BNY Mellon Strategic Municipals, Inc.

MANAGER COMMENTARY | Q2 2024

Ticker: **LEO** CUSIP: 05588W108

MARKET REVIEW

> "Municipal credit conditions continue to remain resilient despite softening economic conditions."

Municipal bond (Muni's) yields were pressured higher during most of the 1st half of 2024, although a late June rate rally mitigated the impact. Muni yields followed US Treasury rates directionally and were further impacted by heavy new issue supply which neared the highest pace in a decade. The demand backdrop benefited from solid reinvestment activity from coupons and maturing bonds although mutual fund flows were tepid during 2nd quarter of 2024 (2Q24) adding only $0.3billion (bn). The softness in bond prices during 2Q24 led valuations versus US Treasuries (UST) to cheapen toward more attractive levels with the 10-year Muni/UST ratio ending the quarter near 65%, up from 61% at end of previous quarter. Looking ahead elevated rate volatility could arise as the election approaches although history shows that municipal returns have been mostly favorable during the 4th quarter of US election years.

The market's Federal Reserve (the "Fed") expectations remain the dominant driver of Treasury & municipal yields, and likely will be the key factor in driving rate direction for 2nd half of 2024. Economic data and inflation remain relatively resilient and have also shown signs of moderation. With Muni yields at levels last seen before the global financial crisis it may be a compelling time to allocate to fixed income before potential Fed rate cuts take effect.

Average Annual Total Returns (6/30/24)

Share Class / Inception Date	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Fund at NAV 9/23/87*	1.52%	2.49%	6.16%	-3.20%	0.79%	3.28%
Fund at Market Price 9/23/87**	1.28%	6.43%	2.38%	-7.89%	-1.06%	2.13%
Bloomberg U.S. Municipal Bond Index	-0.02%	-0.40%	3.21%	-0.88%	1.16%	2.39%

The performance data quoted represents past performance, which is no guarantee of future results. Share price, yield 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. Returns are net of fund expenses, and assume reinvestment of distributions. Investors who purchase shares of the fund through a financial professional may separately pay a fee to that service provider. The returns do not reflect broker sales charges or commissions. Performance for periods less than 1 year is not annualized.

*A fund's **NAV** is the sum of all its assets less any liabilities, divided by the number of shares outstanding. ****Market Price** performance is determined using the bid/ask midpoint at 4:00 p.m. Eastern time, when the NAV is typically calculated. Market performance does not represent the returns you would receive if you traded shares at other times.

Total Expenses (6/30/24)

Share Class	Gross[1]	Net[2]
LEO	1.08%	0.98%

[1]Gross expenses is the total annual operating expense ratio for the fund before any fee waivers or expense reimbursements. [2]Net Expenses is the total annual operating expense ratio for the fund, after any applicable fee waivers or expense reimbursements. The Net Expenses is the actual fund expense ratio applicable to investors.

Not FDIC-Insured. Not Bank-Guaranteed. May Lose Value

BNY | INVESTMENTS

PERFORMANCE REVIEW

Security selection was the largest positive contributor as local general obligation (GO), education, continued care retirement community (CCRC), hospitals, prepaid gas, transportation, and permanent school fund (PSF) bonds were especially additive to relative performance. Sector allocation was also a positive for relative returns with overweight allocations to CCRCs and hospital bonds. Broadly, the Fund's emphasis on revenue bonds versus GOs was positive. While curve positioning was a positive with the emphasis on longer maturities, the fund's relatively long duration detracted from performance as yields rose for the period.

MARKET OUTLOOK

Municipal credit conditions continue to remain resilient despite softening economic conditions. For the state sector, the resiliency of credit conditions is supported by very high reserves and cash balances that have accumulated over the last few years. State & local governments' pension funding status has improved due to improved pension funding discipline and strong stock market performance. According to Milliman, the estimated funded status of the 100 largest US pension plans as of April 2024 was 77.6%. Nevertheless, several risk factors remain including slower revenue growth, higher labor expenses, and rising property insurance costs associated with increasing natural disasters and their potential impact on home prices and migration.

From a sector perspective we favor revenues such as public power and water/sewer utilities, which offer stability due their independent rate setting ability, essentiality, and relatively predictable cash flows. We are generally underweighting sectors that offer less yield premium such as state and local general obligation as well as pre-refunded bonds. Credit spreads overall have compressed significantly, lowering the yield compensation for adding risk. We continue to search for idiosyncratic opportunities among issues with attractive yields & improving fundamental credit outlooks.

With the winding down of federal aid stemming from COVID relief bills, municipal credits will need to demonstrate the ability to stand on their own. We continue to see good value in airport and toll road credits due to the recovery of air and vehicular travel respectively toward pre-pandemic levels. Mass transit remains challenged, in large part due to work-from-home arrangements that appear to be permanent. However, most transit agencies are heavily reliant on sales and transportation-related taxes (ex. fuel taxes) that have seen strong growth in recent years. Healthcare is facing headwinds from rising labor and equipment costs while higher education is strained by weakening demographic trends and tuition affordability concerns. On balance, we prefer to focus on large, geographically diversified issuers with strong balance sheets able to withstand temporary periods of economic weakness.

We expect continued rate volatility near term and are targeting neutral to modestly long duration postures versus respective benchmarks. To capitalize on the value offered with longer 10-to-15 year maturities, for intermediate mandates we find a more barbelled portfolio as attractive, ahead of the Fed's potential easing cycle. A modest overweight to short bonds may continue to provide a yield benefit courtesy of the inverted curve slope while exposure to longer bonds may help limit reinvestment risk by potentially securing attractive yields for an extended period.

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Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. To obtain a prospectus, or a summary prospectus, if available, that contains this and other information about a fund, contact your financial professional or visit im.bnymellon.com. Read the prospectus carefully before investing. Not all classes of shares may be available to all investors of through all broker-dealer platforms. Past performance is no guarantee of future results.

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. Capital gains, if any, are taxable. The use of **derivatives** involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid, and difficult to value and there is the risk that changes in the value of a derivative held by the portfolio will not correlate with the underlying instruments or the portfolio's other investments. **Shares of closed-end funds (CEF)** are sold in the open market through a stock exchange. Shares may only be purchased or sold through registered broker/dealers. Closed-end funds, unlike open-end funds, are typically not continuously offered. An investment in CEFs presents a number of risks and is not appropriate for all investors. Investors should carefully review and consider potential risks before investing. Closed End Funds (CEFs) are exposed to much of the same risk as other exchange traded products, including liquidity risk on the secondary market, credit risk, concentration risk and discount risk. Shares of closed-end funds frequently trade at a market price that is below their net asset value. This is commonly referred to as "trading at a discount". This characteristic of shares of closed-end funds is a risk separate and distinct from the risk that the fund's net asset value may decrease. **Asset allocation and diversification cannot ensure a profit or protect against loss in declining markets.**

The **Bloomberg US Municipal Bond Index** (the fund's benchmark) 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. Investors cannot invest directly in any index.

Credit spreads is the difference in yield between two debt securities of the same maturity but different credit quality. Credit spreads are measured in basis points, with a 1% difference in yield equal to a spread of 100 basis points. **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. **Milliman** Corporate Pension Funding Study and Index. The study evaluates funded ratios, changes to liabilities, market value of assets, and pension expense for the 100 largest pensions of publicly traded U.S. corporations, while the index reports on a monthly basis based on changes in prevailing interest rates and representative investment return indices. The **Municipal/Treasury Ratio**, M/T ratio or muni-Treasury ratio, as it is more commonly known, is a comparison of the current yield of municipal bonds to U.S. Treasuries. It aims to ascertain whether or not municipal bonds are an attractive buy in comparison.

Definitions

Q is quarter. **NAV** is Net Asset Value. **YTD** is Year to Date. **FDIC** is Federal Deposit Insurance Corp.

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