

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS™ THE MINDS BEHIND MUNIS



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Coupon opportunities lend themselves to active solutions

KEY TAKEAWAYS

- Rates quick to sniff out geo-political risks
- 4s over 5s argument enters active realm
- How risky are equity concentrations?

Relative Performance

Municipals extended their rally last week, with AAA BVAL yields declining 3 bps in 2s, roughly 2 bps in 5s and 10s, and nearly 4 bps in 30s. Treasuries, however, moved more aggressively, with yields falling 9 bps in 2s, 12–13 bps in 5s and 10s, and over 9 bps in 30s.

The Treasury move was largely driven by risk-off sentiment as markets began front-running potential U.S. involvement with Iran in the coming days. Safe-haven flows pushed rates lower across the curve, particularly in intermediate maturities. If tensions escalate into a more prolonged military engagement, we believe that dynamic could continue to pressure rates lower in the near term.

Against that backdrop, municipals participated in the rally but did not match Treasury beta tick-for-tick. Muni-to-Treasury ratios cheapened modestly in the belly, with the 5-year ratio rising nearly a point to 58.89% and the 10-year ratio increasing to 62.35%. The 2-year and 30-year ratios were largely unchanged at 59.62% and 88.14%, respectively.

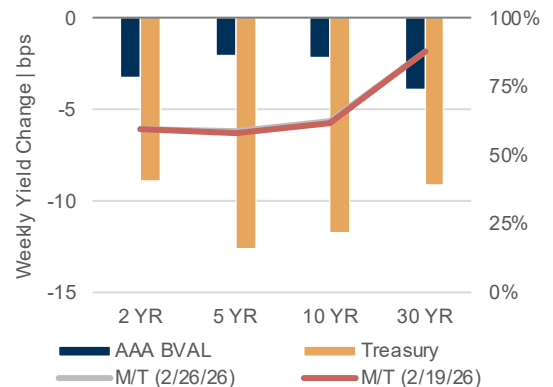
Importantly, this was not a muni weakness story — it was a duration and flight-to-quality story. When Treasuries rally sharply on macro or geopolitical risk, municipals often lag in relative terms. That’s exactly what we saw.

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2026%
Muni Bond 5-Year	0.76%	1.75%	5.03%
Muni Bond 10-Year	1.10%	2.28%	5.92%
Muni Bond 15-Year	1.23%	2.54%	5.31%
Muni Long Bond	1.51%	2.02%	1.95%
Muni Managed Money	1.22%	2.22%	3.94%

Data as of February 26, 2026.
Source: Bloomberg

FIGURE 2: MUNIS OUTPERFORM



Data as of February 26, 2026.
Source: Bloomberg

Year-to-date performance, however, remains strong. Municipals continue to deliver attractive total returns and remain well ahead of seasonal norms. Any additional cheapening in the intermediate portion of the curve reintroduces incremental relative value.

Bottom line: geopolitics drove Treasuries. Municipals stayed steady. If risk-off flows persist, rates could remain biased lower in the near term — but the broader technical backdrop supporting tax-exempts remains intact.

Technicals

COUPON DISTORTIONS AND THE ACTIVE OPPORTUNITY

The yield difference between 4% and 5% municipal bonds remains elevated versus history. Over the past several years, 4% coupons have typically yielded about 50 basis points more than 5s. Today, that gap is toward the higher end of its historical range.

This isn't about credit quality. It's about structure and demand.

Short-call 5% bonds are in heavy demand from passive SMA and ladder strategies. These portfolios prioritize bonds that trade near par, have predictable call dates, and help manage duration tightly. As a result, many 5s are trading at very rich levels — in some cases even through the conventional curve — meaning investors are accepting lower yields for structural stability.

By contrast, 4% bonds often trade at discounts, offer higher yields, and sit at positive spreads to the curve. They carry slightly more duration and price movement, but they also provide greater income and more upside potential if rates continue to drift lower.

In other words, the market is paying a premium for “comfort” in 5% structures, while discount 4s are being priced to compensate investors for risks that appear to be declining as rates stabilize.

Passive mandates must continue buying what fits their models. Active managers have more flexibility.

Rather than competing for rich, negative-spread 5s with capped upside, we believe selective rotation into discounted coupons offers better value in the current environment. Investors are being paid more income upfront, retain price appreciation potential in a rally, and can benefit if the historically wide 4% versus 5% spread begins to narrow.

This is not a credit call — it's a structural opportunity created by market technicals. In today's rate environment, flexibility matters.

FIGURE 3: 4% OVER 5% COUPON SPREADS



Data as of February 26, 2026.
Source: Bloomberg

Q With so much performance concentrated in a handful of mega-cap stocks, are clients taking more risk than they realize? How should that impact muni allocations?

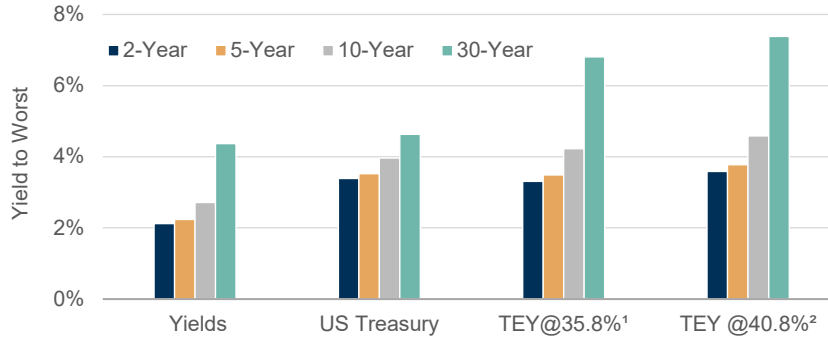
A The reality is that equity index exposure today is far more concentrated than many clients appreciate. A small group of mega-cap names now drives a disproportionate share of index returns. That concentration can amplify volatility, especially if leadership narrows further or sentiment shifts.

When equity returns are being generated by fewer and fewer names — and when the equity dividend yield sits below Treasury and tax-equivalent municipal yields — the traditional diversification math starts to look different.

From a portfolio construction standpoint, this becomes less about “defensive positioning” and more about risk budgeting. If a client already has significant embedded equity concentration — whether intentional or not — reallocating incremental dollars toward high-quality, tax-advantaged income can reduce overall portfolio volatility without materially sacrificing return.

When equity concentration rises and the equity risk premium compresses, municipals move from ballast to strategic allocation.

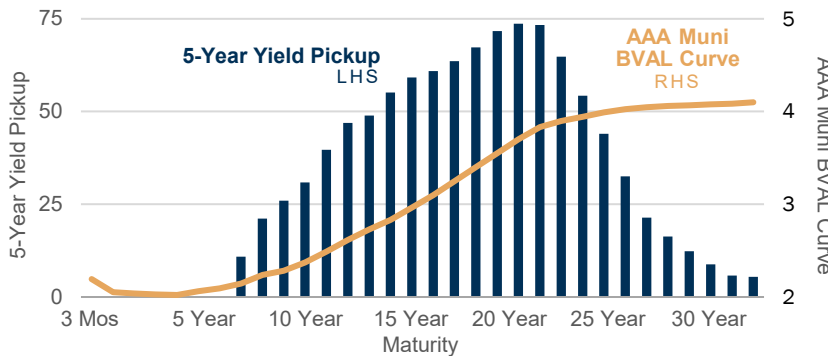
TAX-ADJUSTED YIELDS OF MUNIS



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 February 26, 2026.
 Source: Bloomberg

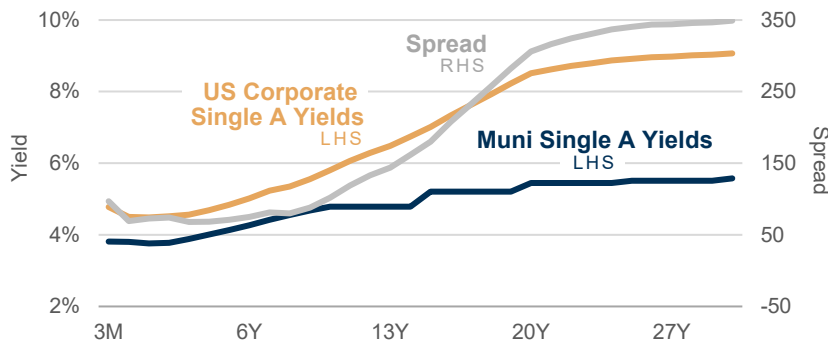
YIELD CURVE STEEPNESS



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

Data as of February 26, 2026.
 Source: Bloomberg

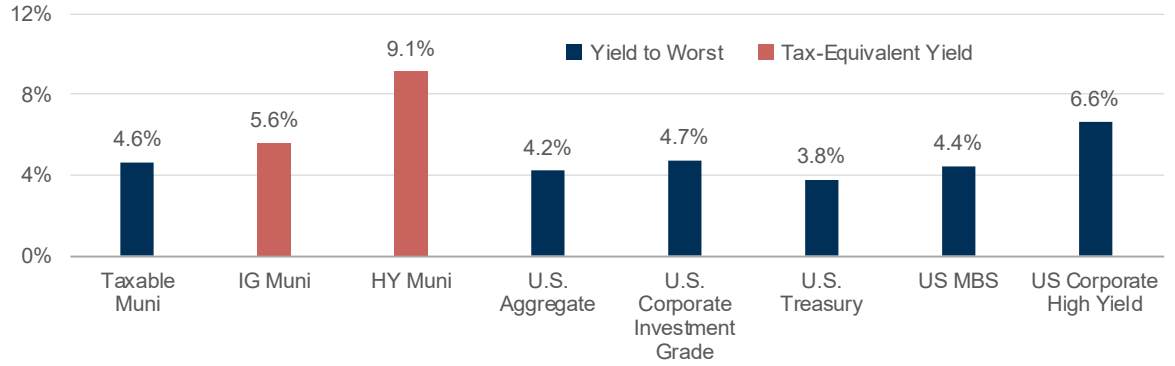
MUNI EXCEEDS CORPORATE SPREADS



Tax equivalent munis continue to exceed corporate spread/yields

Data as of February 26, 2026.
 Source: Bloomberg

INDEX YIELDS

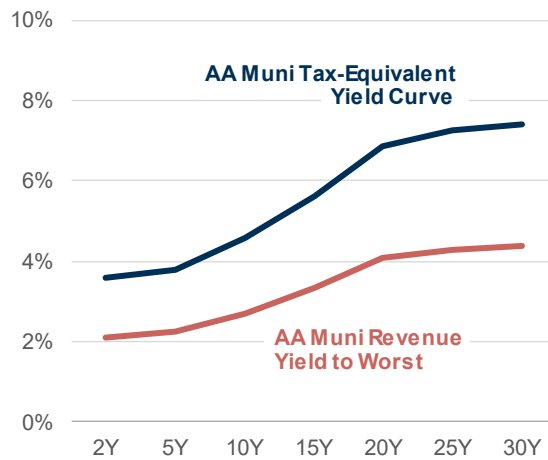


Data as of February 26, 2026.

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

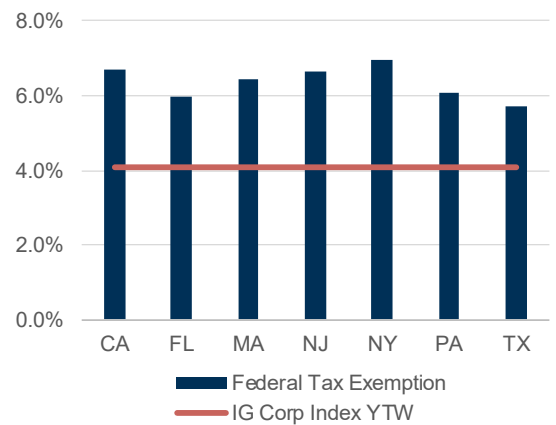


Data as of February 26, 2026.

Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW

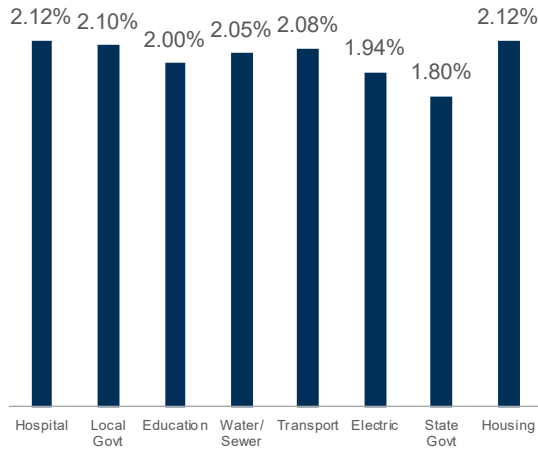


Data as of February 26, 2026.

Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

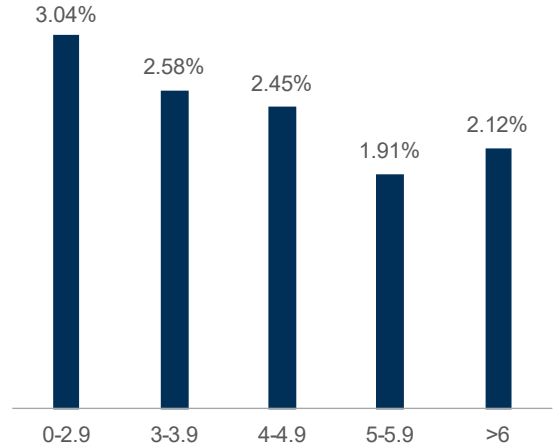
Source: Bloomberg

TOTAL RETURNS BY SECTOR



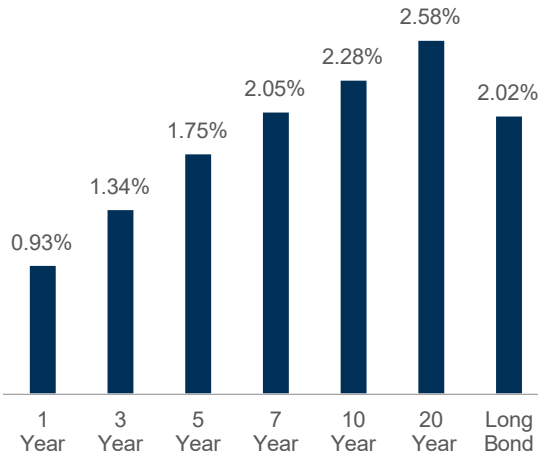
Data as of February 26, 2026.
Source: Bloomberg

TOTAL RETURNS BY COUPON



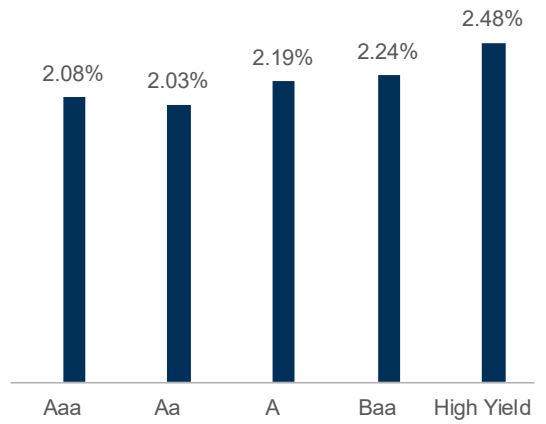
Data as of February 26, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of February 26, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of February 26, 2026.
Source: Bloomberg

BLOOMBERG MUNICIPAL YIELD-TO-WORST



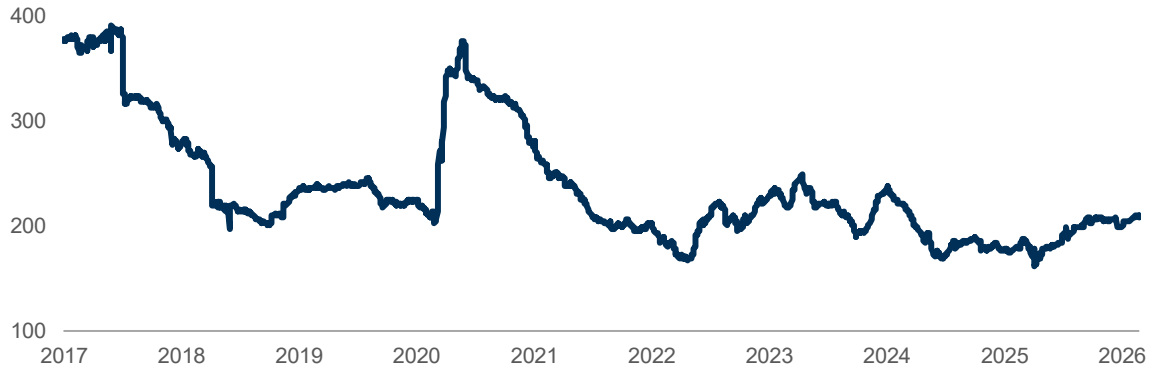
Data as of Data as of February 26, 2026.
 "Post GFC Average" measures the period from 1/1/2010 – 2/26/2026
 Source: Bloomberg

MUNI YIELDS

Tenor	2/19/2026	2/26/2026	Change (+/-)
Bloomberg AAA Muni Key Rate Yields			
2-Year	2.05%	2.06%	-0.01%
5 Year	2.10%	2.11%	-0.01%
10 Year	2.50%	2.51%	-0.01%
30 Year	4.11%	4.14%	-0.03%
US Treasury Rate Yields			
2 Year	3.42%	3.47%	-0.05%
5 Year	3.57%	3.65%	-0.08%
10 Year	4.02%	4.08%	-0.06%
30 Year	4.67%	4.70%	-0.03%
US Treasury & AAA Muni Curve Slopes¹			
	2s10s	10s30s	2s30s
Us Treasury Curve Slope	+ 60 bps	+ 65 bps	+ 125 bps
AAA Muni Curve Slope	+ 45 bps	+ 161 bps	+ 206 bps

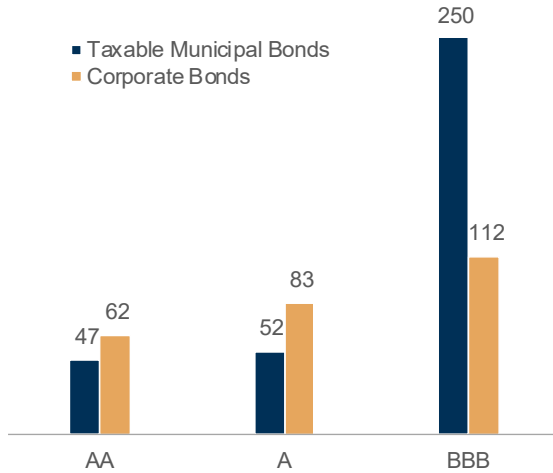
Data as of Data as of February 26, 2026.
 1. 2s10s – is spread between 10yr and 2yr yield; 10s30s – refers to spread between 30yr and 10yr yield; 2s30s – refers to spread between 30yr and 2yr yield
 Source: Bloomberg

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



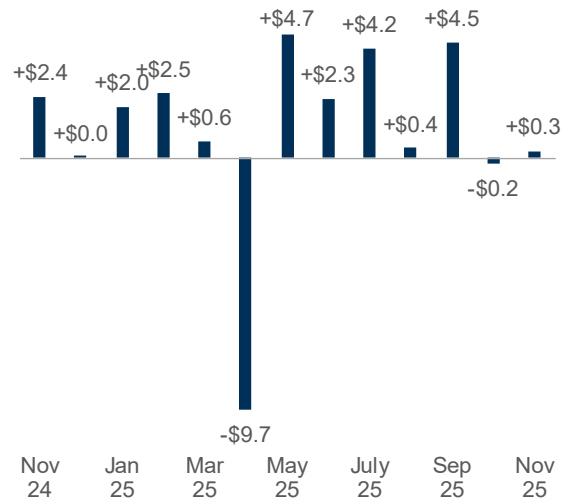
Data as of February 26, 2026.
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of February 26, 2026.
Source: Bloomberg

LONG TERM FUND FLOWS | USD \$BN



Data as of February 26, 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 (LBSTRUU: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.



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