Muni360

February 24, 2026

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS™ THE MINDS BEHIND MUNIS

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Credit Questions Emerge Amidst Strong 2026 Start

KEY TAKEAWAYS

- Munis move back into pole position
- New York City: headlines vs. fundamentals
- Outlook for federal support

Relative Performance

Municipals continued their constructive start to 2026, rallying across the curve even as Treasuries moved in the opposite direction. AAA BVAL yields declined 2 bps in 2s, 2–3 bps in 5s and 10s, and more than 5 bps in 30s. Treasuries, by contrast, sold off across the curve, with yields rising roughly 5 bps in 2s, 3 bps in 5s, and nearly 2 bps in 10s.[1]

That divergence drove meaningful relative outperformance for municipals. Muni-to-Treasury ratios richened across the curve, with the 2-year ratio declining 0.7 points to 59.45%, the 5-year ratio falling 0.4 points to 57.97%, and the 10-year ratio improving by roughly 0.4 points to 61.69%. Ratios in the front and intermediate portions of the curve now sit near the lower end of their recent ranges, reflecting sustained demand for tax-exempt income even amid Treasury volatility.[1]

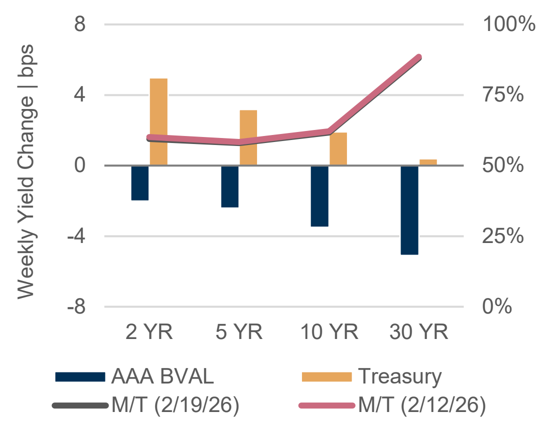
What stands out is resilience. While Treasuries gave back part of their recent rally, municipals held firm and continued to grind lower in yield. That dynamic reinforces the technical strength of the asset class—steady reinvestment demand, manageable supply, and disciplined positioning continue to support valuations.

FIGURE 1: INDEX PERFORMACE

	MTD	YTD	2025%
Muni Bond 5-Year	0.68%	1.66%	5.03%
Muni Bond 10-Year	0.95%	2.13%	5.92%
Muni Bond 15-Year	1.01%	2.32%	5.31%
Muni Long Bond	1.07%	1.58%	1.95%
Muni Managed Money	0.97%	1.96%	3.94%

Data as of February 19, 2026.
Source: Bloomberg

FIGURE 2: MUNIS OUTPERFORM



Data as of February 19, 2026.
Source: Bloomberg

1. Source: Bloomberg

Year-to-date performance remains impressive. Municipals are still up over 1.80% in 2026, having already delivered a substantial portion of their long-term average annual return in just the first several weeks of the year. Relative to other major fixed income sectors, tax-exempts continue to lead versus Treasuries on a total return basis.

Importantly, this week's move underscores a broader theme: municipals are not simply riding Treasury beta. They are demonstrating independent technical strength. When Treasuries rally sharply, munis may lag modestly. When Treasuries sell off, munis are proving more stable. That asymmetry is constructive.

We believe that with supply still manageable and demand intact, the setup remains favorable. Ratios have compressed in the front end, but intermediate maturities continue to offer balanced carry and roll-down. In a market still navigating macro crosscurrents and shifting Fed expectations, municipals remain well positioned as both an income generator and a volatility dampener.

Technicals

As Mayor Zohran Mamdani begins advancing his policy agenda, New York City's finances have moved squarely into the headlines. Many of his campaign proposals require additional revenue, and his preliminary $127 billion FY 2027 budget—which projects a $5.4 billion deficit—has intensified public debate.

While the rhetoric has been forceful, the fiscal reality is more measured. The projected gap has already narrowed meaningfully from the $12.6 billion forecast last November, largely due to stronger personal income tax collections and additional state support. As in every year, the city is legally required to adopt a balanced budget and publish an updated multi-year financial plan—an important structural safeguard that limits fiscal drift.

REVENUE OPTIONS AND RESERVE MANAGEMENT

To close the remaining gap, the administration has outlined two paths:

1. Higher taxes on high earners and corporations, which would require approval from the New York State Legislature; or

2. A 9.5% property tax increase, described as an option of last resort, combined with measured use of reserves.

The property tax proposal would affect more than one million residential units and over 100,000 commercial properties. It also contemplates drawing $980 million from the Rainy Day Fund in FY 2026 and $229 million from the Retiree Health Benefits Trust in FY 2027. Even with these actions, reserves would remain substantial—$6.3 billion in FY 2026 and $6.1 billion in FY 2027, or roughly 4.8% of the FY 2027 budget.

Importantly, reserve levels would remain intact by historical standards, underscoring continued fiscal discipline.

ALBANY AND POLITICAL DYNAMICS

State approval would be required for any increase in personal or corporate income tax rates. Governor Hochul has thus far pushed back against new or higher taxes on high earners and corporations, and none are included in the State's FY 2027 Executive Budget. That said, the state has committed meaningful support to the city, including a $1.5 billion two-year package, reversals of certain cost shifts, investments in youth programming, one-time unrestricted aid, and additional school funding.

At the local level, the City Council must approve the budget. Council leadership has voiced opposition to a property tax increase, signaling that negotiations will likely shape the final outcome.

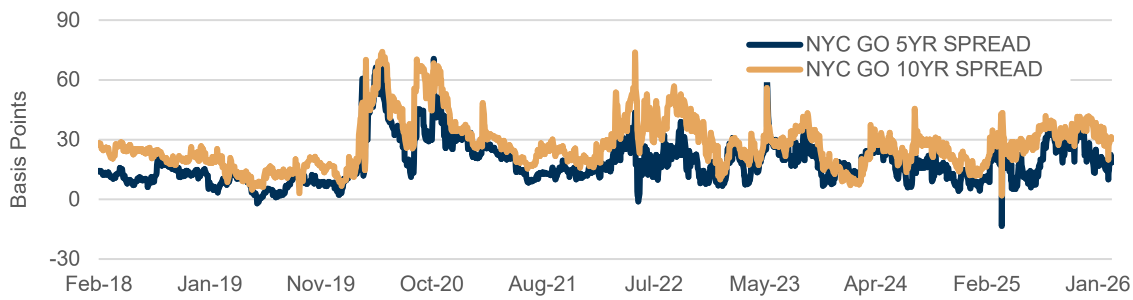
MARKET PERSPECTIVE

If headlines were translating into sustained credit concern, we would expect to see it reflected in spreads. The chart below shows NYC 5- and 10-year AAA GO credit spreads over the past decade.

Spreads widened during stress periods—most notably in 2020 and again in late 2025—but have since retraced. Currently, 10-year spreads are near 30 bps and 5-year spreads near 18 bps, both around or below long-term averages.

The normalization suggests that, despite elevated political rhetoric, investors remain anchored by fundamentals.

FIGURE 3: NYC SPREADS



Data as of February 19, 2026.
Source: Bloomberg

ECONOMIC AND REVENUE BACKDROP

New York City's underlying credit profile remains strong. Revenues are at record highs, with personal income tax collections up 10% and corporate tax revenues up 5%. The labor market is operating near full employment by historical standards, with private-sector employment exceeding pre-pandemic levels by approximately 144,000 jobs.[2] Office visitation has also surpassed 2019 levels, signaling continued economic normalization.

BOTTOM LINE

The political process surrounding the FY 2027 budget will likely generate continued headlines. However, the city's diversified economy, record revenue performance, balanced-budget requirement, and sizable reserves provide important counterweights to the noise.

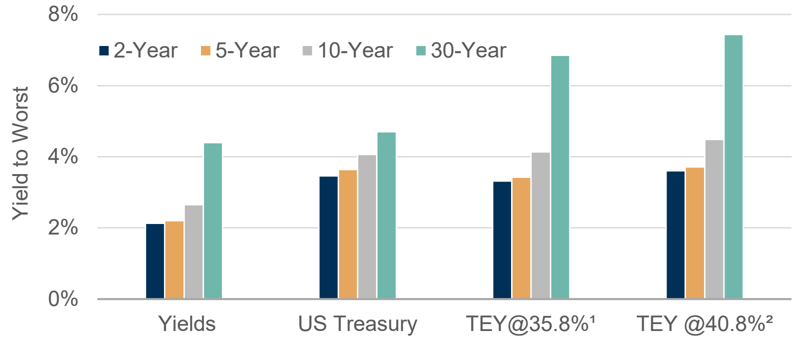
In short, while rhetoric may drive volatility at the margin, the underlying credit fundamentals continue to support stability. We will monitor developments in Albany and City Hall closely as negotiations progress.

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

A 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. We believe expanded fraud enforcement should not materially alter the broader funding trend given legal barriers to broad freezes and the historically limited scale of proven misuse.

2. Source: Bloomberg

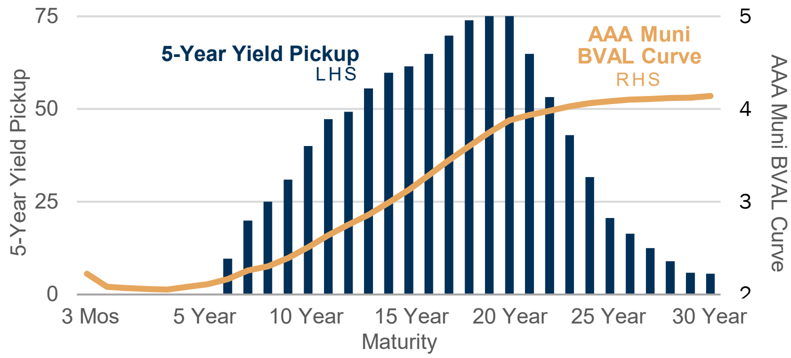
TAX-ADJUSTED YIELDS OF MUNIS



On a tax-adjusted basis munis handily lead across tenors

1. Tax Equivalent Yield is using 37% federal tax rate, including 3.8% Net Investment Income Tax.
2. Tax Equivalent Yield is using 32% federal tax rate, including 3.8% Net Investment Income Tax.
Data as of Data as of February 20, 2026.
Source: Bloomberg

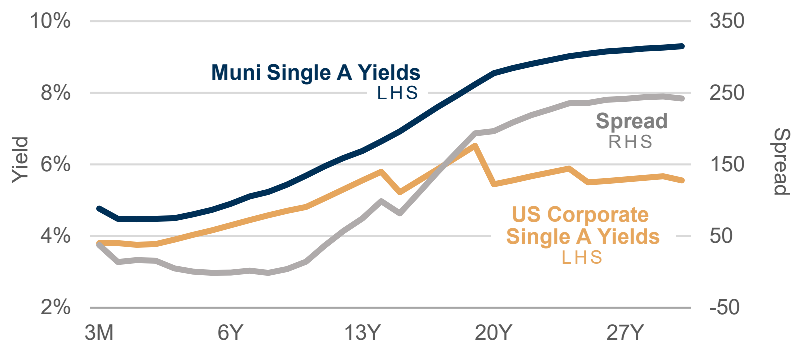
YIELD CURVE STEEPNESS



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

Data as of Data as of February 20, 2026.
Source: Bloomberg

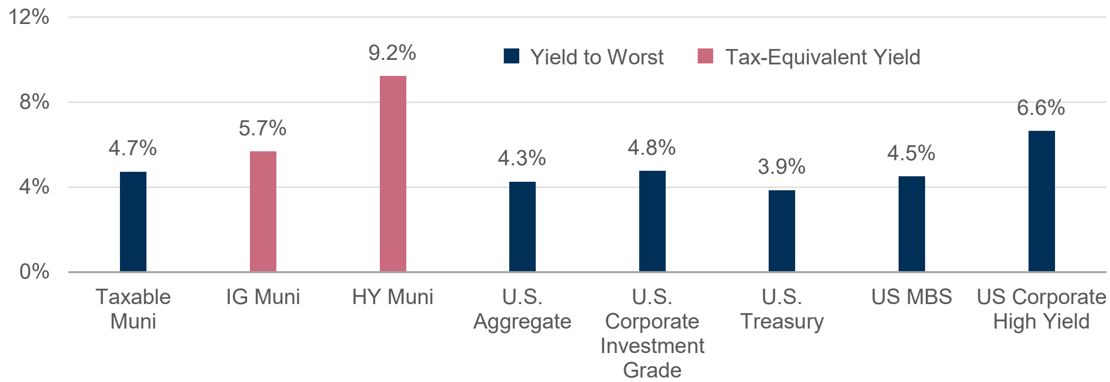
MUNI EXCEEDS CORPORATE SPREADS



Tax equivalent munis continue to exceed corporate spread/yields

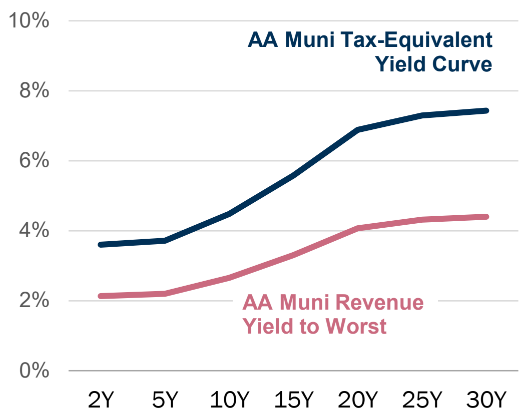
Data as of Data as of February 20, 2026.
Source: Bloomberg

INDEX YIELDS



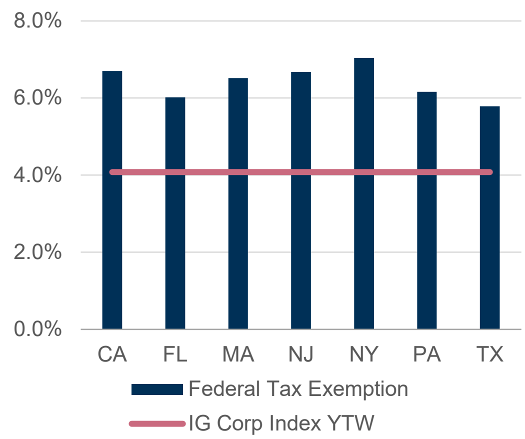
Data as of February 20, 2026.
1. Tax Equivalent Yield is using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE



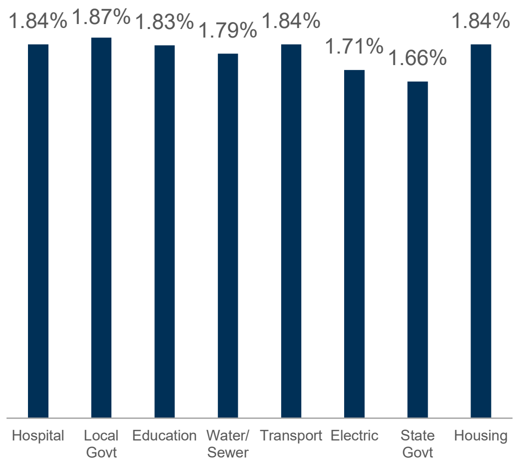
Data as of February 20, 2026.
Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



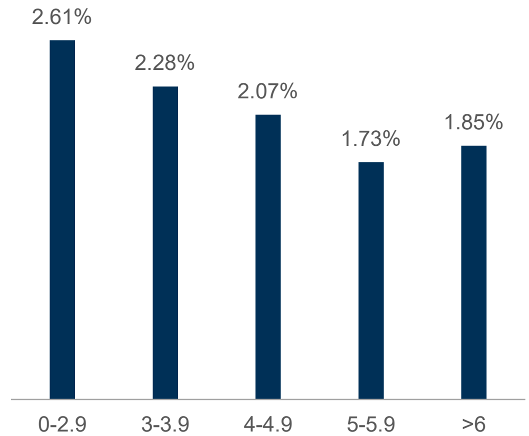
Data as of February 20, 2026.
Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

YTD TOTAL RETURNS BY SECTOR



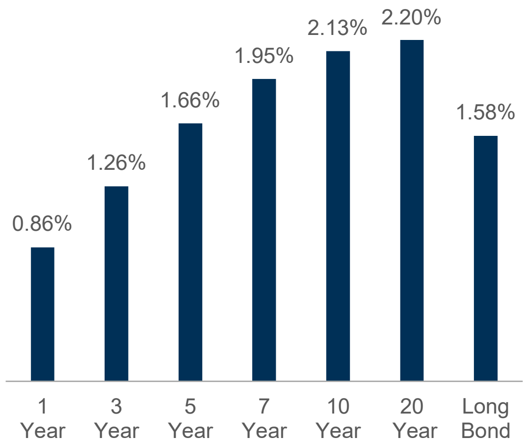
Data as of February 20, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



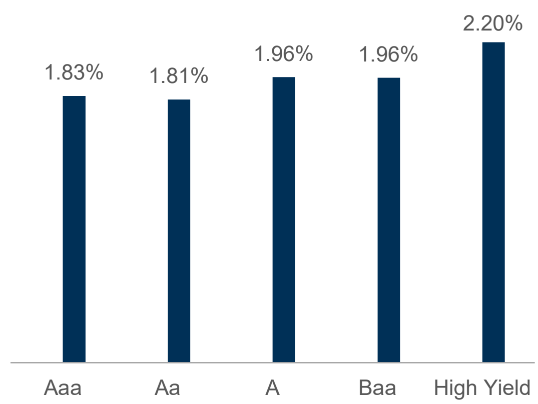
Data as of February 20, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of February 20, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of February 20, 2026.
Source: Bloomberg

BLOOMBERG MUNICIPAL YIELD-TO-WORST

Data as of Data as of February 18, 2026.
“Post GFC Average” measures the period from 1/1/2010 – 2/18/2026
Source: Bloomberg

MUNI YIELDS

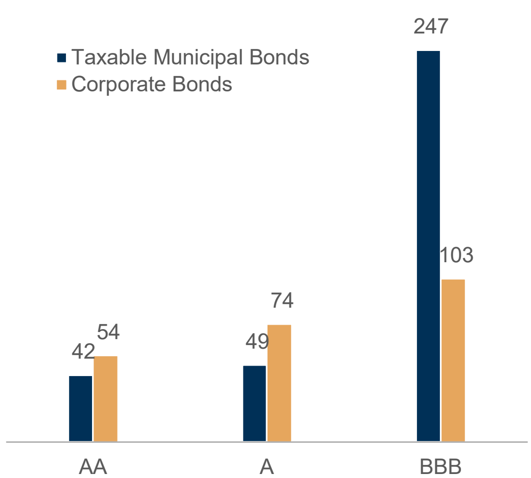
Tenor	2/18/2026	2/11/2026	Change (+/-)
Bloomberg AAA Muni Key Rate Yields			
2-Year	2.06%	2.10%	-0.04%
5 Year	2.11%	2.16%	-0.04%
10 Year	2.51%	2.57%	-0.05%
30 Year	4.14%	4.21%	-0.06%
US Treasury Rate Yields			
2 Year	3.47%	3.52%	-0.05%
5 Year	3.66%	3.75%	-0.09%
10 Year	4.09%	4.18%	-0.09%
30 Year	4.71%	4.82%	-0.11%
US Treasury & AAA Muni Curve Slopes[1]			
	2s10s	**10s30s**	**2s30s**
Us Treasury Curve Slope	+ 62 bps	+ 62 bps	+ 124 bps
AAA Muni Curve Slope	+ 45 bps	+ 163 bps	+ 208 bps

Data as of Data as of February 18, 2026.
1. 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
Source: Bloomberg

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL

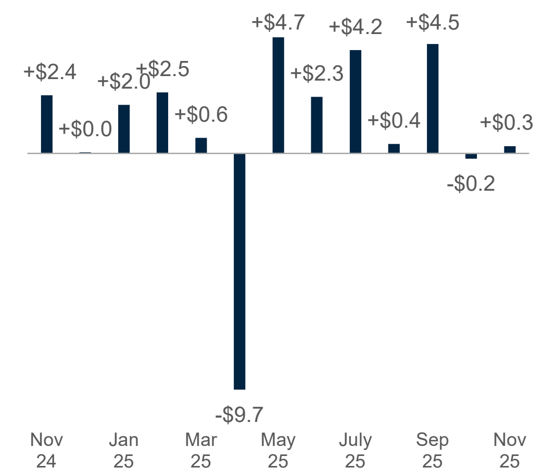
Data as of February 18, 2026.
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of February 18, 2026.
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.
Source: Bloomberg

LONG TERM FUND FLOWS | USD $BN



Data as of February 18, 2026.
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.

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

The 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

The 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 AMT EX TERRITORIES INDEX

The Muni IG ex. AMT and ex Territories Index is the Bloomberg Municipal Bond Index excluding AMT and US. Territory exposure.

BLOOMBERG MUNICIPAL BOND INDEX

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

The Bloomberg 5 Year Municipal Bond 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

The 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

The 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 MUNICIPAL BOND HIGH YIELD INDEX

The Bloomberg Municipal Bond: High Yield Index is a flagship measure of the US municipal tax-exempt non-investment grade bond market. Included in the index are securities from all 50 US 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.

BLOOMBERG U.S. AGGREGATE BOND INDEX

The 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

The Bloomberg US Corporate Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility, and financial issuers. The index is a component of the US Credit and US Aggregate Indices, and provided the necessary inclusion rules are met, US 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

The 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 U.S. MORTGAGE-BACKED SECURITY INDEX

The US MBS 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 US MBS Index.

BLOOMBERG U.S. CORPORATE HIGH YIELD INDEX

The Bloomberg US Corporate High Yield Bond 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

The Bloomberg Global Aggregate 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.

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 US MUNICIPAL BOND INDEX TOTAL RETURN INDEX VALUE UNHEDGED

The Bloomberg U.S. Municipal 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 US AGGREGATE TOTAL RETURN VALUE UNHEDGED

The Bloomberg US 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 US TREASURY TOTAL RETURN UNHEDGED

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.