Muni360

June 16, 2026

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.

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Munis Shrug Off Rate Hike Threats

KEY TAKEAWAYS

- Municipals Take a Step Backwards
- Has the Market Already Priced the Next Fed Move?
- Investor Mistakes

Relative Performance

MUNI VS. TREASURY RELATIVE PERFORMANCE

The divergence between municipals and Treasuries continued last week, but this time in the opposite direction. Municipals sold off modestly while Treasuries rallied, producing one of the weaker weeks for relative performance in recent months. AAA BVAL yields rose roughly 2 bps in 2s, 4 bps in 5s and 10s, and just over 1 bp in 30s. Treasuries, meanwhile, benefited from a flight-to-quality bid, with yields declining 3–5 bps across the curve[3].

The result was meaningful ratio cheapening across maturities. The 2-year muni-to-Treasury ratio rose 0.6 points to 59.56%, while the 5-year ratio widened more than 1.5 points to 61.92%. The 10-year ratio increased another 1.5 points to 66.68%, and the 30-year ratio moved over a point higher to 86.59%[3].

More importantly, we've seen this movie before. When Treasuries rally sharply and municipals lag, the resulting cheapening often creates a degree of time sensitivity. The relative underperformance improves valuations, attracts crossover demand, and can set the stage for municipals to play catch-up once technical pressures ease.

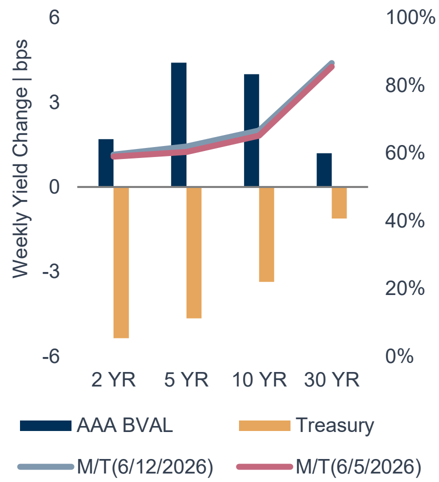
The move is also notable because it partially offsets the significant ratio richening, we saw just one week ago. As we've discussed throughout the year, volatility has transformed municipals from an absolute return story into a relative value story. This week was another example of that dynamic at work.

3. Source: Bloomberg

FIGURE 1: INDEX PERFORMANCE[1]

	MTD	YTD	2025
Muni Bond 5-Year	0.13%	0.75%	5.03%
Muni Bond 10-Year	0.10%	0.55%	5.92%
Muni Bond 15-Year	0.20%	1.62%	5.31%
Muni Long Bond	0.38%	2.59%	1.95%
Muni Managed Money	0.20%	1.27%	3.94%

FIGURE 2: MUNIS UNDERPERFORM[2]



1. Data as of June 12, 2026. Source: Bloomberg
2. Data as of June 12, 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

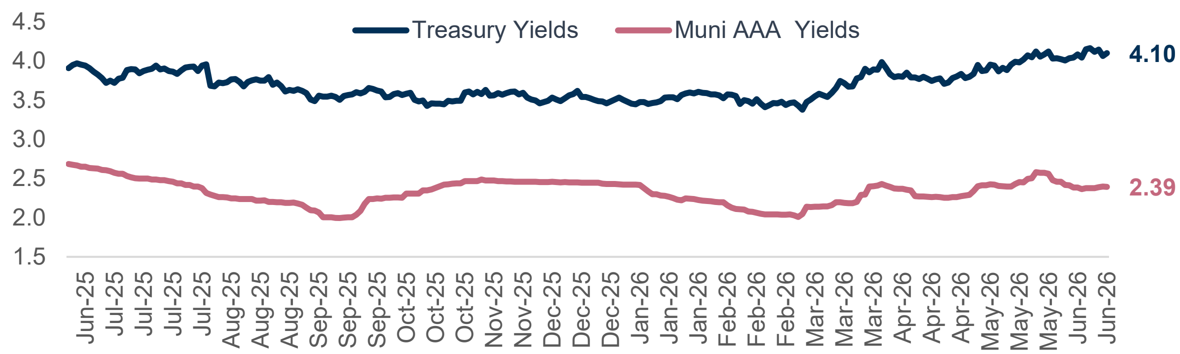
One of the more interesting developments over the past several weeks has been the shift in Fed expectations. According to Bloomberg, the market is now assigning a reasonable probability that the next move from the Federal Reserve could actually be a rate hike later this year, a notable departure from the easing narrative that dominated much of 2025.

The natural question for municipal investors is straightforward: does that matter? The answer is yes—but probably less than many investors think.

If the Fed ultimately delivers a 25-basis-point hike later this year, we believe the area most likely to feel the impact is the very front end of the curve. But it's important to remember that markets rarely wait for the Fed to act. They price expectations first.

In fact, we've already seen a meaningful repricing occur. Since the escalation of military tensions involving Iran, the 2-year Treasury yield has risen nearly 60 basis points year-to-date, while the front end of the municipal curve has remained comparatively stable. The chart below tells the story well. Treasury markets have steadily priced in a higher-for-longer policy path, while AAA municipal yields have been far less reactive.

FIGURE 3[4]



That distinction matters.

If the Fed ultimately follows through with a hike, it may end up being more of a confirmation of what markets have already discounted rather than a new shock to the system.

More importantly, municipals continue to benefit from one of the steepest AAA yield curves we've seen in years. While Fed policy primarily impacts the front end, long-term rates tend to be driven by a different set of variables—growth expectations, inflation, fiscal policy, and geopolitical developments. The further out the curve you move, the less influence the Fed has and the more influence the broader economy exerts.

In our view that dynamic plays directly into the strengths of longer-duration municipal strategies. In fact, it would likely take a much more significant move in long-dated Treasury yields to create the type of pricing pressure investors experienced in prior rate cycles. In the meantime, investors continue to collect attractive levels of tax-exempt income while benefiting from a steep curve and favorable roll-down characteristics.

The same logic applies to taxable municipals. Despite elevated rate volatility this year, taxable munis have continued to hold its own from a relative-value perspective versus both Treasuries and investment-grade corporates. That's not surprising. Higher rates often place direct pressure on corporate margins, earnings, and refinancing costs, which can eventually lead to spread widening. Taxable municipals generally enjoy a degree of insulation from that feedback loop because investors are underwriting essential-service infrastructure rather than corporate profitability.

4. Source: Bloomberg. Data as of June 12, 2026. This illustration does not constitute tax advice. The information herein should not be used as a substitute for advice from your tax advisor. Nether MacKay Municipal Managers nor MacKay Shields LLC advise clients on tax matters. Consult your tax advisor for further information.

Market Technicals (Continued):

Stepping back, this is a long-winded way of saying that we believe the setup for municipals remains remarkably constructive.

The market has already done much of the Fed's work for it. Front-end rates have repriced materially higher, municipal curves remain steep, tax-equivalent yields remain compelling, and both tax-exempt and taxable municipal sectors continue to offer attractive relative value.

Questions from the Field

Q. What's the biggest mistake municipal investors are making right now?

A. Focusing too much on where rates are going and not enough on where value exists today.

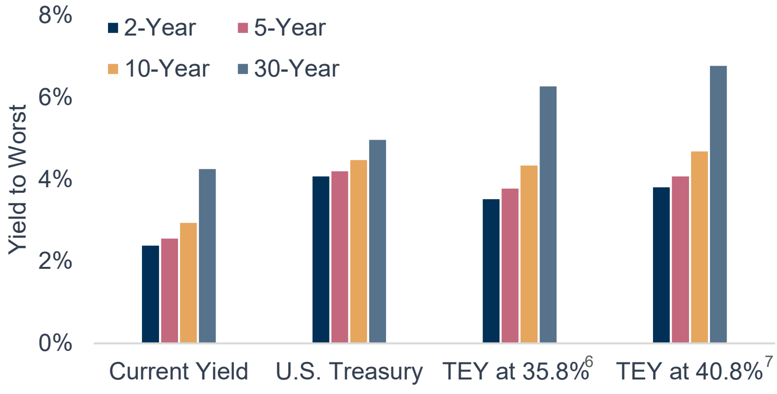
Municipal investing has always been a combination of income, tax efficiency, credit selection, and duration management. Yet when volatility increases, it's easy for the conversation to become entirely about the next Fed meeting, the next inflation report, or the next move in Treasury yields.

The reality is that most of the long-term return in municipals comes from collecting tax-exempt income and reinvesting it over time. Market timing can feel important in the moment, but income is what ultimately compounds wealth.

What's interesting about today's market is that investors are being offered something we haven't seen consistently over the last decade: attractive absolute yields, compelling tax-equivalent yields, and a yield curve that rewards moving beyond the very front end of the market.

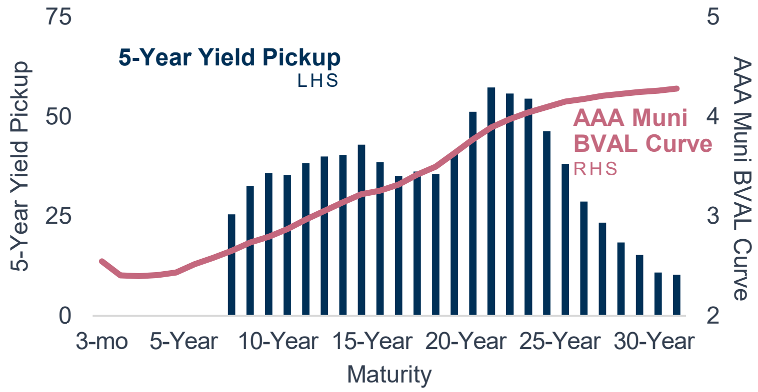
In many ways, the municipal market is healthier today than it was several years ago. Starting yields are higher, coupon structures are more defensive, and the curve offers more opportunities for carry and roll-down. Those are the types of conditions that historically have led to stronger long-term outcomes for investors.

FIGURE 4: TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX[5]



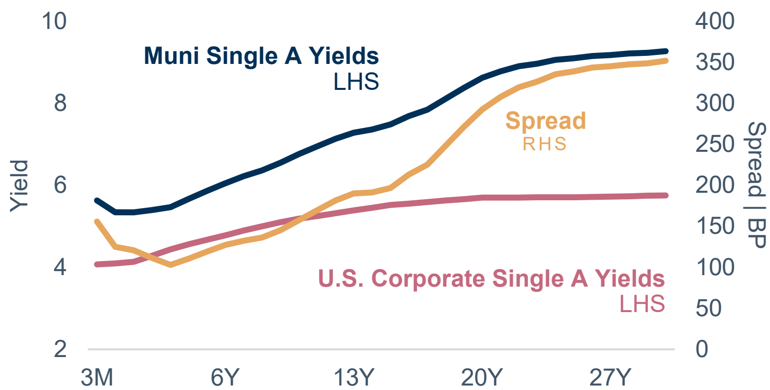
On a tax-adjusted basis munis handily lead across tenors

FIGURE 5: YIELD CURVE STEEPNESS[8]



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

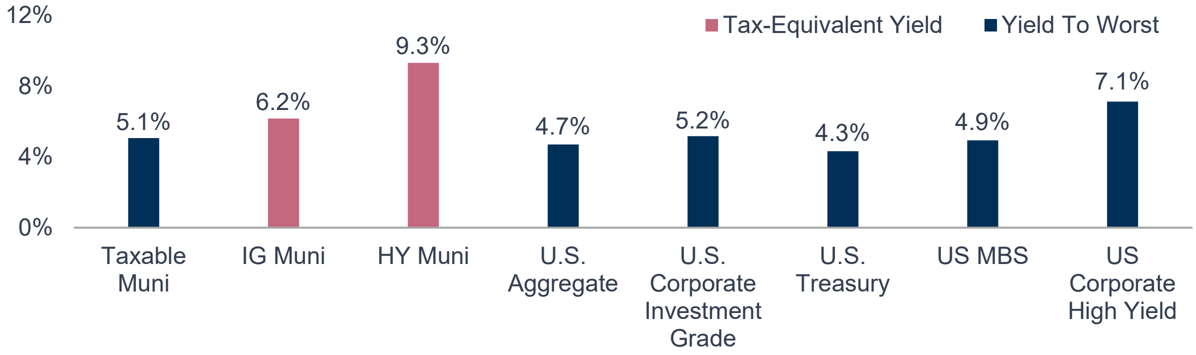
FIGURE 6: MUNI EXCEEDS CORPORATE SPREADS[8]



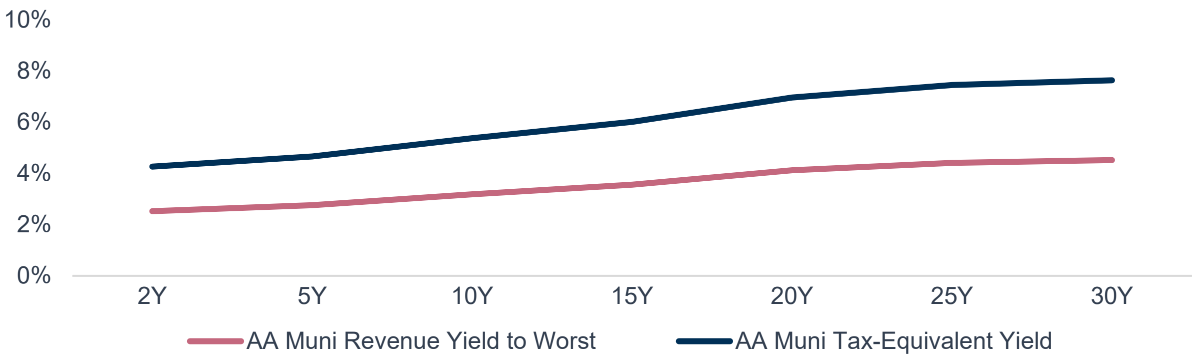
Tax equivalent munis continue to exceed corporate spread/yields

5. Source: Bloomberg. Data as of June 12, 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 June 12, 2026. Muni Single A Yields: Bloomberg Municipal Bond Index; U.S. Corporate Single A Yields: Bloomberg Corporate Bond Index

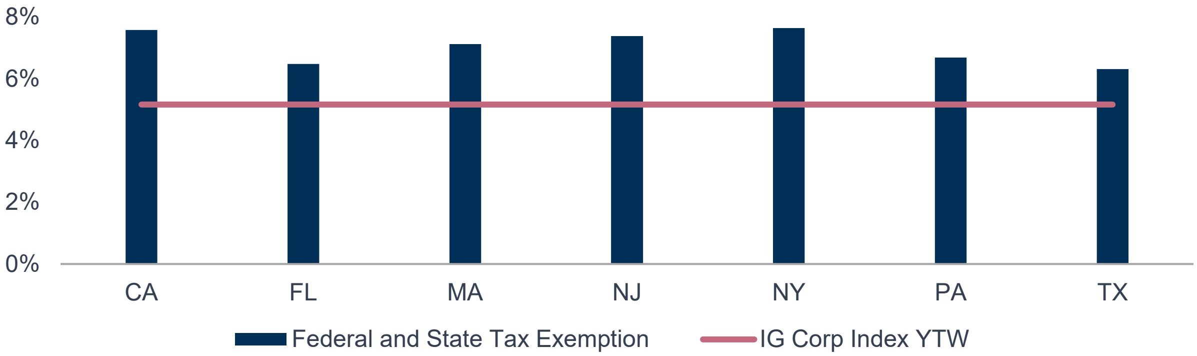
INDEX YIELDS[9]



AA MUNI TAX-EQUIVALENT YIELD CURVE[10]



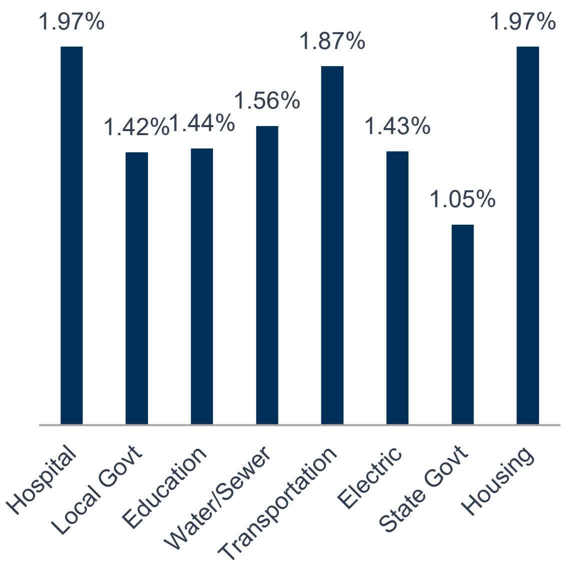
IN-STATE MUNI TAX-EQUIVALENT YTW[10]



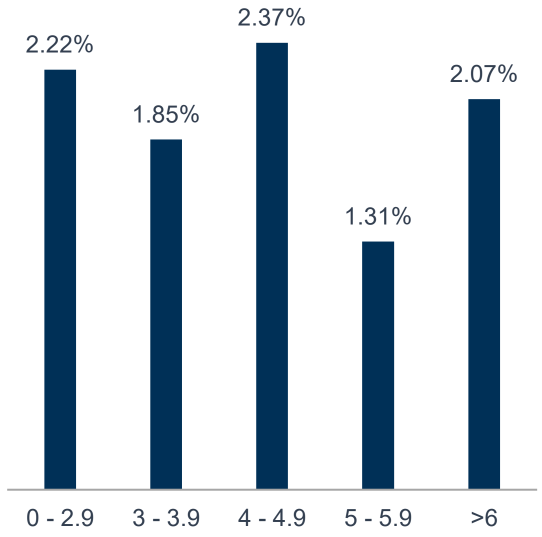
9. Data as of June 12, 2026. Tax Equivalent Yield is using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Source: Bloomberg.

10. Data as of June 12, 2026. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Source: Bloomberg

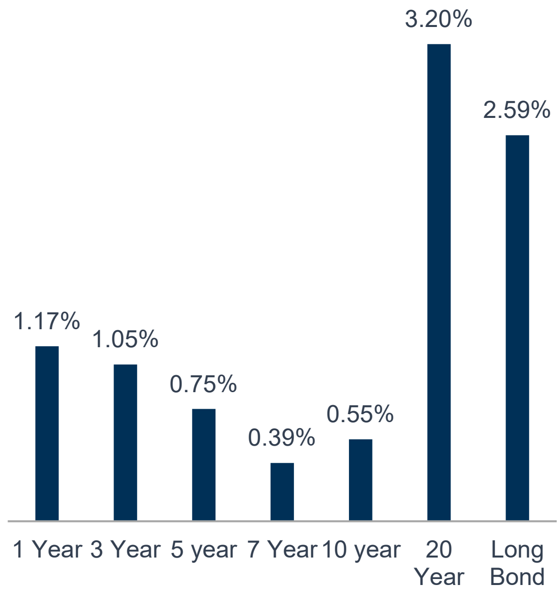
YTD TOTAL RETURNS BY SECTOR[11]



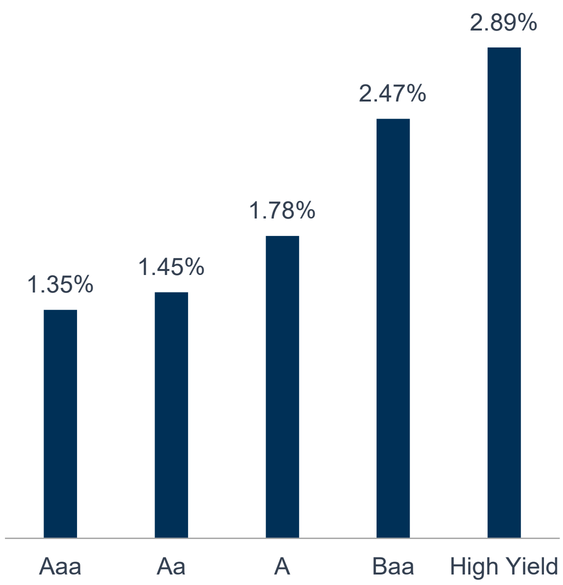
YTD TOTAL RETURNS BY COUPON[11]



YTD TOTAL RETURNS BY MATURITY[11]



YTD TOTAL RETURNS BY RATING CATEGORY[11]



11. Data as of June 12, 2026. Source: Bloomberg.

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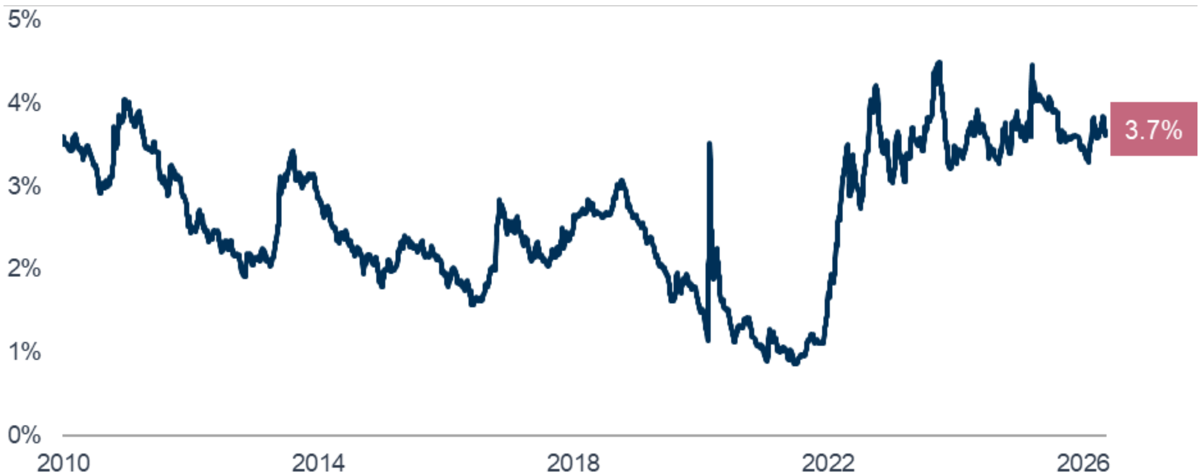
BLOOMBERG MUNICIPAL YIELD-TO-WORST[12] (YTW)



MUNI YIELDS

Tenor	6/11/2026	6/4/2026	Change (+/-)
Bloomberg AAA Muni Key Rate Yields[13]			
2-year	2.41%	2.39%	0.03%
5-year	2.59%	2.53%	0.06%
10-year	2.97%	2.92%	0.05%
30-year	4.29%	4.26%	0.03%
U.S. Treasury Key Rate Yields[13]			
2-year	4.05%	4.05%	0.00%
5-year	4.18%	4.18%	0.00%
10-year	4.45%	4.47%	-0.02%
30-year	4.95%	4.97%	-0.02%
U.S. Treasury & AAA Muni Curve Slopes[14]			
	2s10s	**10s30s**	**2s30s**
U.S. Treasury Curve Slope	+40 bps	+50 bps	+90 bps
AAA Muni Curve Slope	+56 bps	+132 bps	+187 bps

Data as of June 11, 2026.

12. Source: Bloomberg. "Post GIFC Average" measures the period from 01/01/2010–06/11/2026.

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.

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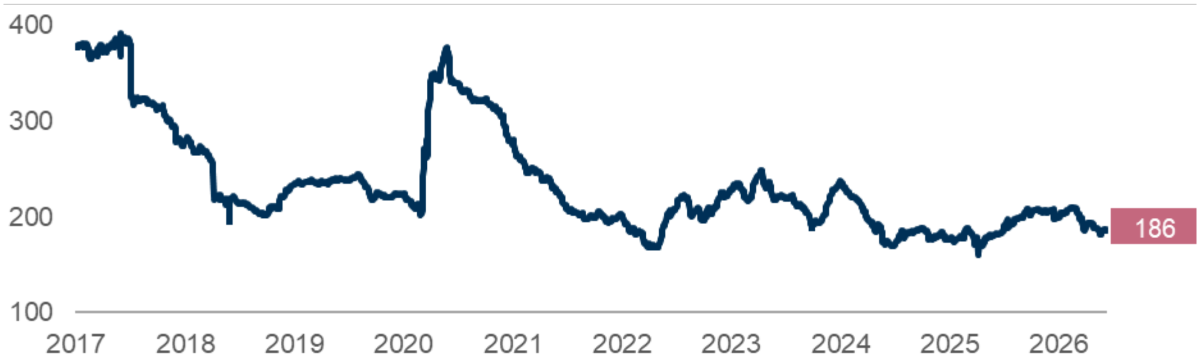
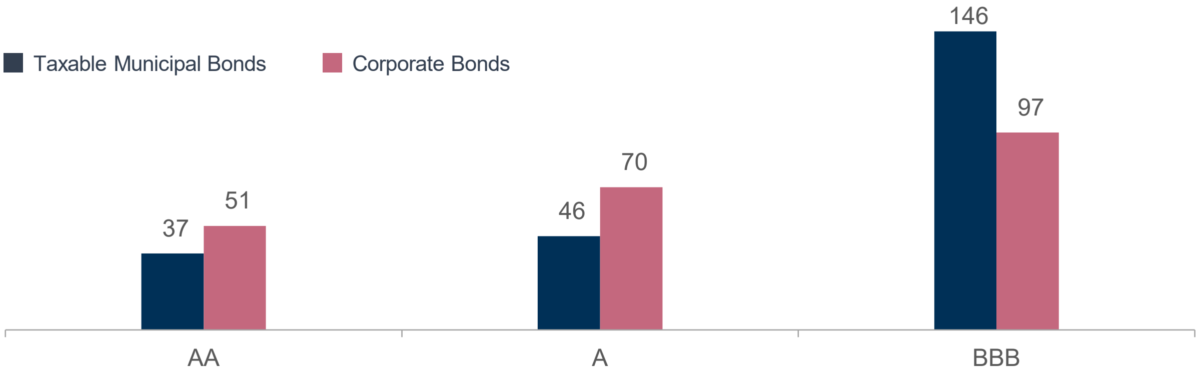
BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL[15]



TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS[16]



15. Data as of June 11, 2026. Source: Bloomberg.

16. Data as of June 11, 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.

New York Life Investment Management

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