

# Municipal Market Weekly Update

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## Warshing Out of Cash: Positioning Munis for the Next Curve Regime

- Municipals pull further ahead from winter norms
- Positioning munis for the next Fed era
- Munis as a safe(r) haven

### Relative Performance

Municipals delivered another strong week, outperforming Treasuries across most of the curve as tax-exempt yields declined meaningfully amid a broader rates rally. AAA BVAL yields fell sharply at the front end, declining roughly 9 bps in 2s and nearly 6 bps in 5s, while intermediate and long yields were down 3 bps in 10s and just over 1 bp in 30s. Treasury yields also moved lower but to a lesser degree, falling roughly 2–3 bps across most maturities, resulting in clear relative outperformance for municipals. (See Figure 1)

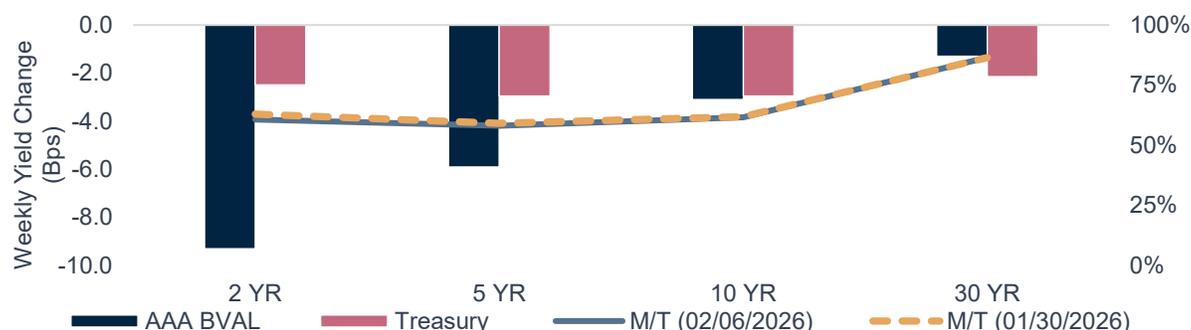
The rally drove notable ratio richening, particularly in the front and intermediate portions of the curve. The 2-year muni-to-Treasury ratio declined more than two points week-over-week to 60.74%, while the 5-year ratio fell just over one point to 58.10%. The 10-year ratio also moved modestly richer, declining roughly 0.3 points to 61.64%. The long end was largely unchanged, with the 30-year ratio edging slightly higher to 86.53%. Despite the week's gains, ratios remain well inside longer-term averages.

From a performance standpoint, municipals continue to build on a solid start to 2026, with the Bloomberg Municipal Bond Index up approximately 30 bps month-to-date. For context, February has historically been a very modest return month for the asset class, with a 20-year average gain of just 2 bps, underscoring the strength of the recent performance. Returns have been supported by a constructive technical backdrop, including steady reinvestment demand, declining yields, and favorable relative value versus taxable alternatives.

Looking ahead, attention turns back to supply dynamics. Municipal issuance is set to pick up meaningfully next week, with new issue volume approaching \$13 billion. Even with the heavier calendar, year-to-date issuance totals roughly \$45 billion<sup>1</sup>, representing a 3.9% decline versus the same period in 2025. We believe the combination of lower year-over-year supply and ongoing reinvestment demand should help the market absorb the upcoming calendar without materially disrupting technicals.

1. Source: Bloomberg.

**FIGURE 1: MUNIS OUTPERFORM<sup>2</sup>**



## Market Technicals

### Fed Framework, Curve Shape, And Why Cash is Getting Riskier

Kevin Warsh’s policy outlook is best understood as a blend of tactical dovishness and structural restraint. He appears comfortable easing policy when conditions warrant, but far less comfortable with a Federal Reserve that leans heavily on balance-sheet expansion to manage economic outcomes. That distinction matters for fixed income broadly—and for municipals in particular.

Warsh’s views have also evolved over time. Earlier in his career, including during his tenure at the Fed, he leaned more traditionally hawkish. More recently, his framework has emphasized delivering accommodation through rate cuts rather than balance-sheet support. In practice, that means stepping back from the long end of the market while preserving flexibility to ease policy without overstimulating inflation—even if longer-term yields are allowed to drift higher.

### What This Means For The Curve

That framework naturally supports a steeper yield curve. While the municipal curve is no longer extremely flat, it remains somewhat compressed relative to longer-term averages. Currently, the 2s/10s curve sits around 46 bps, while the 2s/30s slope near 203 bps is closer to historical norms<sup>3</sup>, though still slightly below them. Importantly, most of the steepness remains concentrated in the long end, leaving the belly relatively underdeveloped.

With muni ratios already attractive in less crowded parts of the curve—and a Fed chair philosophically inclined to reduce balance-sheet intervention—the setup favors further steepening. From an active management perspective, this is constructive: additional slope enhances roll-down and allows carry to play a more meaningful role in total return outcomes. (See Figure 2)

### The Front End Is Where The Opportunity Is

The most immediate repositioning opportunity, however, sits at the front end. Money market rates have been trending lower, highlighting the vulnerability of cash-heavy allocations as policy easing approaches. By comparison, the [New York Life Short Term Muni Fund \(MSTIX\)](#) offers a tax-exempt yield of 2.78% (30-day SEC yield as of December 31, 2025), or approximately 4.69% on a taxable-equivalent basis<sup>4</sup>, with just 2 years of duration.

**Click on the Fund Name, which includes the prospectus, investment objectives, performance, 30-Day SEC Yield, risk, and other essential information. Returns represent past performance, which is no guarantee of future results. Current performance may be lower or higher. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Visit [newyorklifeinvestments.com](http://newyorklifeinvestments.com) for the most recent month-end performance.**

2. Source: Bloomberg. Spot Muni, Spot AA rates. Data as of February 06, 2026.

3. Source: Bloomberg

4. Taxable equivalent calculation: 2.78 / 40.8 (37 Federal + 3.8 NII).

Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

## Market Technicals (Continued)

As easing draws closer, reinvestment risk rises and the income advantage of money markets erodes quickly. Cash may feel safe, but its return profile is increasingly dependent on Fed policy staying restrictive—which is exactly what the market is no longer pricing.

### Positioning Takeaway

This environment positions MSTIX as a compelling way to help reposition portfolios away from direct Fed dependence—namely cash and T-bills. By extending modestly out the curve, MSTIX allows investors to lock in more durable income, reduce exposure to falling cash yields, and participate in improving roll-down dynamics as the curve steepens.

### Call to Action

The market is pricing rate cuts, but it is not fully pricing a Fed framework that shifts support away from the balance sheet and back to the curve. For municipal investors, that makes curve positioning—and moving proactively out of cash—the critical decision.

**FIGURE 2: FED INTEREST RATE PROJECTIONS<sup>5</sup>**



## Questions from the Field

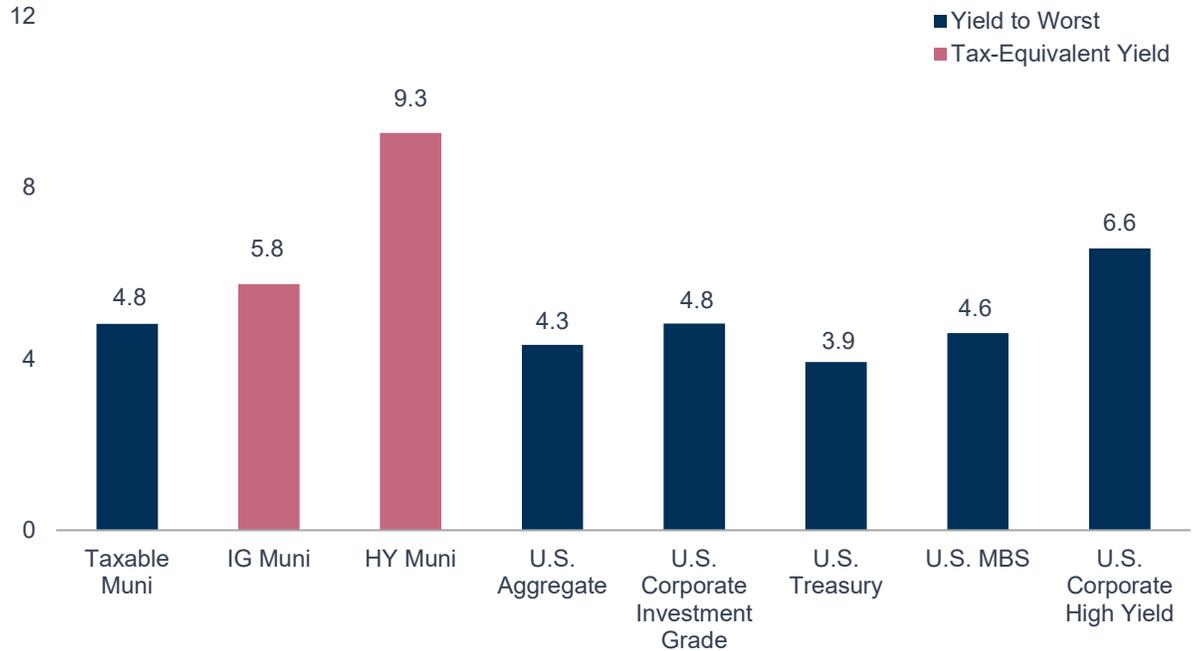
### Q. With equity markets turning more volatile, how should investors be thinking about municipals, if at all?

Equity volatility tends to shift investor priorities away from growth and toward income stability, capital preservation, and diversification—areas where municipals have historically added value. While munis are not immune to risk-off periods, their price behavior has generally been far less volatile than equities, particularly within higher-quality segments of the market. Importantly, municipal drawdowns during equity-driven selloffs have often been shorter and more technically driven, rather than fundamentally driven.

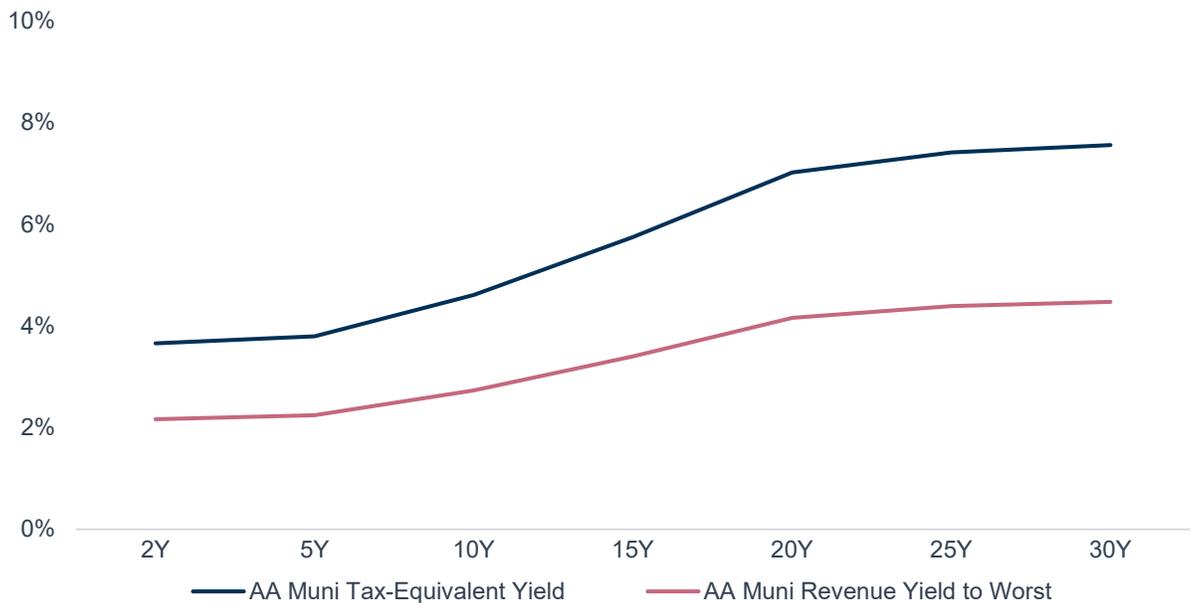
In the current environment, where equity volatility is occurring alongside shifting Fed expectations and slowing growth signals, municipals continue to serve as a stabilizing allocation. Tax-exempt income remains durable, credit fundamentals remain sound, and demand for high-quality income tends to increase when risk assets become less predictable. Rather than amplifying portfolio risk, municipals are functioning as a defensive ballast—providing income, diversification, and relative resilience when broader markets are under stress.

5. Source: Bloomberg. Data as of February 06, 2026.

## INDEX YIELDS (in %)<sup>6</sup>



## AA MUNI TAX-EQUIVALENT YIELD CURVE<sup>7</sup>



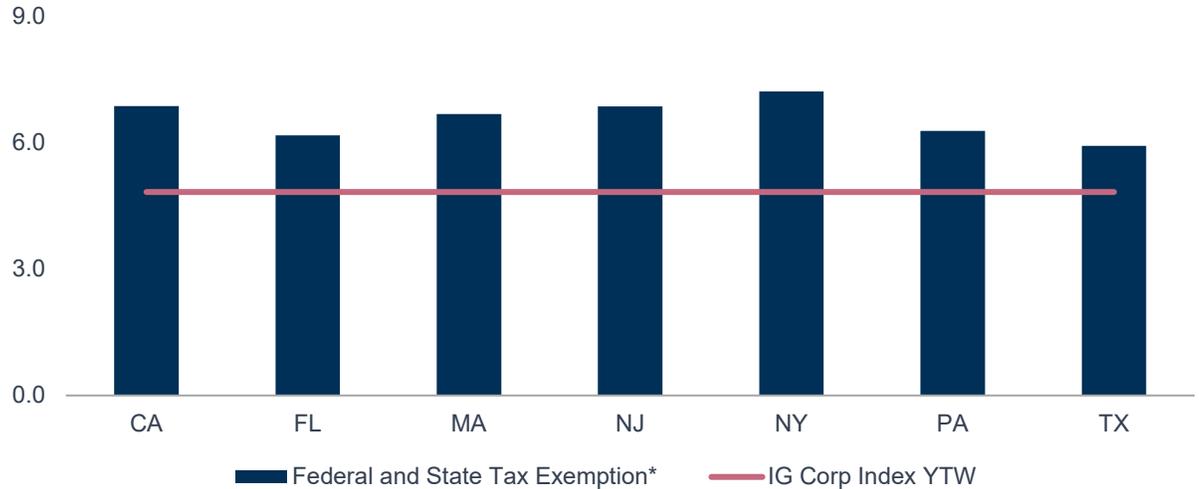
Data as of 02/06/2026.

6. Source: Bloomberg Tax Equivalent Yield is using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

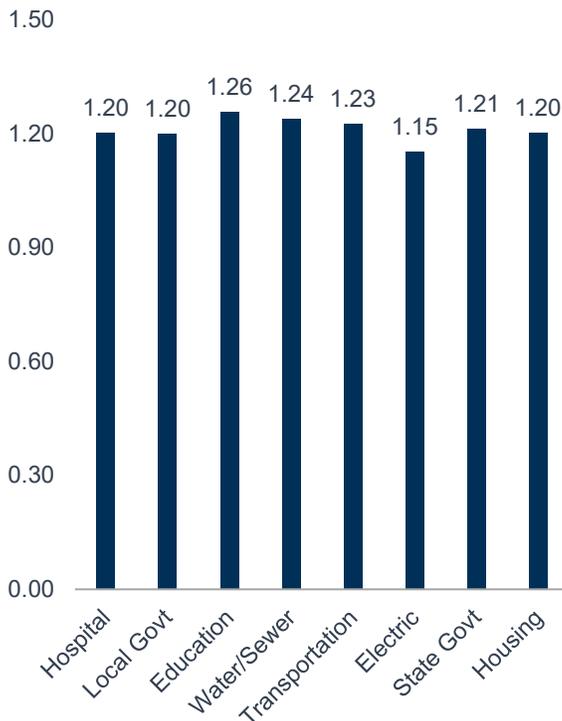
7. Source: Bloomberg. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

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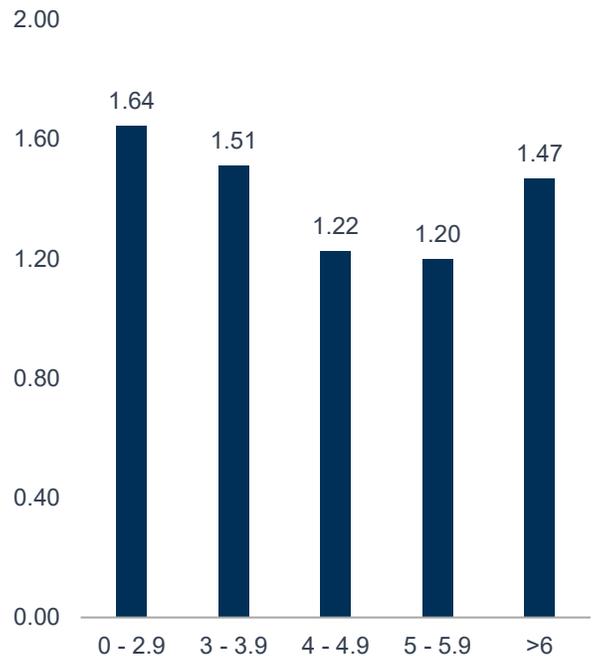
## IN-STATE MUNI TAX-EQUIVALENT YTW (in %)<sup>8</sup>



## YTD TOTAL RETURNS BY SECTOR (in %)<sup>9</sup>



## YTD TOTAL RETURNS BY COUPON (in %)<sup>10</sup>



Data as of 02/06/2026.

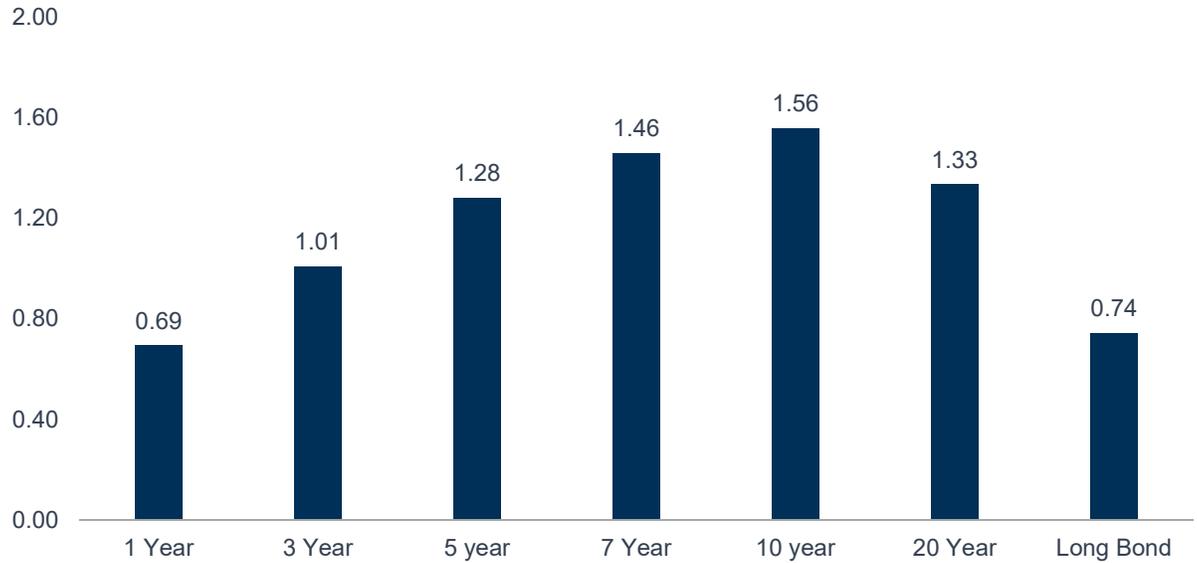
8. Source: Bloomberg. \*Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. MacKay Shields and its affiliates do not provide tax, legal, or accounting advice. This material has been prepared for informational purposes, and is not intended to provide, and should not be relied on for tax, legal, or accounting advice. You should consult your own tax, legal, and accounting advisors before engaging in any transaction.

9. Source: Bloomberg.

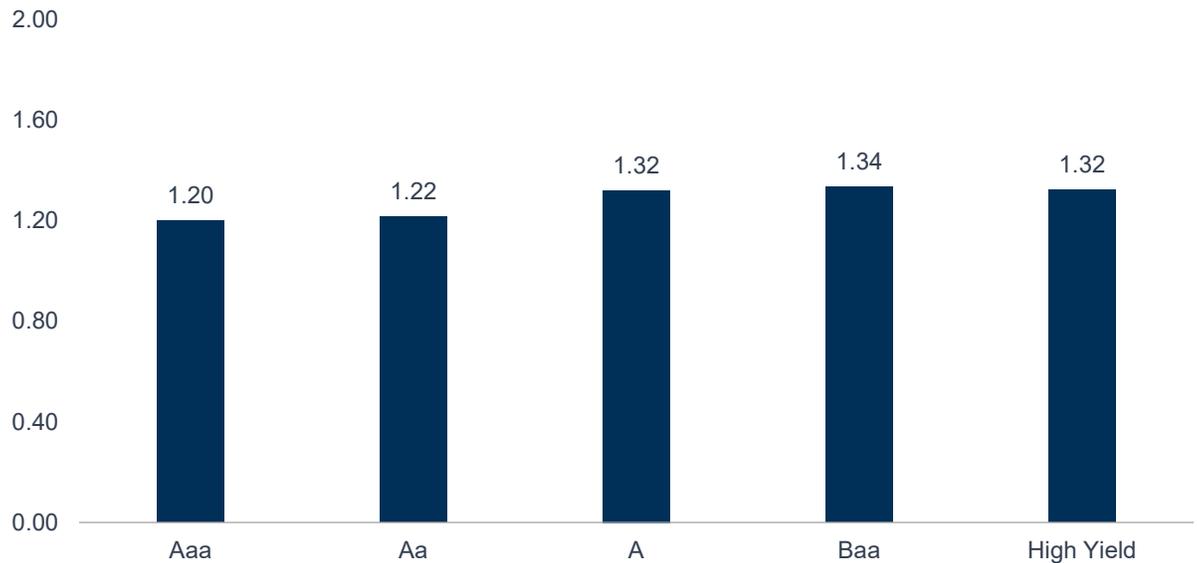
10. Source: Bloomberg.

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## YTD TOTAL RETURNS BY MATURITY (in %)<sup>11</sup>



## YTD TOTAL RETURNS BY RATING CATEGORY (in %)<sup>12</sup>



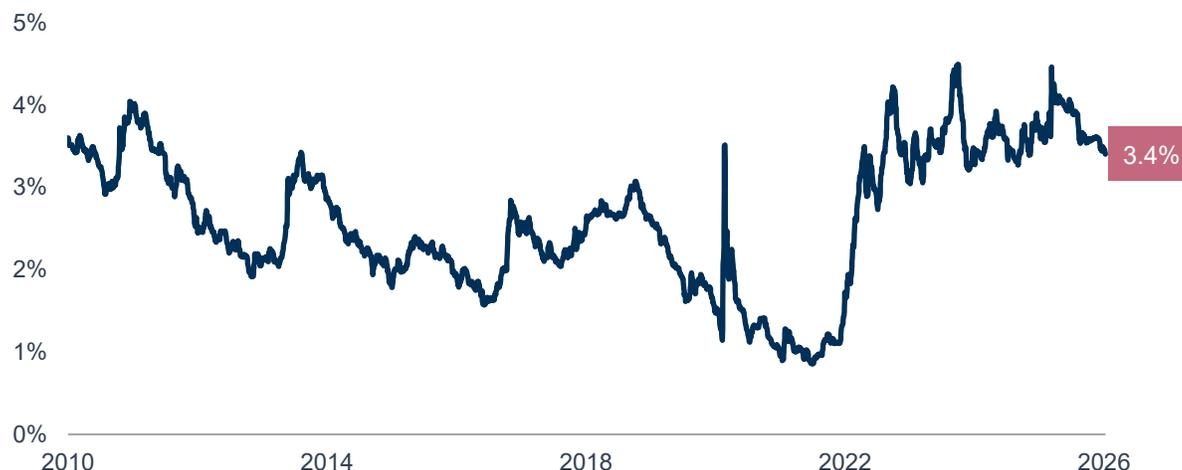
Data as of 02/06/2026.

11. Source: Bloomberg.

12. Source: Bloomberg.

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## BLOOMBERG MUNICIPAL YIELD-TO-WORST<sup>13</sup> (YTW)



## MUNI YIELDS

Tenor	02/06/2026	01/30/2026	Change (+/-)
<b>Bloomberg AAA Muni Key Rate Yields<sup>14</sup></b>			
2-year	2.12%	2.22%	-0.09%
5-year	2.18%	2.24%	-0.06%
10-year	2.59%	2.62%	-0.03%
30-year	4.20%	4.21%	-0.01%
<b>U.S. Treasury Key Rate Yields<sup>14</sup></b>			
2-year	3.50%	3.52%	-0.02%
5-year	3.76%	3.79%	-0.03%
10-year	4.22%	4.26%	-0.04%
30-year	4.85%	4.87%	-0.02%
<b>U.S. Treasury &amp; AAA Muni Curve Slopes<sup>15</sup></b>			
	<b>2s10s</b>	<b>10s30s</b>	<b>2s30s</b>
U.S. Treasury Curve Slope	+72 bps	+63 bps	+135 bps
AAA Muni Curve Slope	+47 bps	+161 bps	+208 bps

Data as of 02/06/2026.

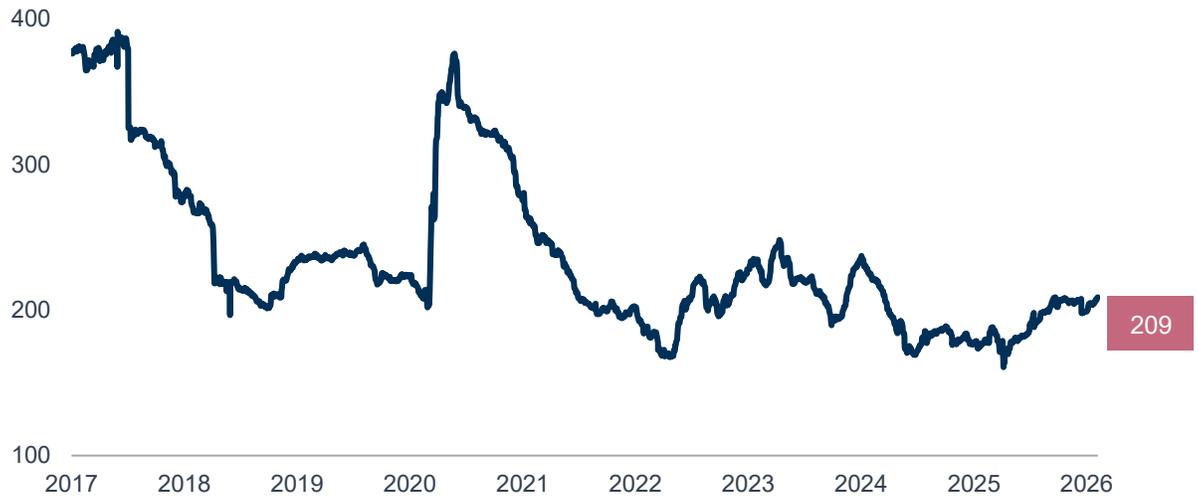
13. Source: Bloomberg. "Post GIFC Average" measures the period from 01/01/2010–02/06/2026.

14. Source: Bloomberg.

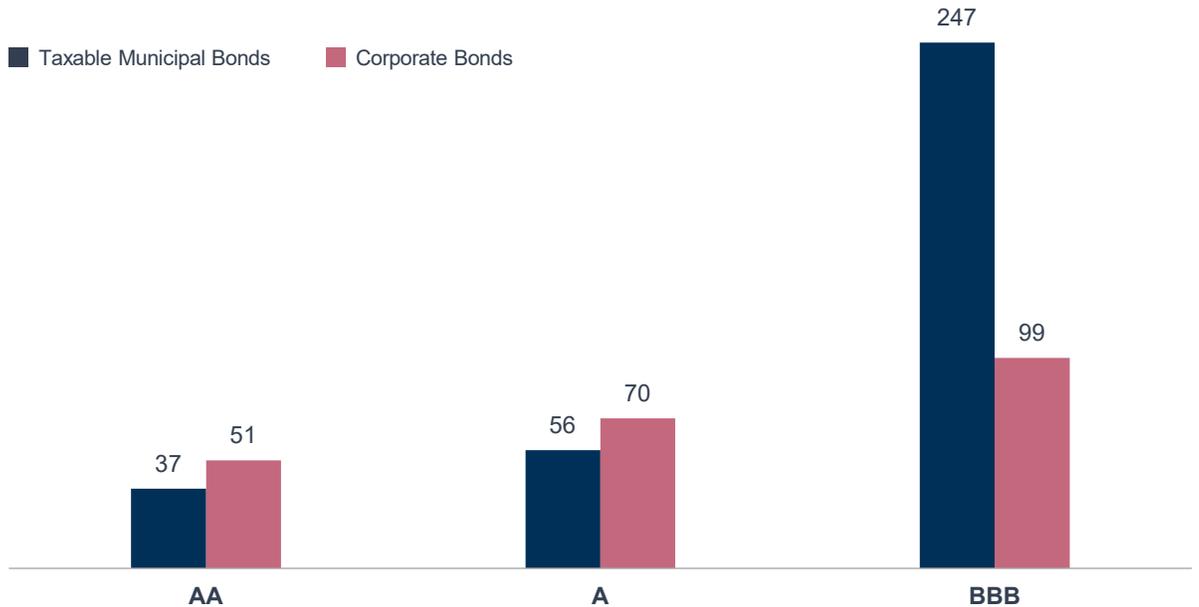
15. Source: Bloomberg. 2s10s–is spread between 10yr and 2yr yield; 10s30s–refers to spread between 30yr and 10yr yield; 2s30s–refers to spread between 30yr and 2yr yield.

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## BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL<sup>16</sup>



## TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS<sup>17</sup>



16. Data as of 02/06/2026. Source: Bloomberg.

17. Data as of 02/06/2026. Source: Bloomberg. The spread, better known as the option-adjusted spread (OAS) is the measurement of the yield of a fixed income security over that of a risk-free rate of return, which is adjusted to take into account an embedded option.

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## LONG TERM FUND FLOWS<sup>18</sup> (USD BILLION)



Data as of 02/06/2026.

18. Source: Bloomberg.

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portfolio. The performance of an index may assume reinvestment of dividends and income, or follow other index-specific methodologies and criteria, but does not reflect the impact of fees, applicable taxes or trading costs which, unlike an index, may reduce the returns of a managed portfolio. Investors cannot invest in an index. Because of these differences, the performance of an index should not be relied upon as an accurate measure of comparison.

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**NYLI MacKay Short Term Muni Fund** - Before considering an investment in the Fund, you should understand that you could lose money.

The Fund is not a money market fund and does not attempt to maintain a stable NAV. The Fund's net asset value per share will fluctuate. There can be no guarantee that the Fund will achieve or maintain any particular level of yield. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. These risks may be greater for emerging markets. The principal risk of mortgage dollar rolls is that the security the Fund receives at the end of the transaction may be worth less than the security the Fund sold to the same counterparty at the beginning of the transaction. The principal risk of mortgage-related and asset-backed securities is that the underlying debt may be prepaid ahead of schedule, if interest rates fall, thereby reducing the value of the fund's investment. If interest rates rise, less of the debt may be prepaid. Funds that invest in bonds are subject to interest-rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner. Municipal bond risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes, which could affect the market for and value of municipal securities. Treasury Securities are backed by the full faith and credit of the United States government as to payment of principal and interest if held to maturity. Interest income on these securities is exempt from state and local taxes.

Investing in below investment grade securities may carry a greater risk of nonpayment of interest or principal than higher-rated bonds. Funds that invest in bonds are subject to interest-rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner.

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## DEFINITION OF TERMS

### Option-Adjusted Spread

The option-adjusted spread (OAS) measures the spread between a bond’s rate and the risk-free rate, while adjusting for any embedded options like callables or mortgage-backed securities.

### Standard Deviation

Standard deviation is a statistical measurement that looks at how far discrete points in a dataset are dispersed from the mean of that set. It is calculated as the square root of the variance.

### Tax Equivalent Yield

The tax-equivalent yield is the return a taxable bond needs to equal the yield on a comparable tax-exempt municipal bond. Investors use this calculation to compare the returns between a tax-free investment and a taxable alternative.

### Tax Equivalent Yield to Worst

Tax Equivalent YTW is calculated by dividing the tax-exempt yield by one minus the marginal income tax. This is used to compare YTW on a tax-exempt investment to a taxable investment.

### Volatility

Volatility is a measurement of how varied the returns of a given security or market index are over time. It is often measured from either the standard deviation or variance between those returns. In most cases, the higher the volatility, the riskier the security.

### Yield to Worst

Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract. It is a type of yield that is referenced when a bond has provisions that

would allow the issuer to close it out before it matures. YTW helps investors manage risks and ensure that specific income requirements will still be met even in the worst scenarios.

## INDEX DESCRIPTIONS

**Bloomberg U.S. Taxable Municipal Bond Index** is a rules-based, market-value-weighted index engineered for the long-term taxable bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies if all three rate the bond: Moody’s, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment grade. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate and must be at least one year from their maturity date. Remarketed issues (unless converted to fixed rate), bonds with floating rates, and derivatives, are excluded from the benchmark.

**Bloomberg Municipal AMT index** refers to a specific Bloomberg municipal bond index that includes bonds subject to the Alternative Minimum Tax (AMT). Unlike most municipal bond indices, which exclude AMT-subject securities, these indices contain bonds that typically offer higher yields to individuals who are subject to the AMT.

**Muni IG ex. AMT and ex Territories Index** is the Bloomberg Municipal Bond Index excluding AMT and U.S. Territory exposure.

**Bloomberg Municipal Bond Index** is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following agencies: Moody’s, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a date-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and pre-refunded bonds. Most of the index has historical data to January 1980. In addition, sub-indices have been created based on maturity, state, sector, quality, and revenue source, with inception dates later than January 1980.

**Bloomberg 5-Year Muni Index** is a capitalization weighted bond index created by Bloomberg intended to be representative of major municipal bonds of all quality ratings with an average maturity of approximately five years.

**Bloomberg Municipal 1-10 Year Blend 1-12 Year Index** measures the performance of short and intermediate components of the Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment grade, tax-exempt bond market.

**Bloomberg Municipal Long Bond 22+ Index** (often referred to as the Bloomberg Long-Term Municipal Bond Index) tracks the performance of long-term, tax-exempt U.S. municipal bonds with maturities of 22 years or longer. This index serves as a benchmark for high-quality municipal debt and covers various sectors, including general obligation, revenue, insured, and pre-refunded bonds.

## INDEX DESCRIPTIONS (continued)

**Bloomberg High Yield Municipal Bond Index** is a flagship measure of the U.S. municipal tax-exempt non-investment grade bond market. Included in the index are securities from all 50 U.S. States and four other qualifying regions (Washington DC, Puerto Rico, Guam, and the Virgin Islands). The index includes state and local general obligation bonds and revenue bonds. All bonds in the Municipal High Yield Bond Index are tax exempt and hence are not eligible for other indices that include taxable high yield bonds, such as the U.S. High Yield Index and EM USD Aggregate Index.

**Bloomberg U.S. Aggregate Bond Index** measures the performance of investment grade, U.S. dollar-denominated, fixed rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. It rolls up into other flagship indices, such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.

**Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-US industrial, utility, and financial issuers. The index is a component of the U.S. Credit and U.S. Aggregate Indices, and provided the necessary inclusion rules are met, U.S. Corporate Index securities also contribute to the multi-currency Global Aggregate Index. The index includes securities with remaining maturity of at least one year.

**Bloomberg U.S. Treasury Index** measures the performance of public obligations of the U.S. Treasury, including securities that roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices

**Bloomberg Securitized Bond Index** The Bloomberg U.S. Securitized: MBS, ABS, and CMBS Index tracks all USD-denominated, investment grade, securitized issues within the "Parent Index". MBS must have a weighted average maturity of at least one year. CMBS and ABS must have a remaining average life of at least one year.

**Bloomberg U.S. Municipal Bond Index Total Return Index Value Unhedged Index** covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds

**Bloomberg U.S. Aggregate Total Return Value Unhedged Index** (LBUSTRUU:IND) is a benchmark that measures the performance of the U.S. investment-grade, fixed-rate, taxable bond market, excluding any currency hedging. It tracks a broad universe of U.S. dollar-denominated securities, including U.S. Treasuries, government-related debt, corporate bonds, mortgage-backed securities (MBS), and asset-backed securities (ABS).

**Bloomberg U.S. Treasury Total Return Unhedged Index** measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.

**Bloomberg U.S. Mortgage-Backed Securities Index** is formed by grouping the universe of individual TBA-deliverable MBS pools into pool cohorts and then applying the index inclusion rules at the cohort level. Each cohort is a representation of its mapped individual pools and contributes their total amount outstanding to the U.S. MBS Index.

**Bloomberg U.S. Corporate High Yield Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

**Bloomberg Global Aggregate Bond Index** is a flagship measure of global investment grade debt from twenty-seven local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

