Muni360

May 19, 2026

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.

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Unpacking Alternative Minimum Tax (AMT)

KEY TAKEAWAYS

- Muni rates move higher with treasuries
- Demystifying alternative minimum tax
- Sitting in cash still a pain point

Relative Performance

MUNI VS. TREASURY RELATIVE PERFORMANCE

Rates moved sharply higher last week, with Treasuries leading the selloff across the curve. AAA BVAL yields rose roughly 10 bps in 2s and 5s, 11 bps in 10s, and nearly 12 bps in 30s. Treasuries moved more aggressively in intermediate maturities, with yields rising nearly 16 bps in 5s and 10s, while the front and long end were up roughly 10–12 bps.

Because Treasuries sold off more sharply in the belly, municipals modestly outperformed on a relative basis despite the broader backup in yields. Muni-to-Treasury ratios richened across the curve, with the 2-year ratio declining 0.5 points to 61.65%, while the 5-year ratio improved more than a full point to 61.47%. The 10-year ratio richened roughly 1.2 points to 66.11%, and the 30-year ratio declined to 86.98%.

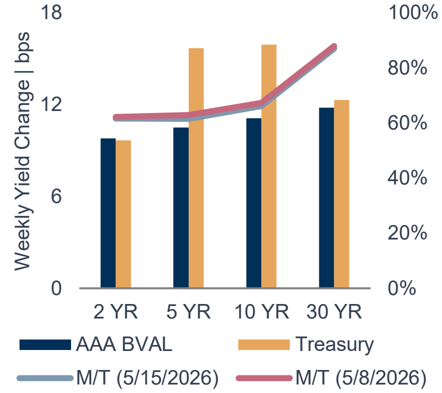
This was another example of a macro-driven Treasury move where municipals adjusted more gradually, particularly in intermediate maturities where technical demand remains steadier. The relative outperformance also helped reverse part of the cheapening that developed earlier in the month as volatility pressured the broader fixed income complex.

Importantly, this continues to reinforce the broader theme we've been discussing: municipals are increasingly behaving like a relative value asset class rather than purely an absolute return story. In periods of heightened volatility, tax-exempts have generally held in better than taxable counterparts, particularly when Treasury moves are driven more by macro repricing than muni-specific fundamentals.

FIGURE 1: INDEX PERFORMANCE[1]

	MTD	YTD	2025
Muni Bond 5-Year	-0.23%	0.19%	5.03%
Muni Bond 10-Year	-0.38%	-0.18%	5.92%
Muni Bond 15-Year	-0.42%	0.69%	5.31%
Muni Long Bond	-0.59%	1.01%	1.95%
Muni Managed Money	-0.45%	0.30%	3.94%

FIGURE 2: MUNIS OUTPERFORM[2]



1. Data as of May 15, 2026. Source: Bloomberg
2. Data as of May 15, 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.

New York Life Investment Management

Market Technicals

Recent questions we have received surrounding the One Big Beautiful Bill Act (OBBBA) show that there is still some confusion regarding the future scope of the individual Alternative Minimum Tax (AMT). In particular, there appears to be a perception that Congress allowed the AMT to revert to pre-Tax Cuts and Jobs Act (TCJA) rules, potentially causing millions of additional taxpayers to become subject to the tax beginning in 2026.

That concern is not rooted in the actual legislation.

To understand why, it is important to distinguish between what would have happened if the TCJA provisions had expired versus what Congress ultimately enacted under OBBBA.

Prior to the TCJA, the AMT impacted a meaningful portion of upper-middle income taxpayers, particularly those in high-tax states. Lower exemption amounts and relatively modest phaseout thresholds caused many households to lose the benefit of key deductions and become subject to AMT liability. Estimates suggest roughly 5 million taxpayers paid AMT in 2017.

The TCJA dramatically changed that dynamic. Beginning in 2018, Congress substantially increased AMT exemption amounts and raised the income thresholds at which those exemptions phased out. Combined with the SALT deduction cap, the result was a collapse in the number of taxpayers subject to AMT — from approximately 5.2 million pre-TCJA to roughly 200,000 annually during the TCJA period.[3]

The key issue entering 2025 was that these provisions were scheduled to sunset after year-end. Had Congress done nothing, the tax code would have reverted to the prior framework and AMT exposure likely would have increased materially.

That is not what happened.

Instead, OBBBA permanently extended the higher TCJA-era exemption structure and continued indexing the exemption amounts for inflation. In other words, Congress explicitly prevented a return to the pre-2018 AMT regime.

What did change is the treatment of very high-income taxpayers.

Beginning in 2026, the legislation lowers the AMT exemption phaseout thresholds and accelerates the rate at which the exemption phases out:

- Married filing jointly phaseout threshold declines from roughly $1.25 million to $1.0 million
- Single filer threshold declines from approximately $626,000 to $500,000
- The exemption phaseout rate increases from 25% to 50%

Those changes matter at the margin for higher earners, but they are fundamentally different from a wholesale re-expansion of the AMT base.

The practical takeaway is that OBBBA preserved the TCJA framework for the vast majority of taxpayers while tightening the rules for higher-income households. As a result, the number of AMT filers may increase modestly from TCJA-era lows, but current expectations remain nowhere near pre-TCJA levels.

Stated differently, the concern that AMT exposure will jump from roughly 200,000 taxpayers back toward the 5 million range is inconsistent with the legislation Congress actually passed.

3. Source: Bloomberg

Questions from the Field

Q. If rates remain volatile and the Fed may not ease anytime soon, why move out of cash at all?

A. Fair question—and one we're hearing more frequently as rates continue to move higher.

The answer isn't about predicting Fed cuts. It's about understanding what investors are—and aren't—being compensated for.

Cash has worked exceptionally well over the past two years because the front end repriced aggressively higher alongside Fed policy. But at current levels, a large portion of that adjustment has already happened. Meanwhile, investors sitting exclusively in cash are still taking reinvestment risk while giving up the ability to lock in higher long-term after-tax income.

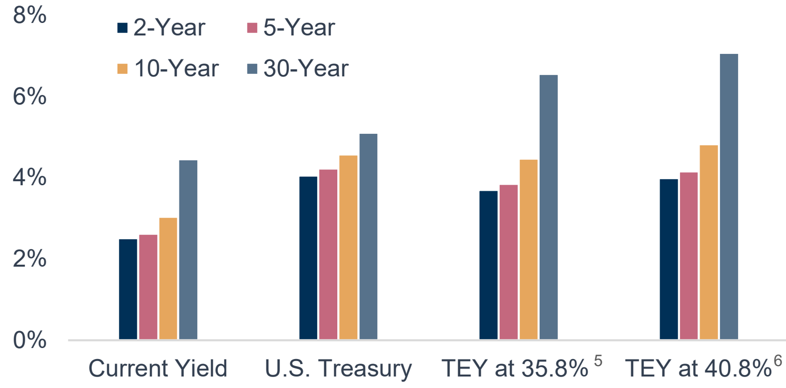
That's especially relevant in municipals, where the backup in rates has materially improved tax-equivalent yields across the curve. We believe investors no longer need to stretch for duration or credit risk to access compelling after-tax income.

And importantly, this isn't an "all-in" duration call. It's a portfolio efficiency conversation.

The intermediate curve now offers significantly more carry and roll-down than it did just a year ago, while higher coupon structures provide more income cushion against volatility. In many cases, investors are being paid meaningfully more to extend modestly beyond cash without dramatically altering overall portfolio risk.

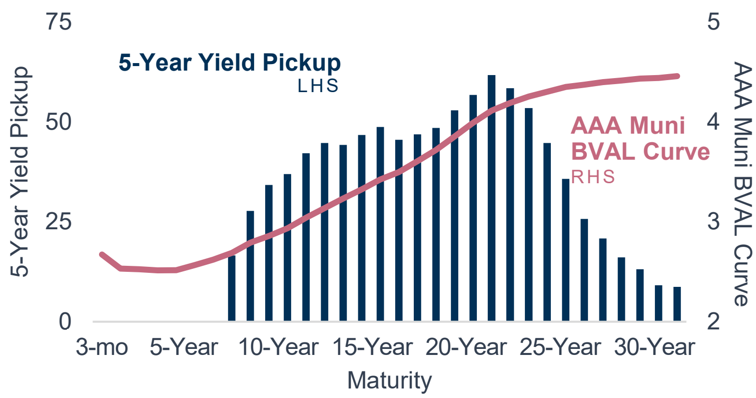
Cash still has a role. But in our view the conversation today is less about "waiting for the Fed" and more about whether portfolios are efficiently positioned for a market where rates may stay structurally higher for longer.

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



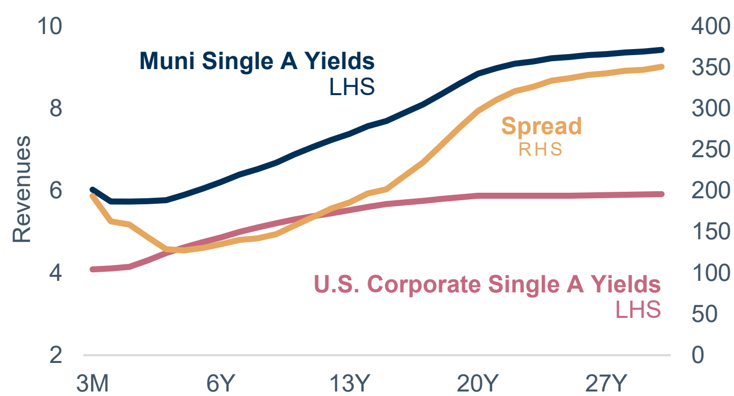
On a tax-adjusted basis munis lead across tenors vs treasuries

FIGURE 5: YIELD CURVE STEEPNESS[7]



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

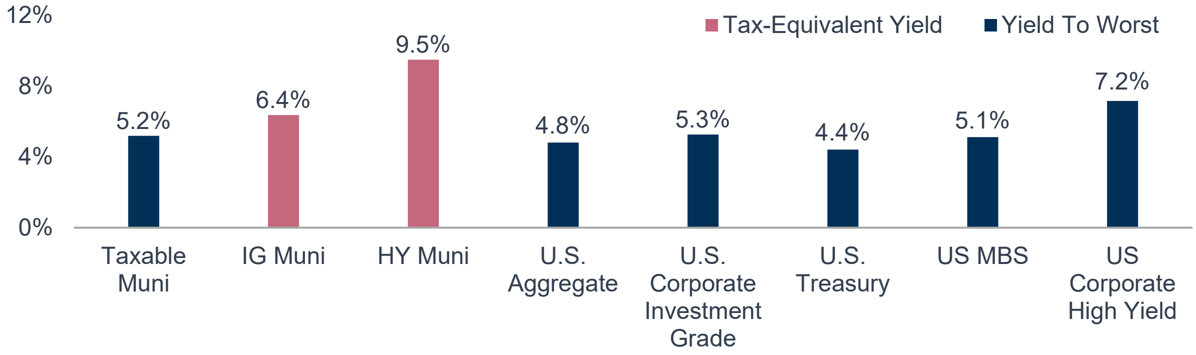
FIGURE 6: MUNI EXCEEDS CORPORATE SPREADS[7]



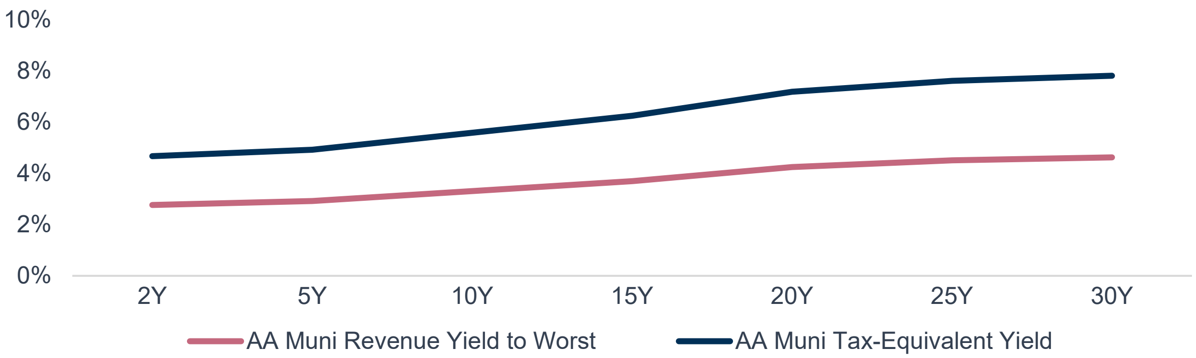
Tax equivalent munis continue to exceed corporate spread/yields

4. Source: Bloomberg. Data as of May 15, 2026.
5. Tax Equivalent Yield is using 32% federal tax rate, including 3.8% Net Investment Income Tax.
6. Tax Equivalent Yield is using 37% federal tax rate, including 3.8% Net Investment Income Tax.
7. Source: Bloomberg. Data as of May 15, 2026. Muni Single A Yields: Bloomberg Municipal Bond Index; U.S. Corporate Single A Yields: Bloomberg Corporate Bond Index

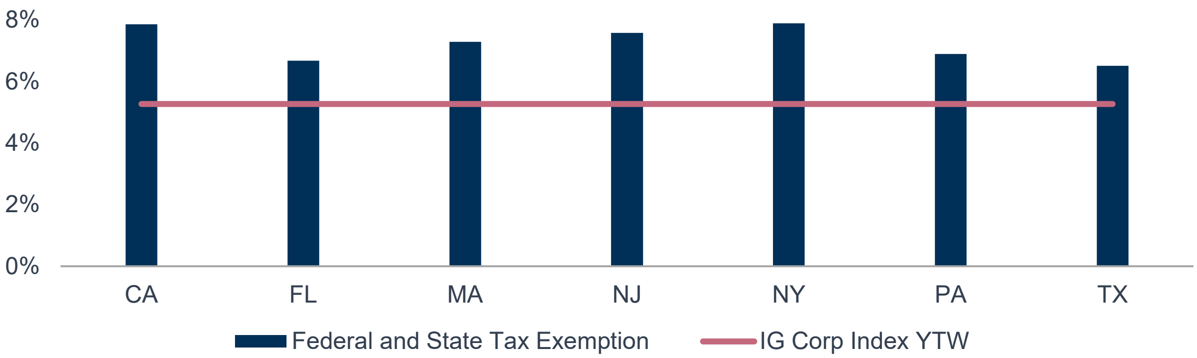
INDEX YIELDS[8]



AA MUNI TAX-EQUIVALENT YIELD CURVE[9]



IN-STATE MUNI TAX-EQUIVALENT YTW[9]



8. Data as of May 15, 2026. Tax Equivalent Yield is using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Source: Bloomberg.

9. Data as of May 15, 2026. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Source: Bloomberg

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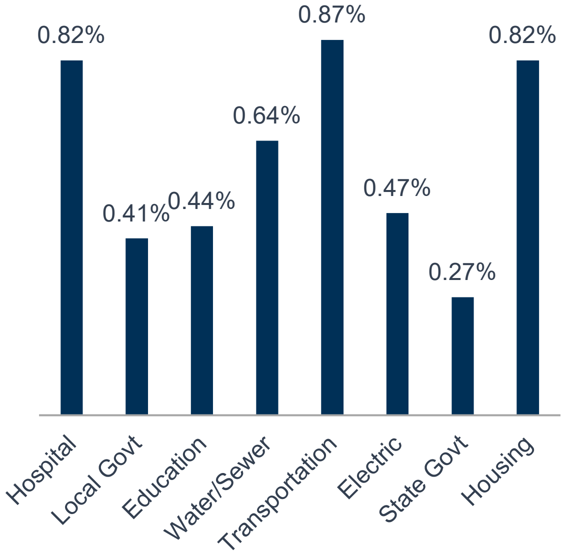
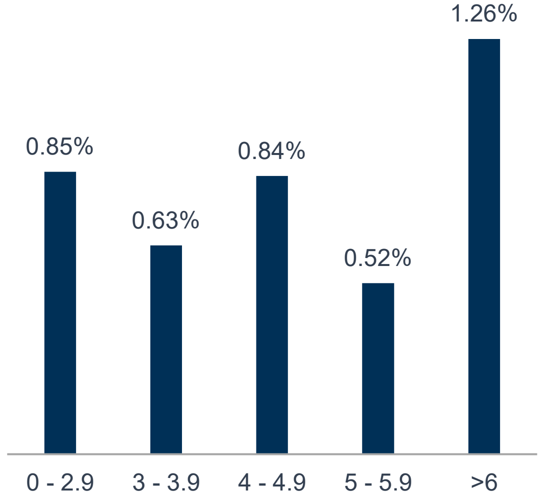
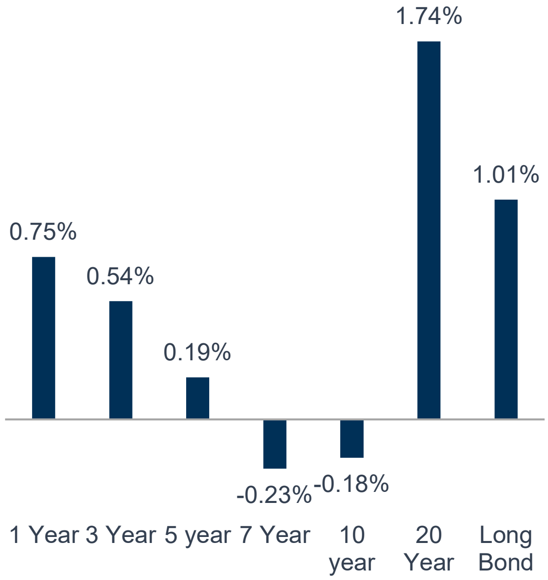
YTD TOTAL RETURNS BY SECTOR[10]



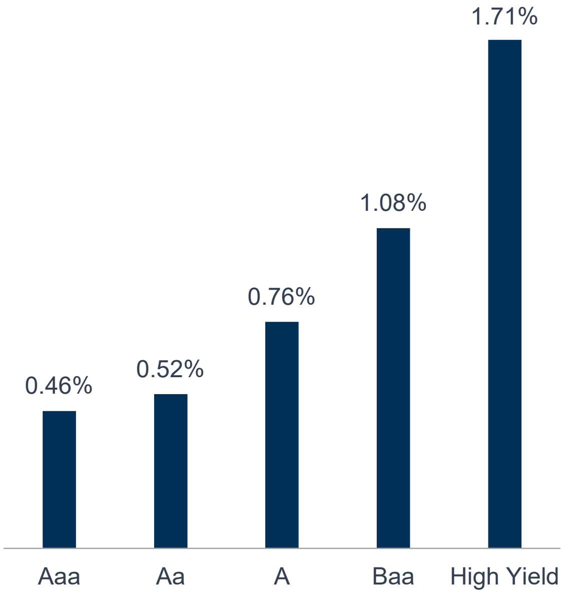
YTD TOTAL RETURNS BY COUPON[10]



YTD TOTAL RETURNS BY MATURITY[10]



YTD TOTAL RETURNS BY RATING CATEGORY[10]



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

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BLOOMBERG MUNICIPAL YIELD-TO-WORST[11] (YTW)

MUNI YIELDS

Tenor	5/8/2026	5/15/2026	Change (+/-)
Bloomberg AAA Muni Key Rate Yields[12]			
2-year	2.42%	2.51%	+0.10%
5-year	2.52%	2.62%	+0.11%
10-year	2.93%	3.04%	+0.11%
30-year	4.34%	4.46%	+0.12%
U.S. Treasury Key Rate Yields[12]			
2-year	3.90%	4.09%	+0.19%
5-year	4.02%	4.26%	+0.24%
10-year	4.38%	4.59%	+0.21%
30-year	4.95%	5.12%	+0.17%
U.S. Treasury & AAA Muni Curve Slopes[13]			
	2s10s	**10s30s**	**2s30s**
U.S. Treasury Curve Slope	+50 bps	+53 bps	+103 bps
AAA Muni Curve Slope	+53 bps	+142 bps	+194 bps

Data as of May 15, 2026.

11. Source: Bloomberg. “Post GIFC Average” measures the period from 01/01/2010–05/15/2026.

12. Source: Bloomberg.

13. 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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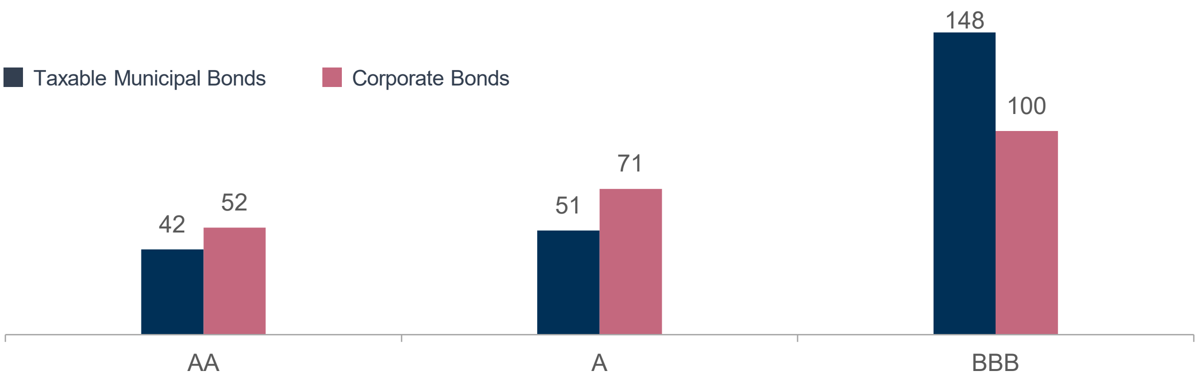
BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL[14]

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS[15]



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

15. Data as of May 15, 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.

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