

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.



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Tax-Frees Are Off to the 2026 Races

KEY TAKEAWAYS

- Hot off the block, but munis can't keep up with UST
- Are clients being paid to take equity risk right now?
- Federal outlook for support to munis

Relative Performance

Municipals are off to a fantastic start in 2026. The Bloomberg Municipal Bond Index is up 1.53% year-to-date, already blowing past the 20-year average returns for both January and February individually.

For perspective, over the past 20 years, plain-vanilla index beta exposure in municipals has generated average annual returns of roughly 3.89%. In just the first month and a half of 2026, the asset class has already delivered nearly 40% of that long-term annual average.¹ That's not normal seasonality — that's positioning, technicals, and curve structure all working in sync.

By the numbers over the past week,

- 10–30 year Treasuries have rallied 18–20 bps in the last 8–10 days¹
- Over that same span, 10–30 year municipals were unchanged to down roughly 5 bps¹

That divergence explains recent relative underperformance in the long end. But this is a Treasury story, not a muni breakdown.

And importantly, near-term relative underperformance does not change the broader value proposition, something we explore below.

1. Source: Bloomberg.

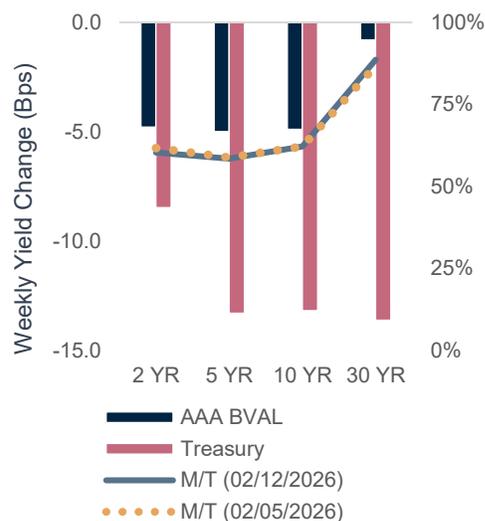
2. Data as of February 12, 2026. Source: Bloomberg

3. Data as of February 12, 2026. Spot Muni, Spot AA rates. Source: Bloomberg

FIGURE 1: INDEX PERFORMANCE²

| Maturity Date | MTD | YTD | 2025 |
|--------------------|-------|-------|-------|
| Muni Bond 5-Year | 0.54% | 1.52% | 5.03% |
| Muni Bond 10-Year | 0.72% | 1.90% | 5.92% |
| Muni Bond 15-Year | 0.67% | 1.98% | 5.31% |
| Muni Long Bond | 0.50% | 1.01% | 1.95% |
| Muni Managed Money | 0.62% | 1.61% | 3.94% |

FIGURE 2: INDEX OUTPERFORM³



QUIETLY BEATING THE ALTERNATIVES

On a relative basis, the Bloomberg Municipal Bond Index has meaningfully outperformed most major fixed income sectors:

- Nearly double the return of the Bloomberg U.S. Treasury Index
- Roughly 45 bps of excess return versus the Bloomberg U.S. Corporate Index
- And notably, AA-rated municipals have delivered roughly 2x the return of the Bloomberg U.S. Corporate High Yield Index

High-quality tax-exempt income outperforming both duration-heavy Treasuries and spread-heavy corporates isn't something we see often. But that's exactly what's happened so far in 2026.*

Market Technicals

From prior weeklies, you know we love data and charts, and there's one worth flagging because it we believe it should meaningfully shape asset allocation conversations at this time. The concept behind it is simple. It takes the tax adjusted yield for municipals (on an index level) and nets out the dividend yield⁴ for the S&P 500. It is close to a 20-year high.

Let that sink in.

The earnings yield on the S&P 500 is currently below the yield on the 10-year Treasury. And it is meaningfully below the tax-equivalent yield⁵ available in municipals.

In plain English, investors are not being paid to take equity risk when looking through the lens of dividend yield and tax adjusted yield. Historically, equities compensate investors for volatility, drawdowns, and uncertainty through a premium over risk-free bonds. That's the equity risk premium — the foundational math behind balanced portfolios. Today, that premium has effectively disappeared. And versus tax-equivalent municipals, it's deeply negative.

That doesn't mean stocks can't go higher. It does mean the traditional risk/reward framework looks very different.

When equity earnings yield falls below bond yields, forward return assumptions historically tend to compress. Asset allocation conversations begin to shift. Income stops being "just defensive" and starts becoming competitive again.

*Source: Bloomberg

4. Dividend yield is a financial ratio that measures the annual dividend income a company pays to its shareholders, expressed as a percentage of its current share price. It represents the "dividend-only" return on investment for a stock.

5. Tax Equivalent Yield is using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

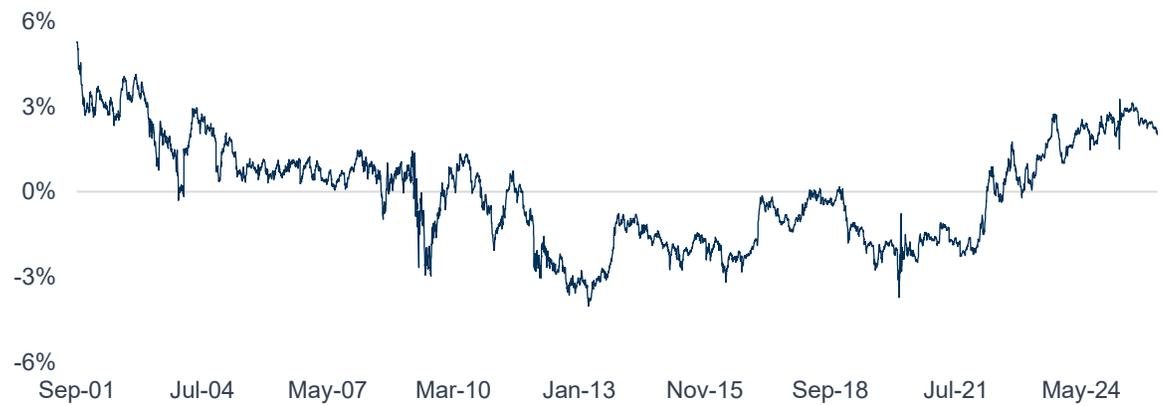
Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

Market Technicals (Continued)

For high-bracket retail clients, this is particularly compelling. On a tax-equivalent basis, municipals are offering more income than the embedded yield in the equity market — and doing so without requiring equity-level volatility. That’s not a call to time equities. It’s a call to reassess whether clients are being adequately compensated for the risk they’re taking.

If the answer is no, then this is a moment to revisit equity allocations, reassess income needs, and potentially re-anchor portfolios around high-quality, tax-advantaged yield.

FIGURE 3: YIELD PICKUP MUNIS OVER STOCKS⁶



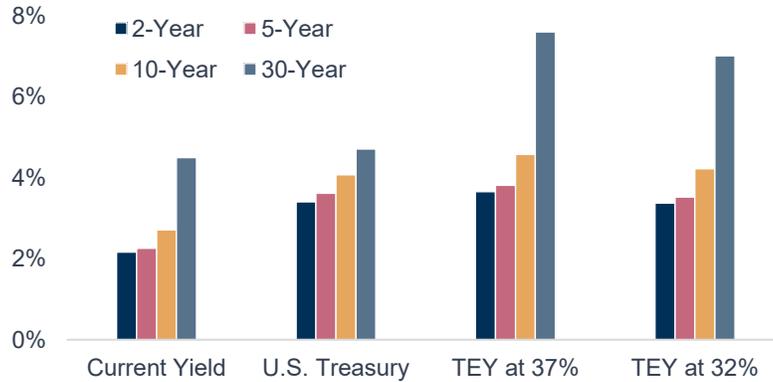
Questions from the Field

Q. What’s the outlook for federal support to states/localities over the next 12–18 months? Could fraud enforcement change that?

Federal transfers (~38% of state revenues) have trended higher over time, and we do not expect a structural reversal. The main near-term disruption is Medicaid funding changes beginning in 2027. Most states are more likely to scale programs than backfill lost federal dollars. Expanded fraud enforcement, in our view should not materially alter the broader funding trend given legal barriers to broad freezes and the historically limited scale of proven misuse.

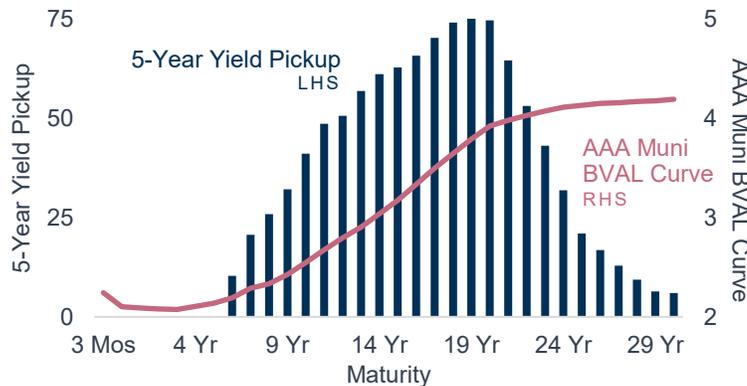
6. Source: Bloomberg. Data as of February 13, 2026.

FIGURE 4: TAX-ADJUSTED YIELDS OF MUNIS⁷



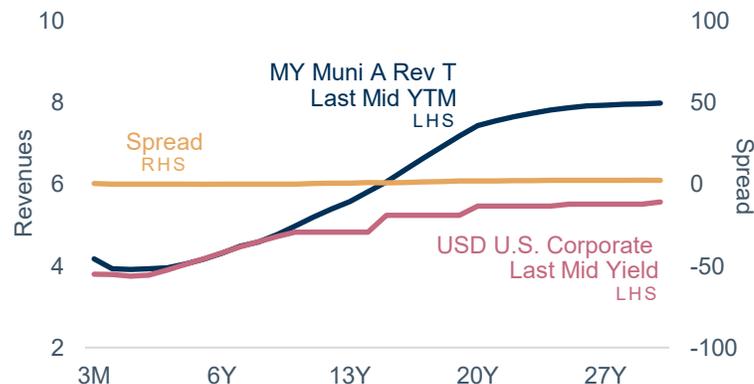
On a tax-adjusted basis munis handily lead across tenors

FIGURE 5: YIELD CURVE STEEPNESS⁸



Our relative value lens focus on the area of the curve where steepness benefits returns

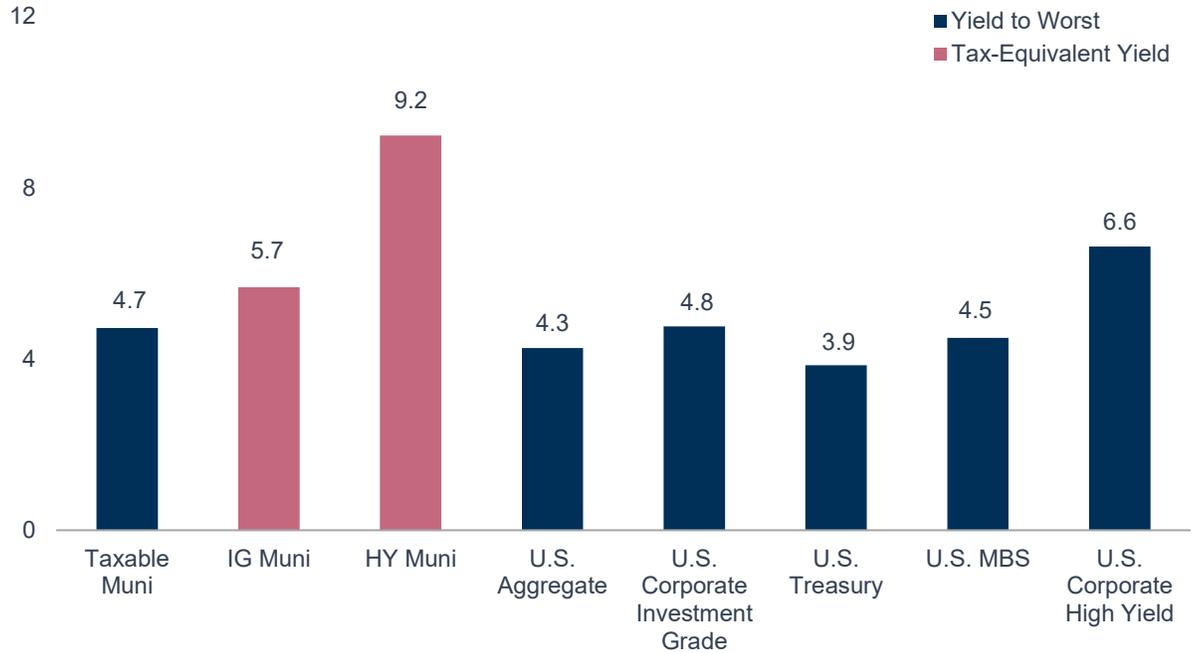
FIGURE 6: MUNI EXCEEDS CORPORATE SPREADS⁹



Tax equivalent munis continue to exceed corporate spread/yields

7. Source: Bloomberg. Data as of February 12, 2026. Tax Equivalent Yield is using 37% federal tax rate, including 3.8% Net Investment Income Tax. Tax Equivalent Yield is using 32% federal tax rate, including 3.8% Net Investment Income Tax.
 8. Source: Bloomberg. Data as of February 12, 2026.

INDEX YIELDS (in %)⁹



AA MUNI TAX-EQUIVALENT YIELD CURVE¹⁰



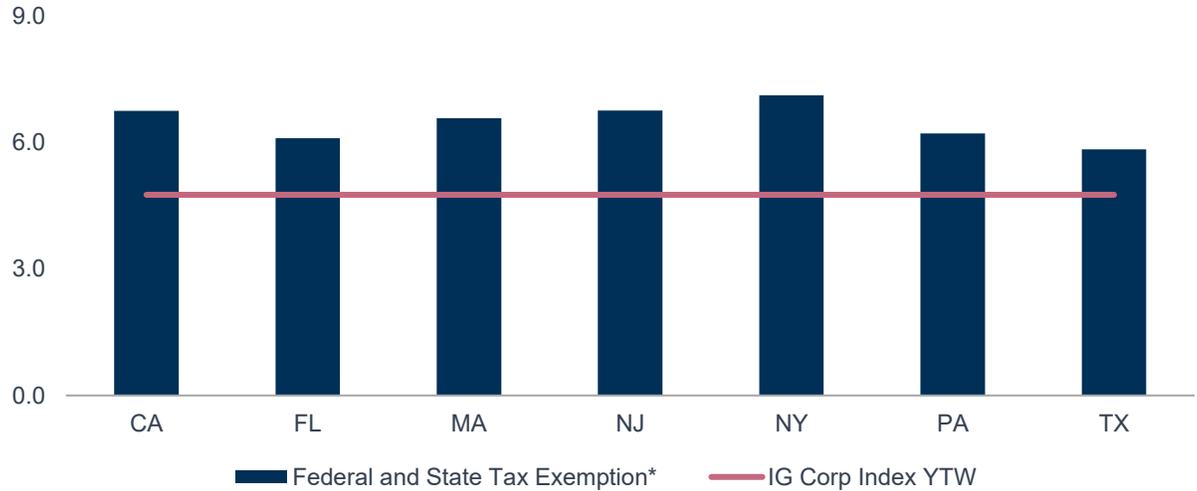
Data as of 02/12/2026.

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

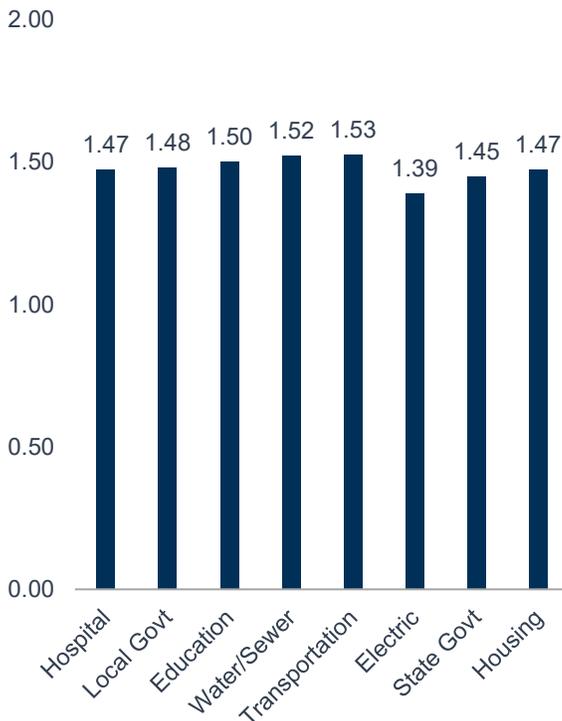
10. Source: Bloomberg. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

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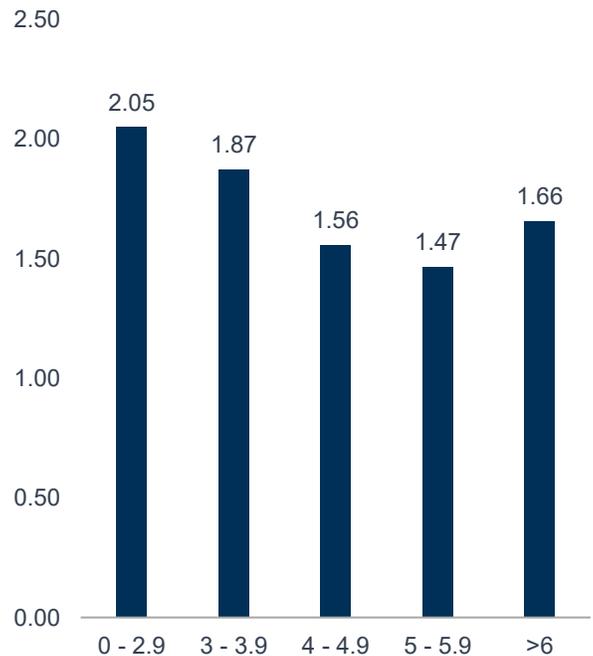
IN-STATE MUNI TAX-EQUIVALENT YTW (in %)¹¹



YTD TOTAL RETURNS BY SECTOR (in %)¹²



YTD TOTAL RETURNS BY COUPON (in %)¹³



Data as of 02/12/2026.

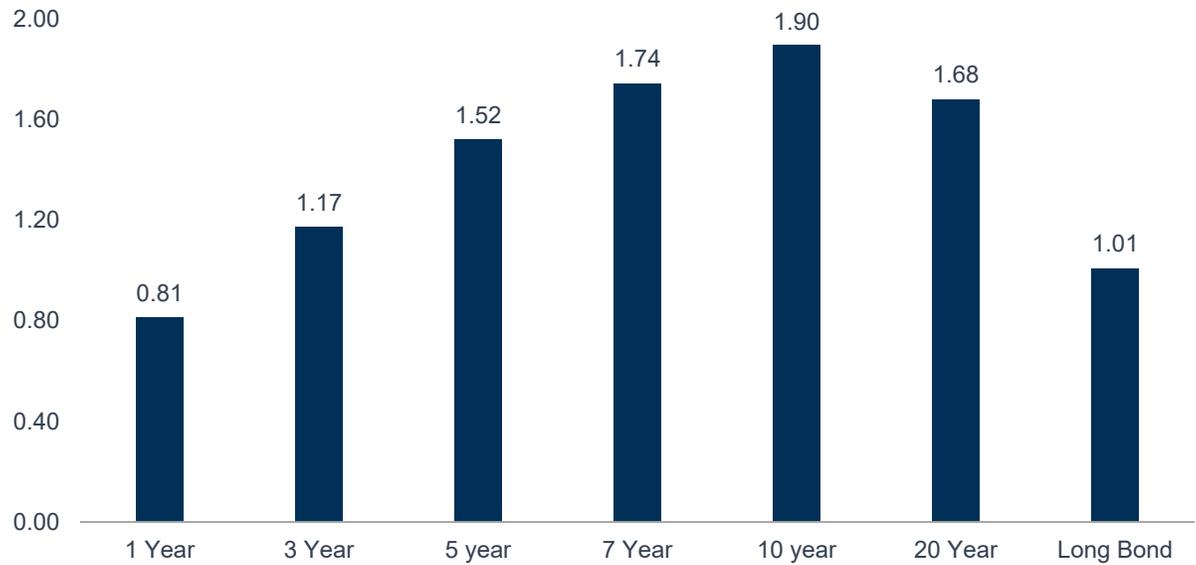
11. Source: Bloomberg. *Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. MacKay Shields and its affiliates do not provide tax, legal, or accounting advice. This material has been prepared for informational purposes, and is not intended to provide, and should not be relied on for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

12. Source: Bloomberg.

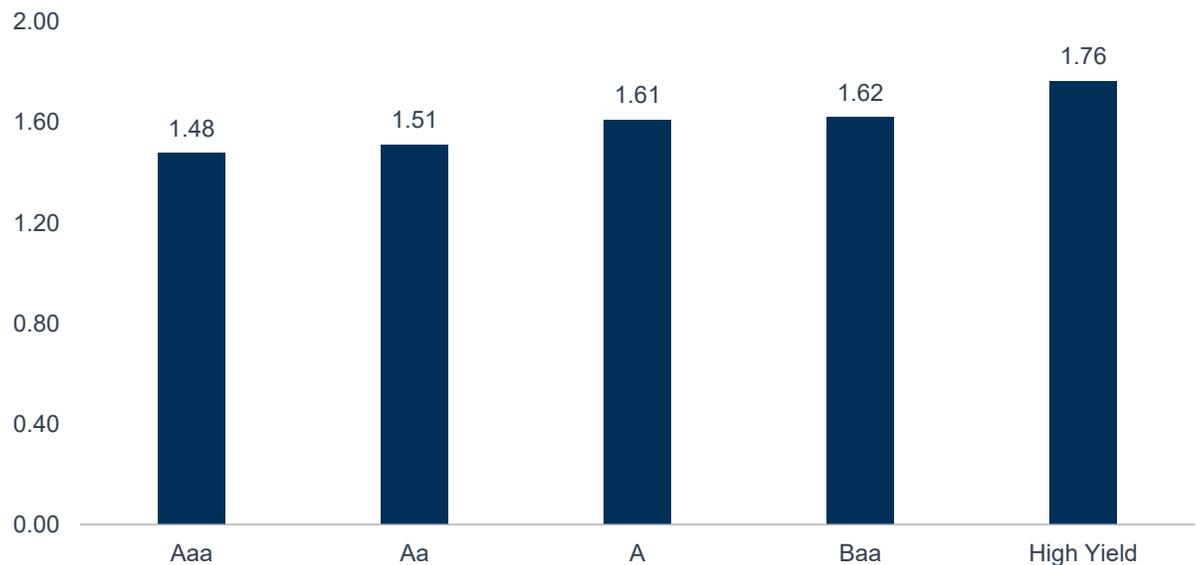
13. Source: Bloomberg.

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YTD TOTAL RETURNS BY MATURITY (in %)¹⁴



YTD TOTAL RETURNS BY RATING CATEGORY (in %)¹⁵



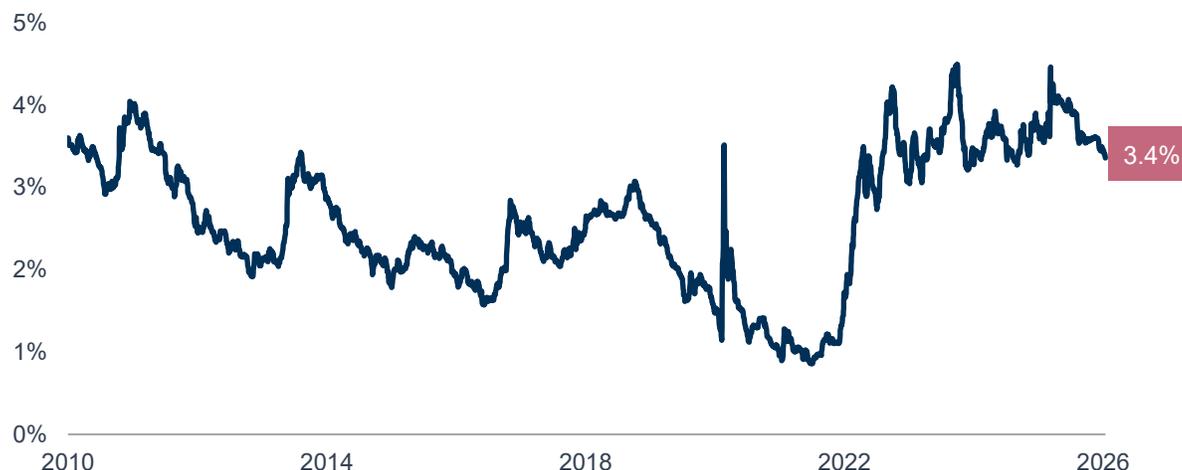
Data as of 02/12/2026.

14. Source: Bloomberg.

15. Source: Bloomberg.

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BLOOMBERG MUNICIPAL YIELD-TO-WORST¹⁶ (YTW)



MUNI YIELDS

| Tenor | 02/12/2026 | 02/05/2026 | Change (+/-) |
|---|--------------|---------------|--------------|
| Bloomberg AAA Muni Key Rate Yields¹⁷ | | | |
| 2-year | 2.08% | 2.13% | -0.05% |
| 5-year | 2.14% | 2.19% | -0.05% |
| 10-year | 2.55% | 2.60% | -0.05% |
| 30-year | 4.19% | 4.20% | -0.01% |
| U.S. Treasury Key Rate Yields¹⁷ | | | |
| 2-year | 3.47% | 3.47% | 0.00% |
| 5-year | 3.67% | 3.74% | -0.07% |
| 10-year | 4.09% | 4.21% | -0.12% |
| 30-year | 4.72% | 4.85% | -0.13% |
| U.S. Treasury & AAA Muni Curve Slopes¹⁸ | | | |
| | 2s10s | 10s30s | 2s30s |
| U.S. Treasury Curve Slope | +62 bps | +63 bps | +125 bps |
| AAA Muni Curve Slope | +47 bps | +164 bps | +211 bps |

Data as of 02/12/2026.

16. Source: Bloomberg. "Post GIFC Average" measures the period from 01/01/2010–02/12/2026.

17. Source: Bloomberg.

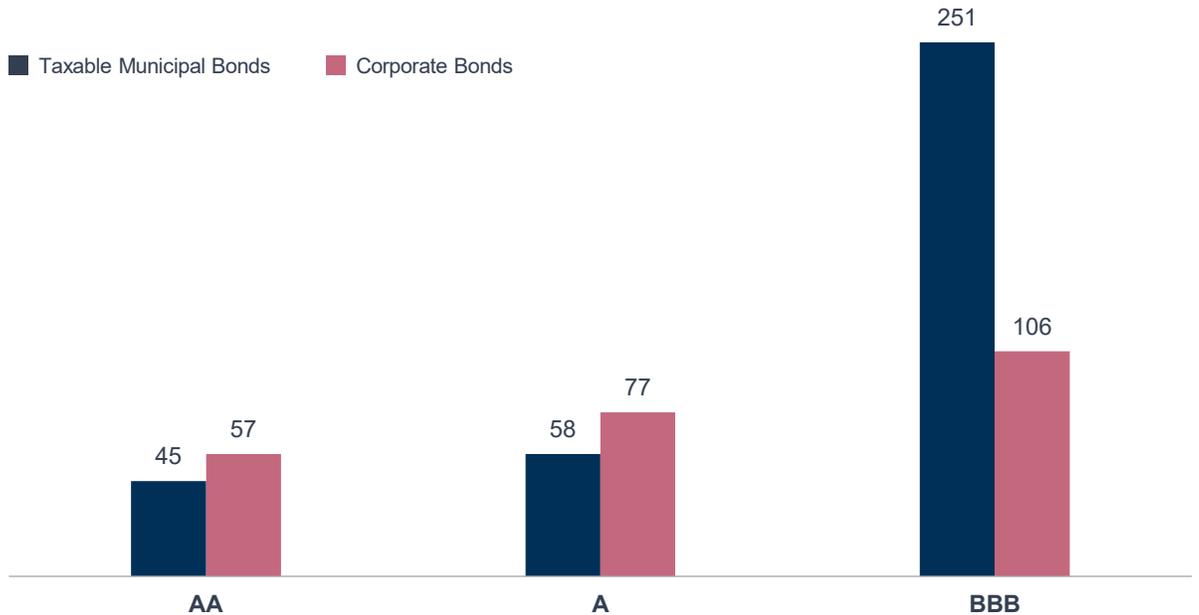
18. Source: Bloomberg. 2s10s–is spread between 10yr and 2yr yield; 10s30s–refers to spread between 30yr and 10yr yield; 2s30s–refers to spread between 30yr and 2yr yield.

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BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL¹⁹



TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS²⁰



19. Data as of 02/12/2026. Source: Bloomberg.

20. Data as of 02/12/2026. 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 FLOWS²¹ (USD BILLION)



Data as of 02/12/2026.

21. Source: Bloomberg.

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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.

DEFINITION OF TERMS (Continued)

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.

Dividend Yield

Dividend yield is a financial ratio that measures the annual dividend income a company pays to its shareholders, expressed as a percentage of its current share price. It represents the "dividend-only" return on investment for a stock.

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.

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.

INDEX DESCRIPTIONS (continued)

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.



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