Muni360

August 25, 2026

Municipal Market Weekly Update

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Two Taxes on Income: Washington and Inflation

KEY TAKEAWAYS

- Munis Struggle in Long End
- Income Is Back as an Inflation Defense
- Impact of Fed Curve Policy

Relative Performance

MUNI VS. TREASURY RELATIVE PERFORMANCE

Municipals came under pressure last week, particularly further out the curve, while Treasuries experienced a meaningful flattening. AAA BVAL yields rose 3 bps in 2s, nearly 7 bps in 5s, and roughly 12 bps in both 10s and 30s. Treasuries moved very differently: yields rose 6 bps in 2s and 4 bps in 5s, but rallied modestly in 10s and more significantly in 30s, where yields declined roughly 6.5 bps.[3]

That divergence created meaningful relative underperformance for municipals in intermediate and longer maturities. The 2-year muni-to-Treasury ratio was essentially unchanged at 59.58%, while the 5-year ratio cheapened modestly to 64.72%. The bigger moves came further out: the 10-year ratio widened more than 2 points to 70.15%, while the 30-year ratio also cheapened more than 2 points to 86.68%.[3]

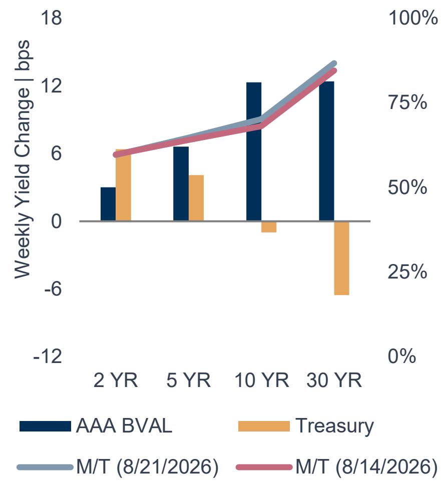
What stands out is the reversal at the long end. Over the past several months, we've highlighted how well long municipals have held in despite persistent pressure on long-dated Treasuries. Last week flipped that relationship: 30-year Treasuries rallied more than 6 bps while 30-year AAA muni yields rose more than 12 bps. That's nearly a 19-basis-point divergence in a single week and a meaningful reset in relative value.[3]

From our perspective, that's less a reason for concern and more a reason to pay attention. We've spent much of the year arguing that the longer portion of the municipal curve offers attractive income, curve structure and relative value. A week in which Treasury yields rally while long municipal yields back up only improves that starting point for investors willing to look through short-term technical volatility.

FIGURE 1: INDEX PERFORMANCE[1]

	MTD	YTD	2025
Muni Bond 5-Year	0.61%	0.79%	5.03%
Muni Bond 10-Year	0.54%	-0.27%	5.92%
Muni Bond 15-Year	-0.03%	-0.42%	5.31%
Muni Long Bond	-0.17%	1.26%	1.95%
Muni Managed Money	0.20%	0.14%	3.94%

FIGURE 2: MIXED PERFORMANCE[2]



1. Data as of August 21, 2026. Source: Bloomberg
2. Data as of August 21, 2026. Source: Bloomberg. Spot Muni, Spot AAA rates
AAA B VAL: AAA Municipal yield curve
M/T: Municipal/Treasury Yield Ratio - Bloomberg Municipal Bond Index yield / Bloomberg US Treasury Index yield.
3. Source: Bloomberg

Market Technicals

We talk about inflation a lot, but for high-income investors there are really two things eating away at income every year: taxes and inflation. And for a long time, fixed income simply wasn't yielding enough to do much about either. That math looks a lot different today.

Take MMIN. The current indicated tax-exempt yield is 4.10%. For an investor paying a 40.8% all-in tax rate, that's equivalent to roughly 6.93% on a taxable basis.

Just stop on that number for a second. To put the same amount of income in a client's pocket using a taxable bond, you'd need to find almost a 7% yield.[4] And then ask the next question: what kind of credit risk do I have to take in the taxable market to get there?

This is where the inflation conversation around munis gets interesting. We're not calling municipal bonds an inflation hedge. They're not. If inflation pushes rates higher, bond prices can still come under pressure. But at these starting yields, investors have a lot more income to absorb that volatility.

If inflation is running at 3%, a 4.10% tax-exempt yield still leaves roughly 110 basis points of income above inflation. Now compare that with a taxable bond yielding 5%. After a 40.8% tax bite, the investor keeps roughly 2.96%. At 3% inflation, essentially all of that income has been eaten away. That's the part that gets missed when investors compare yields on a screen. Clients don't spend gross yield. They spend what they keep.

And that's why today's muni market looks so different from the one we lived with for much of the last decade. When tax-exempt yields were 1% or 2%, there wasn't much cushion. Today, income is doing real work again.

For advisors with high-bracket clients, this is a straightforward portfolio conversation. You don't necessarily need to reach further into credit or make a big call on where rates are headed. At current municipal yields, you're starting with meaningful tax-exempt income and the value of the tax exemption offsets a lot of the inflation bite.

4. The illustration above does not constitute tax advice. The information contained herein should not be used as a substitute for advice from your tax advisor. Neither MacKay Municipal Managers nor MacKay Shields LLC advise clients on tax matters. Consult your tax advisor for further information.

To access the most up-to-date information about a specific fund, simply click on the fund's name. This will take you to a detailed page that includes the prospectus, the fund's investment objectives, its performance history, key risk factors, Morningstar ratings, and other essential details.

Questions from the Field

Q. Treasury Secretary Bessent is taking a more active role in the long end of the Treasury market. What does that mean for municipal investors?

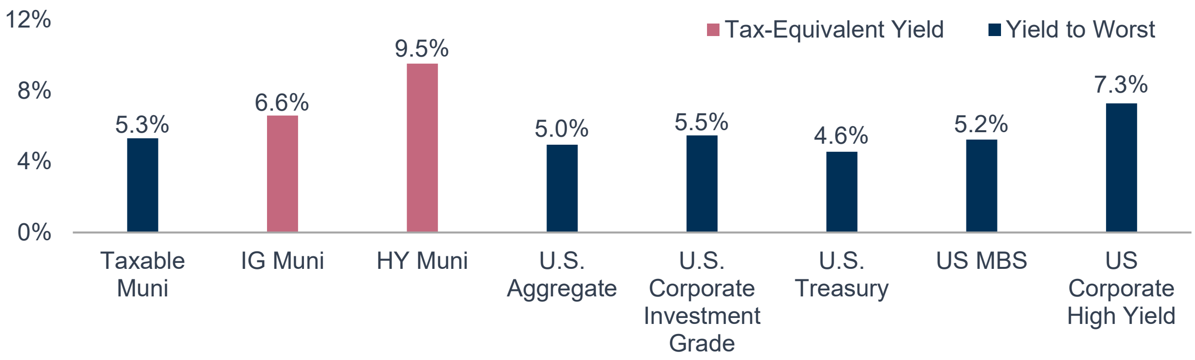
A. Treasury recently announced that it will at least double the size of its buybacks in the 10-to-30-year portion of the curve, after long Treasury yields moved to levels we haven't seen in nearly two decades. Bessent's view seems to be that some of the move was technical—heavy corporate issuance, thin August liquidity and a market that may have gotten ahead of itself—rather than purely a reflection of inflation or economic fundamentals.

For muni investors, it is not the reason to all of a sudden make a big duration bet. But it does potentially change the risk/reward at the long end. We've already seen long municipals hold in considerably better than long Treasuries during much of this year's selloff. Now you have Treasury actively increasing demand for long securities at the same time that municipal yields have reset higher.

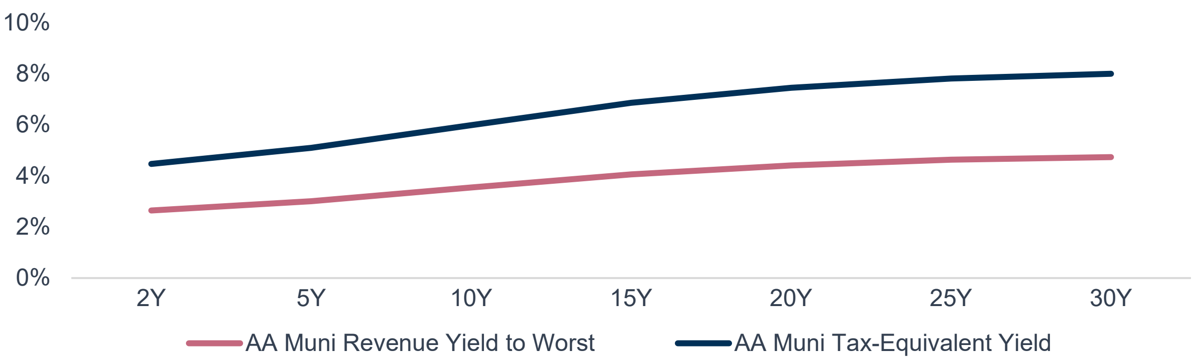
There is also an interesting policy split developing. The Fed still controls the front end and may need to remain restrictive—or even raise rates—if inflation stays elevated. Treasury, meanwhile, is taking steps aimed at improving liquidity and putting some downward pressure on longer-term borrowing costs. Bessent himself has argued that the buyback decision is separate from whatever the Fed ultimately does with policy rates. That could leave us with a very different curve than investors are used to thinking about: a Fed that remains firm at the front end while Treasury becomes more supportive further out.

For municipals, I think that's potentially constructive. We're already starting with attractive absolute yields, a steep muni curve and compelling tax-equivalent income. If Treasury's actions ultimately help stabilize the long end, that's a tailwind.

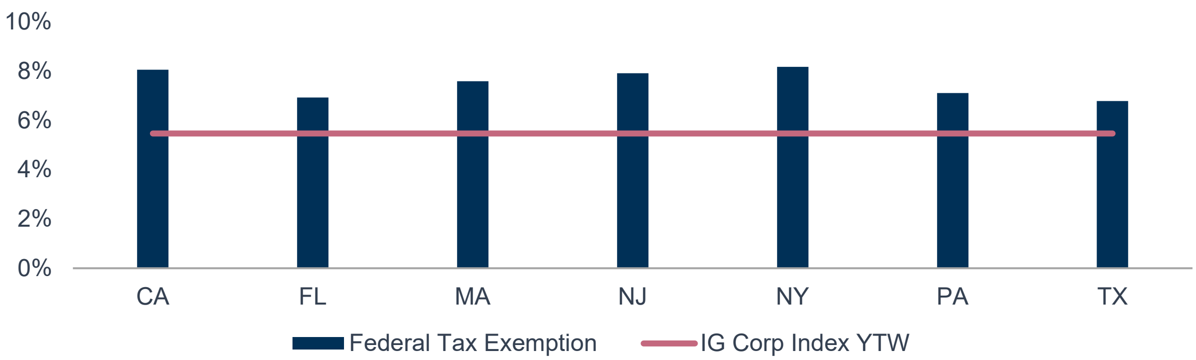
INDEX YIELDS[5]



AA MUNI TAX-EQUIVALENT YIELD CURVE[6]



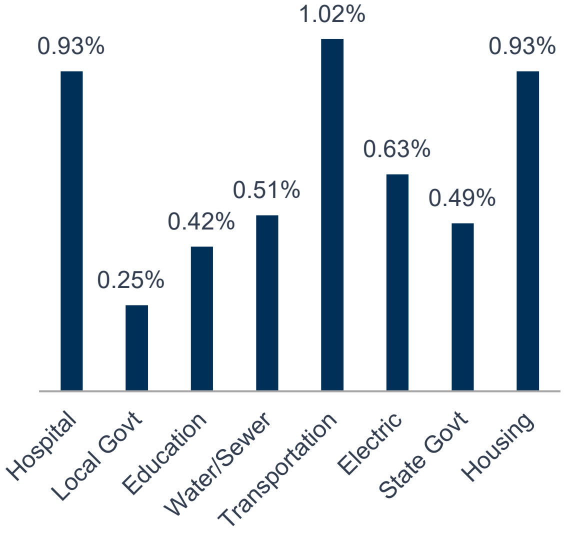
IN-STATE MUNI TAX-EQUIVALENT YTW[6]



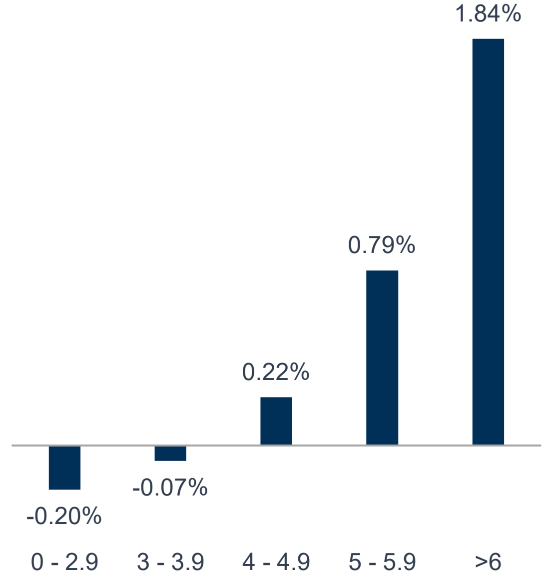
5. Data as of August 21, 2026. Tax Equivalent Yield is using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Source: Bloomberg.

6. Data as of August 21, 2026. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Source: Bloomberg

YTD TOTAL RETURNS BY SECTOR[7]

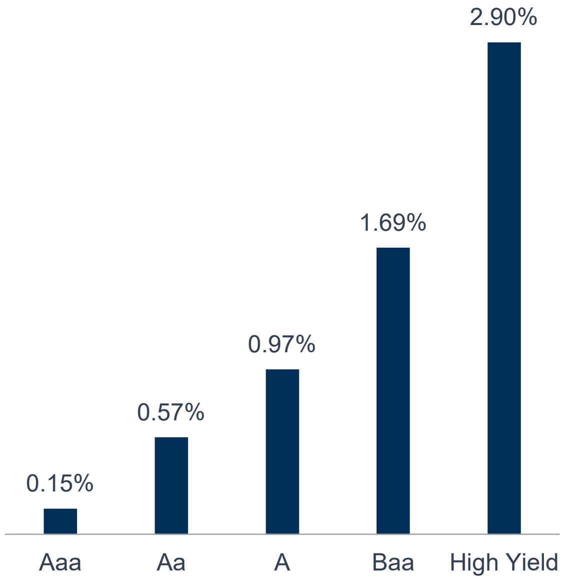


YTD TOTAL RETURNS BY COUPON[7]



YTD TOTAL RETURNS BY MATURITY[7]

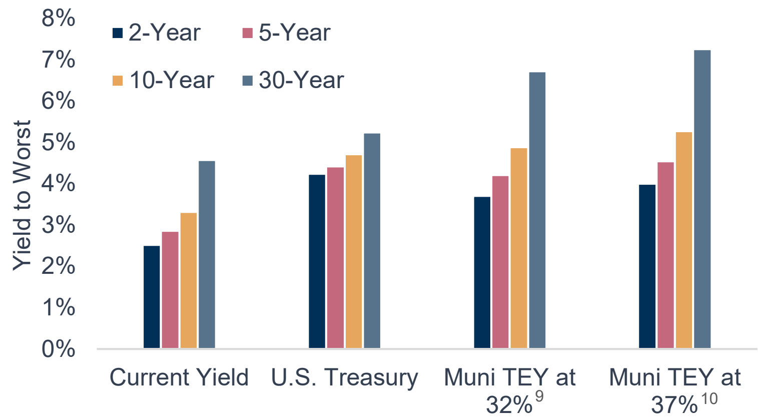
YTD TOTAL RETURNS BY RATING CATEGORY[7]



7. Data as of August 21, 2026. Source: Bloomberg.

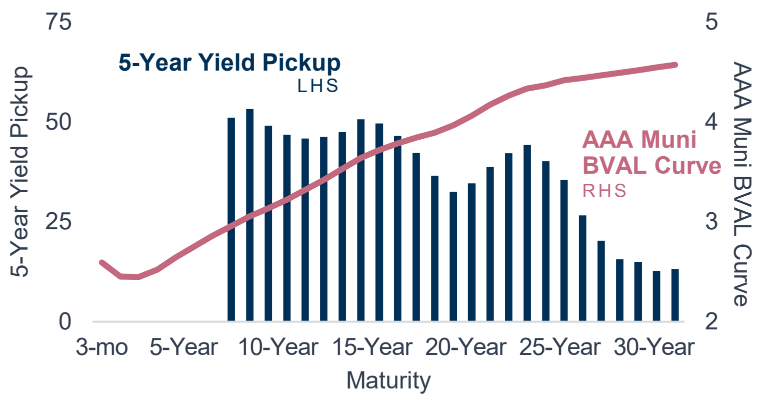
Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

FIGURE 4: TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX[8]



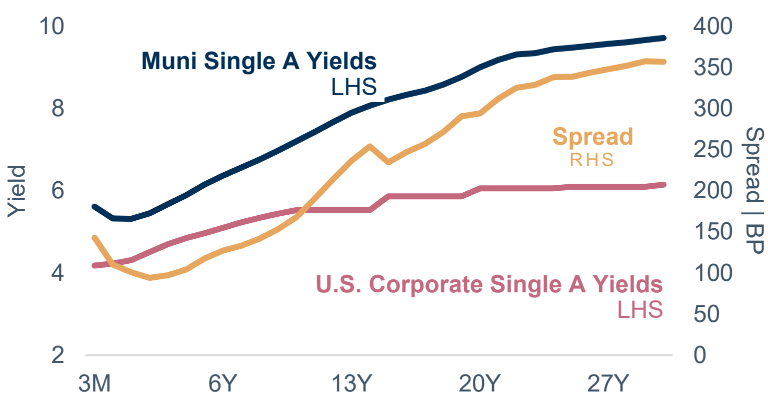
On a tax-adjusted basis munis handily lead across tenors

FIGURE 5: YIELD CURVE STEEPNESS[11]



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

FIGURE 6: MUNI EXCEEDS CORPORATE SPREADS[11]



Tax equivalent munis continue to exceed corporate spread/yields

8. Source: Bloomberg. Data as of August 21, 2026.
9. Tax Equivalent Yield is using 32% federal tax rate, including 3.8% Net Investment Income Tax.
10. Tax Equivalent Yield is using 37% federal tax rate, including 3.8% Net Investment Income Tax.
11. Source: Bloomberg. Data as of August 21, 2026. Muni Single A Yields: Bloomberg Municipal Bond Index; U.S. Corporate Single A Yields: Bloomberg Corporate Bond Index

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

MUNI YIELDS

Tenor	8/21/2026	8/14/2026	Change (+/-)
Bloomberg AAA Muni Key Rate Yields[13]			
2-year	2.52%	2.49%	0.03%
5-year	2.86%	2.80%	0.07%
10-year	3.32%	3.20%	0.12%
30-year	4.57%	4.45%	0.12%
U.S. Treasury Key Rate Yields[13]			
2-year	4.24%	4.17%	0.07%
5-year	4.43%	4.36%	0.07%
10-year	4.74%	4.68%	0.06%
30-year	5.27%	5.25%	0.02%
U.S. Treasury & AAA Muni Curve Slopes[14]			
	2s10s	**10s30s**	**2s30s**
U.S. Treasury Curve Slope	+50 bps	+53 bps	+103 bps
AAA Muni Curve Slope	+80 bps	+125 bps	+205 bps

Data as of August 21, 2026.

12. Source: Bloomberg. “Post GFC Average” measures the period from 01/01/2010–08/21/2026.

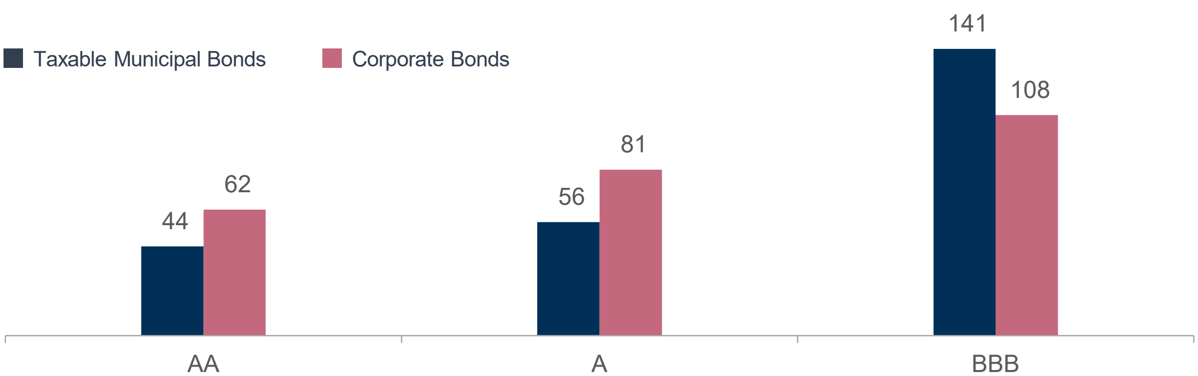
13. Source: Bloomberg.

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 DIFFERENTIAL[15]

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS[16]



15. Data as of August 21, 2026. Source: Bloomberg.

16. Data as of August 21, 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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MMIN Risk: The Fund may be susceptible to an increased risk of loss, including losses due to adverse events that affect the Fund's investments more than the market as a whole, to the extent that the Fund's investments are concentrated in the securities of a particular issuer or issuers, region, market, industry, group of industries, project types, group of project types, sector or asset class. Municipal Bond risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes, which could affect the market for and value of municipal securities. Fixed income securities most frequently trade in institutional round lot size transactions. Until the Fund grows significantly in size, the Fund expects to purchase a significant number of bonds in amounts less than the institutional round lot size, which are frequently referred to as "odd" lots. Odd lot size positions may have more price volatility than institutional round lot size positions. Insured Municipal Bonds are covered by insurance policies that guarantee the timely payment of principal and interest. The insurance does not guarantee the market value of an insured security, or the Fund's share price or distributions, and shares of the Fund are not insured. The Fund may purchase insurance for an uninsured bond directly from a qualified Municipal Bond insurer. The supply of insured municipal securities which meet the Fund's investment guidelines is limited. A portion of the Fund's income may be subject to state and local taxes or the alternative minimum tax. Funds that invest in bonds are subject to interest rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner. Municipal bond risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes, which could affect the market for and value of municipal securities.

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 adverse scenarios.

Additional Yield Definition

BVAL AA, A, BBB and BB Yields is calculated by Bloomberg and is representative of the average 2YR spot rate on respective Bloomberg Yield curves of corporate credits with the respective average credit rating that are valued by Bloomberg's valuation service.

INDEX DESCRIPTIONS

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.

INDEX DESCRIPTIONS (Continued)

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.

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 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.

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.

The Morningstar U.S. Active Fund Muni National Intermediate category contains mutual funds and exchange-traded funds (ETFs) that primarily invest in investment-grade municipal bonds issued by state and local governments with durations typically ranging between 4.5 and 7 years. Because they are actively managed, the fund managers dynamically adjust credit exposure, interest rate sensitivity, and yield curve positioning rather than tracking a static index.

The Morningstar U.S. Passive Fund Muni National Intermediate category includes intermediate-term national municipal bond portfolios that invest in tax-exempt debt issued by state and local governments. Passive options and index ETFs in this group track broad municipal indexes to offer low-cost, tax-free income with moderate interest-rate risk.

NEW YORK LIFE Investment Management

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