Class I shares, and the performance of Class I, respectively, from that inception date. Performance reflects the applicable class's distribution/servicing fees since the inception date. Investors should consider, when deciding whether to purchase a particular class of shares, the investment amount, class restrictions, anticipated holding period and other relevant factors.

Performance Summary

Security selection and asset allocation detracted. Security selection was particularly weaker in transportation (Puerto Rico Highway), housing (Illinois Housing Dev Authority) and special tax while tobacco (Iowa) and pre-paid gas (Black Belt Energy AL). From an asset allocation standpoint, an overweight to revenue bonds, particularly airports and CCRCs and underweight to GO and pre-refunded bonds, had a negative impact on performance results. Duration and curve were a positive especially with the Fund's emphasis on longer bonds as rates fell for the quarter.

Market Outlook

Coming off dismal performance in 2022 we are optimistic for the prospect of a municipal bond market rebound in 2023. Looking ahead to the first quarter we expect the supply-and-demand backdrop to remain favorable led by a relative dearth of anticipated new issuance coupled with solid reinvestment demand of maturing bonds from income-seeking investors. Issuance for 2023 is expected to post a modest rebound from last year. Wall Street bank forecasts for 2023 annual supply largely ranged from $350 to $450 billion with a median around $400 billion, a level 4% higher than 2022's issuance total of $384 billion. Mutual fund outflows topped record annual levels in 2022, however the prospect of a reversal exists if we see more stabilization in rates and clarity on the Fed nearing the end of the tightening cycle. Ultimately the trend in Treasury rates led by economic data and monetary policy will drive the direction of municipal yields and volatility is likely to be elevated at least in the near term. We see the municipal bond asset class as offering value with attractive yields, tax benefits and relatively stable credit quality. We believe active management will be key to delivering attractive returns with increasing opportunities to capture value among fundamental credit, sector, duration, and yield-curve positioning.

The credit environment for municipal issuing entities is likely to be challenged in 2023 led by a Fed-induced economic slowdown or even a mild recession which could dampen tax revenue growth for state and local governments. We see the vast majority of municipal issuers, however, as well positioned to manage near-term fiscal stress due to overall balance sheet strength that has been built up from a combination of better-than-expected tax collections and federal aid distributed in recent years. Furthermore, many municipal issuers provide essential services and either retain independent rate setting authority or unlimited taxing power to increase revenues as needed. Disruptions in business activity caused by the pandemic are largely in the rearview mirror, with transportation issuers (toll roads, airports) experiencing traffic at or near pre-pandemic levels. We are seeing some softness among healthcare and higher education issuers that will necessitate a higher level of scrutiny during the credit selection processes. Credit spread widening during 2022 reflected an upcoming challenging economic environment and we believe further pressure on spreads could continue. Portfolio positioning will continue to have ample exposure toward high quality credits trading at attractive yields which should fare well during a recession environment. We believe there will also be ample opportunity to capture attractive bond yields among lower A and BBB rated credits with a focus on issuers with stable financial profiles.

Looking ahead we see a greater prospect for lower rate volatility for 2023 with higher starting yields and a more predicable Fed. The prospect for higher rates is more front-loaded for the first half of 2023 in our view as the Fed continues to raise rates toward a terminal level near 5.25%, which will likely be followed by a prolonged pause for the remainder of the year. The municipal bond yield curve slope is relatively flat limits incremental yield pickup by maturity extension, further solidifying our positioning to keep portfolio durations below or near benchmark levels at least in the near term. In this environment a barbell strategy with overweight positioning of short-dated bonds (for liquidity and reinvestment opportunities) along with an allocation to longer maturities should improve performance potential.

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Risks

Bonds are subject generally to interest-rate, credit, liquidity, call, and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **High yield bonds** involve increased credit and liquidity risk than higher-rated bonds and are considered speculative in terms of the issuer's ability to pay interest and repay principal on a timely basis**.** **Municipal income** may be subject to state and local taxes. Some income may be subject to the federal alternative minimum tax for certain investors. **Treasuries**-While the U.S. Government guarantees the timely payment of principal and interest on its securities, portfolios that invest in such securities are not guaranteed and will fluctuate in value. Capital gains, if any, are taxable. The amount of public information available about municipal securities is generally less than that for corporate equities or bonds. Legislative changes, state and local economic and business developments, may adversely affect the yield and/or value of municipal securities. Other factors include the general conditions of the municipal securities market, the size of the particular offering, maturity of the obligation, and the rating of the issue.

Asset allocation and diversification cannot ensure a profit or protect against loss in declining markets.

Recent market risks include pandemic risks related to COVID-19. The effects of COVID-19 have contributed to increased volatility in global markets and will likely affect certain countries, companies, industries and market sectors more dramatically than others. To the extent the fund may overweight its investments in certain countries, companies, industries or market sectors, such positions will increase the fund's exposure to risk of loss from adverse developments affecting those countries, companies, industries or sectors.

The Bloomberg Municipal Bond Index is a widely accepted, unmanaged total return performance benchmark for the long-term, investment-grade, tax-exempt bond market. Reflects investments of dividends and, where applicable, capital gain distributions. Investors cannot invest directly in any index

Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates. A bond's duration is easily confused with its term or time to maturity because they are both measured in years. However, a bond's term is a linear measure of the years until repayment of principal is due; it does not change with the interest rate environment. Duration, on the other hand is non-linear and accelerates as time to maturity lessens. **Liquidity** describes the degree to which an asset or security can be quickly bought or sold in the market at a price reflecting its intrinsic value. In other words: the ease of converting it to cash. **Basis points** (BPS) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01, or 0.0001, and is used to denote the percentage change in a financial instrument.

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