

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.



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High Tax vs National Debate Rages On

KEY TAKEAWAYS

- Rates Rally on Week, Munis Trail Slightly
- Why going National Isn't a Given
- Eyeing Munis in Different Cycles

Relative Performance

MUNI VS. TREASURY RELATIVE PERFORMANCE

Rates moved lower last week, with Treasuries leading the rally across the curve. AAA BVAL municipal yields declined 2–3 bps across maturities, with 10s down roughly 3.5 bps and the long end lower by just under 3 bps. Treasuries, by contrast, saw a more pronounced move, with yields falling 3–4 bps in 2s and 5s and over 4 bps in 10s and 30s.

As a result, municipals modestly underperformed on a relative basis, with muni-to-Treasury ratios richening across the curve. The 2-year ratio declined 0.6 points to 62.08%, while the 5-year ratio fell to 62.66%. The 10-year ratio moved lower by roughly 0.4 points to 67.14%, and the 30-year ratio was essentially unchanged at 87.75%.

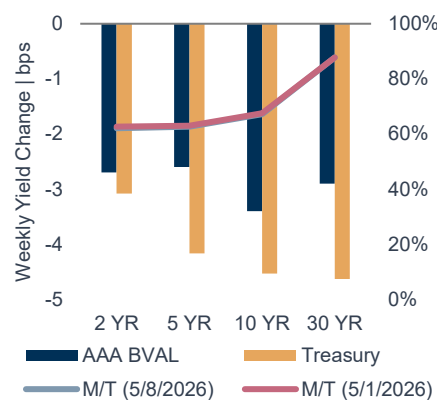
This was another Treasury-led move, where macro-driven demand pushed taxable yields lower more aggressively, while municipals adjusted more gradually. That pattern continues to define the market—Treasuries tend to move first and fastest, with municipals following more selectively.

The relative underperformance in municipals creates some time sensitivity. When Treasuries move this sharply, munis don't typically stay behind for long.

FIGURE 1: INDEX PERFORMANCE¹

	MTD	YTD	2025
Muni Bond 5-Year	0.12%	0.54%	5.03%
Muni Bond 10-Year	0.21%	0.42%	5.92%
Muni Bond 15-Year	0.25%	1.36%	5.31%
Muni Long Bond	0.26%	1.87%	1.95%
Muni Managed Money	0.20%	0.97%	3.94%

FIGURE 2: MUNIS UNDERPERFORM²



1. Data as of May 8, 2026. Source: Bloomberg
2. Data as of May 8, 2026. Source: Bloomberg. Spot Muni, Spot AA rates. AAA BVAL: AAA Municipal yield curve M/T: Municipal/Treasury Yield Ratio - Bloomberg Municipal Bond Index yield / Bloomberg U.S. Treasury Index yield.

Market Technicals

This week we wanted to address a topic that consistently comes up in the field—whether muni investors should be reaching outside their home state for diversification.

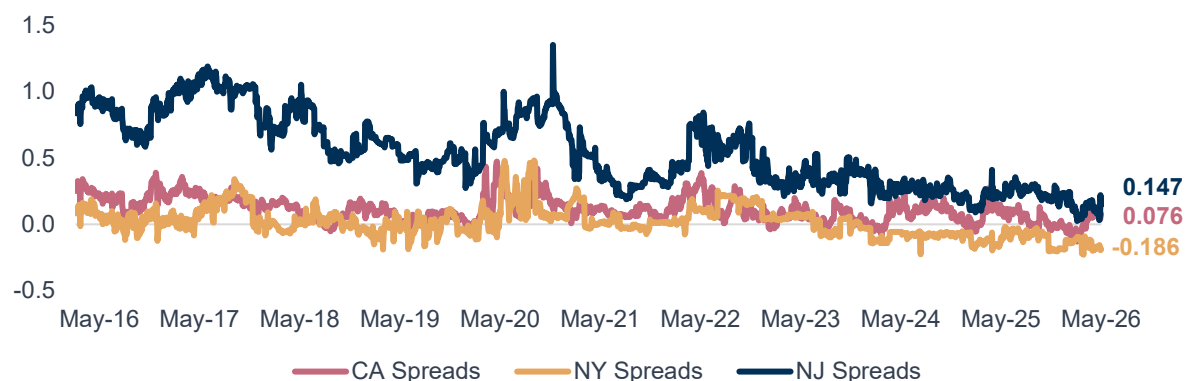
We believe the conclusion is pretty clear: the benefits of doing so are often overstated, especially for investors in high-tax states like New York and California.

Start with the most obvious driver—taxes. For investors in high-tax jurisdictions, the in-state exemption creates a meaningful pickup in after-tax income—often 50–60 basis points. That advantage compounds over time and is difficult to replicate elsewhere without taking additional risk.

But the more interesting point is around diversification. In theory, going out of state should reduce concentration risk. In practice, the data doesn't really support that outcome. State-level muni markets are highly correlated to the national index—often north of 99%—which means crossing state lines doesn't materially change portfolio behavior. See Figure 3.

And importantly, the concern that strong in-state demand leads to investors overpaying also doesn't hold up—but not for the reason people think.

FIGURE 3: MUNI SPREADS³



When you look at spreads across high-tax states like California, New York, and New Jersey, they move largely in line with broader market dynamics. At times, these states will trade wider or tighter—but those moves tend to reflect underlying credit conditions, supply dynamics, or technicals, not a persistent “tax premium” being embedded in pricing.

In other words, when spreads are wider, the market is pricing risk, not penalizing investors for staying in-state. And when spreads are tighter, it reflects demand—but not to a degree that meaningfully distorts long-term outcomes.

This ties back to a broader theme we've been emphasizing—performance in municipals is an after-tax conversation, not just a pre-tax one. When you combine tax-exempt income, local tax benefits, and the absence of a structural valuation penalty, the case for staying in-state becomes much more compelling.

None of this is to say there aren't opportunities outside of home states. But the default assumption that diversification requires leaving your state—and giving up tax alpha in the process—is worth rethinking.

Bottom line: for high-tax investors, staying in-state isn't a trade-off. You're capturing tax alpha without systematically overpaying—and the data supports it.

3. Data as of May 11, 2026. Source: Bloomberg

Questions from the Field

Q. How resilient is the municipal market in a slower economic environment?

A. The municipal market has historically demonstrated **strong resilience during economic slowdowns**⁴, though performance can vary meaningfully across sectors and revenue types.

.At a high level, many municipal issuers benefit from **municipal revenue streams**—such as taxes, utilities, and public services—that tend to be **more stable than corporate earnings**. This provides a degree of downside protection, particularly in mild to moderate economic downturns. In addition, most state and local governments entered the current period from a position of strength, having built **elevated reserves and liquidity buffers** during the post-pandemic expansion.

That said, a slower economic environment does introduce **areas of pressure**:

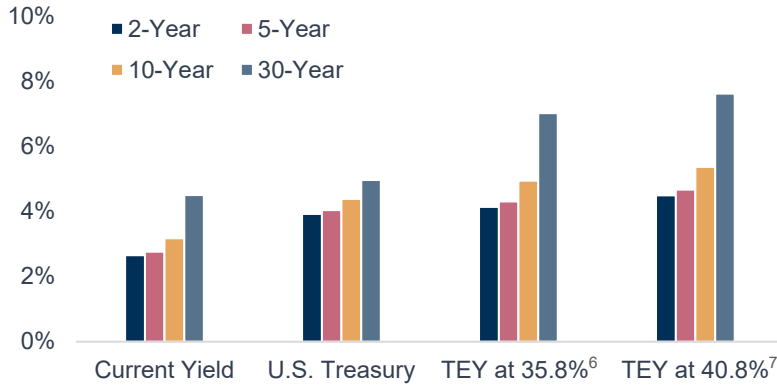
- **Economically sensitive revenues**, such as income taxes, sales taxes, and capital gains-related collections, may soften—particularly in states with progressive tax structures.
- Sectors tied to **discretionary activity** (e.g., tourism, convention centers) or **financial markets** may see more volatility.
- Certain issuers, such as **school districts or smaller local governments**, may face **budgetary strain** as temporary funding sources fade and cost pressures persist.

Importantly, in our view the municipal market also benefits from **structural protections** that can help insulate bondholders. These include **dedicated revenue pledges, legal covenants, and in some cases statutory liens or unlimited tax pledges**, all of which can provide a clear framework for repayment even under stress. As a result, **credit deterioration does not always translate directly into elevated default risk**, particularly in higher-quality segments.

From a market perspective, periods of economic slowing can also create **technical opportunities**. If risk sentiment weakens or fund flows turn negative, valuations may **cheapen**, offering more attractive entry points for long-term investors—even if underlying credit fundamentals remain broadly stable.

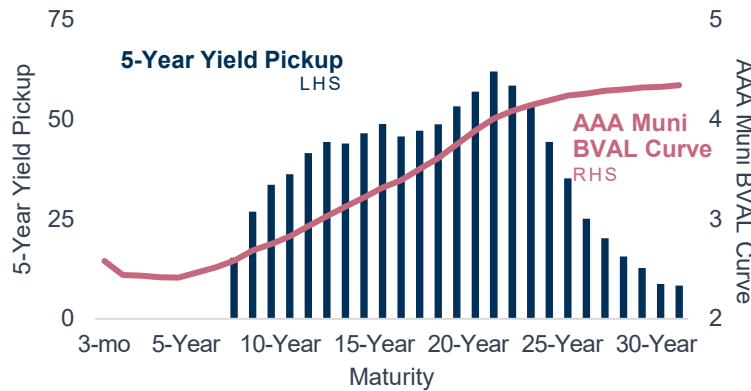
4. Source: Bloomberg

FIGURE 4: TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX⁵



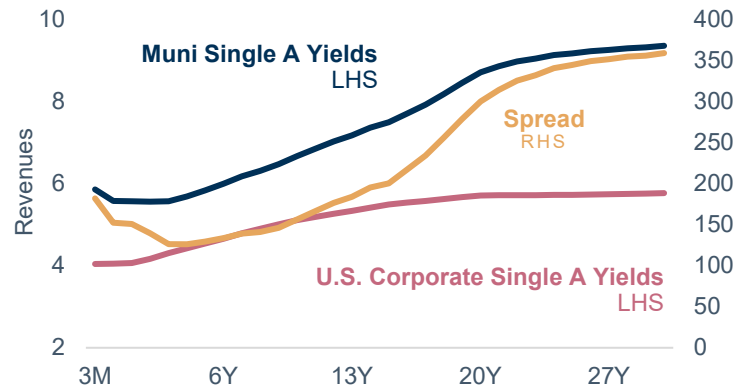
On a tax-adjusted basis munis handily lead across tenors

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 SPREADS⁸



Tax equivalent munis continue to exceed corporate spread/yields

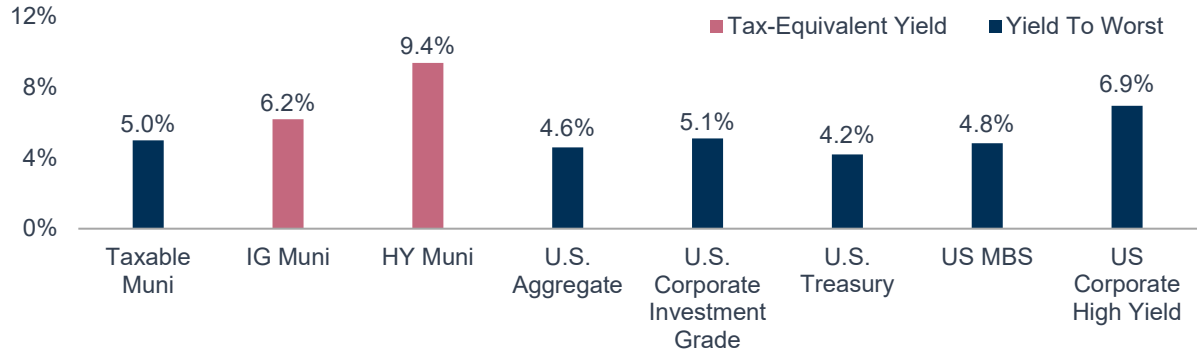
5. Source: Bloomberg. Data as of May 8, 2026.

6. Tax Equivalent Yield is using 32% federal tax rate, including 3.8% Net Investment Income Tax.

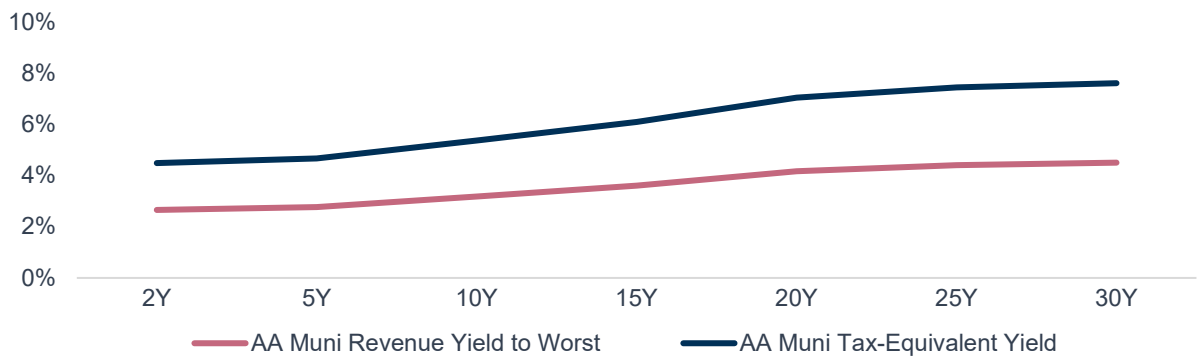
7. Tax Equivalent Yield is using 37% federal tax rate, including 3.8% Net Investment Income Tax.

8. Source: Bloomberg. Data as of May 8, 2026. Muni Single A Yields: Bloomberg Municipal Bond Index; U.S. Corporate Single A Yields: Bloomberg Corporate Bond Index

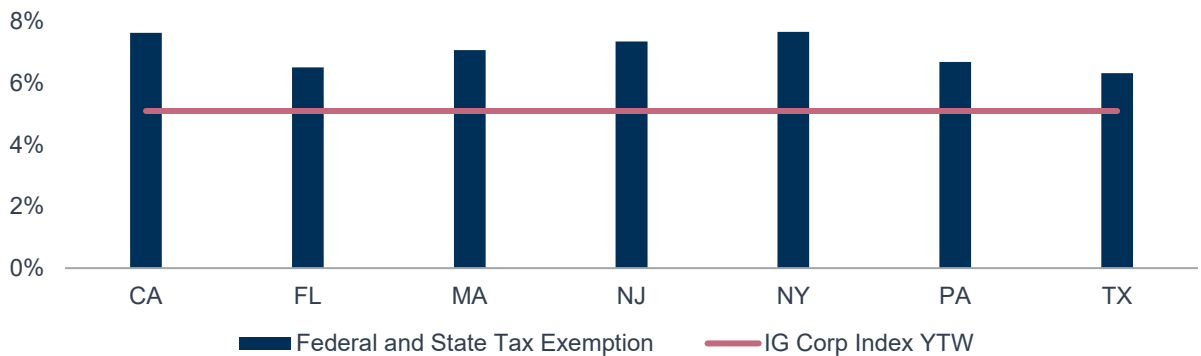
INDEX YIELDS⁹



AA MUNI TAX-EQUIVALENT YIELD CURVE¹⁰



IN-STATE MUNI TAX-EQUIVALENT YTW¹⁰

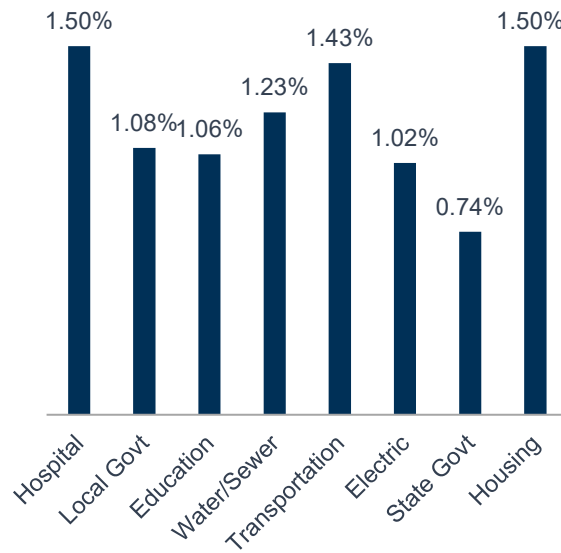


9. Data as of May 8, 2026. Tax Equivalent Yield is using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Source: Bloomberg.

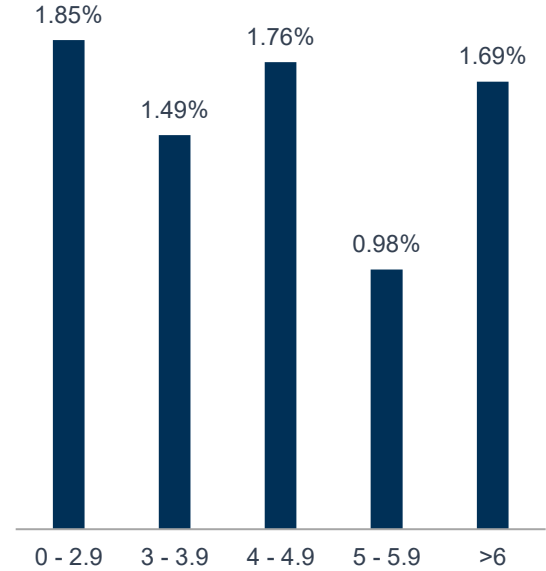
10. Data as of May 8, 2026. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Source: Bloomberg

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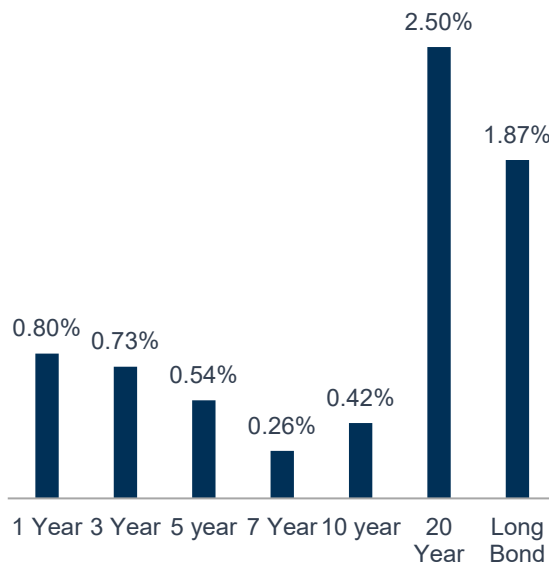
YTD TOTAL RETURNS BY SECTOR¹¹



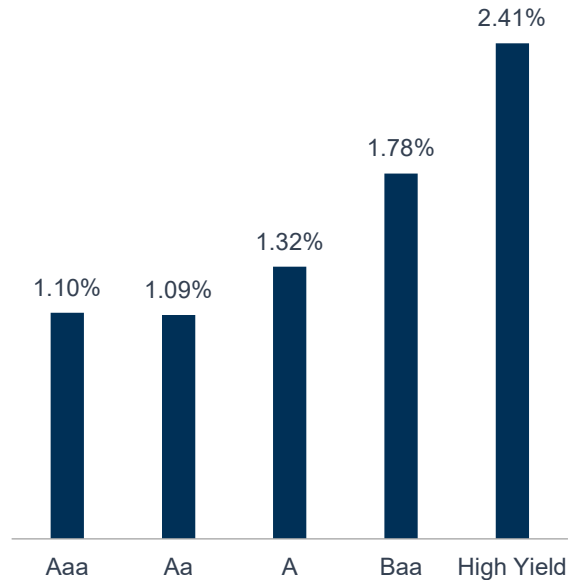
YTD TOTAL RETURNS BY COUPON¹¹



YTD TOTAL RETURNS BY MATURITY¹¹



YTD TOTAL RETURNS BY RATING CATEGORY¹¹



11. Data as of May 8, 2026. Source: Bloomberg.

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BLOOMBERG MUNICIPAL YIELD-TO-WORST¹² (YTW)



MUNI YIELDS

Tenor	5/1/2026	5/8/2026	Change (+/-)
Bloomberg AAA Muni Key Rate Yields¹³			
2-year	2.43%	2.42%	-0.02%
5-year	2.53%	2.52%	-0.01%
10-year	2.95%	2.93%	-0.02%
30-year	4.35%	4.34%	-0.01%
U.S. Treasury Key Rate Yields¹³			
2-year	3.88%	3.90%	+0.02%
5-year	4.02%	4.02%	0.00%
10-year	4.39%	4.38%	-0.01%
30-year	4.97%	4.95%	-0.02%
U.S. Treasury & AAA Muni Curve Slopes¹⁴			
	2s10s	10s30s	2s30s
U.S. Treasury Curve Slope	+48 bps	+57 bps	+105 bps
AAA Muni Curve Slope	+51 bps	+141 bps	+192 bps

Data as of May 8, 2026.

12. Source: Bloomberg. "Post GIFC Average" measures the period from 01/01/2010–05/08/2026.

13. Source: Bloomberg.

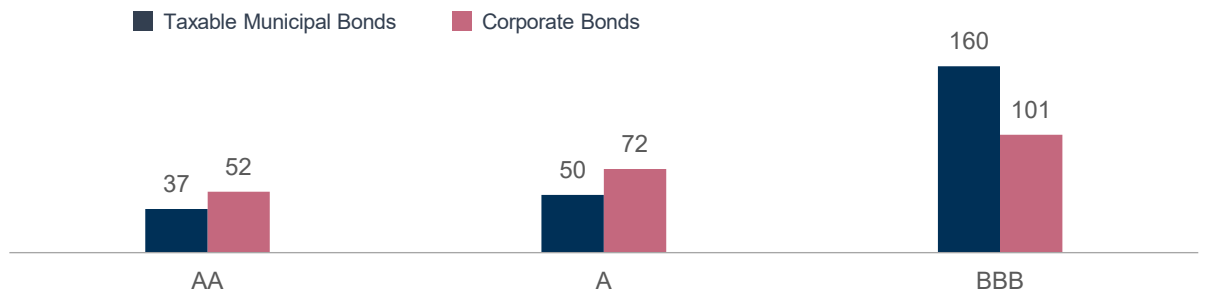
14. Source: Bloomberg. 2s10s–is spread between 10yr and 2yr yield; 10s30s–refers to spread between 30yr and 10yr yield; 2s30s–refers to spread between 30yr and 2yr yield.

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

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL¹⁵



TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS¹⁶



15. Data as of May 8, 2026. Source: Bloomberg.

16. Data as of May 8, 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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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.

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.

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.

