

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.



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Munis Gain Strength as Swap Season Heats Up

KEY TAKEAWAYS

- Muni Find Some Footing
- Turning Losses into Assets
- Muni Supply Still Running Strong

Relative Performance

After the historic repricing we saw in late September, municipals finally found some footing last week. AAA BVAL yields rallied 6.5 bps in 2s, nearly 11 bps in 5s, and roughly 10 bps in 10s. The long end was the exception, with 30-year yields rising about 2.6 bps. Treasuries told a very different story: 2-year yields rallied nearly 11 bps, while 10s and 30s sold off roughly 5 and 9 bps, respectively.³

The relative move was significant. After ratios blew out the prior week, they retraced across the curve. The 2-year muni/Treasury ratio declined to 70.43%, the 5-year fell more than 3 points to 70.51%, and the 10-year richened 3.5 points to 75.27%. Even with 30-year AAA yields moving higher, the ratio declined nearly 1.8 points to 91.76% as long Treasuries sold off much more sharply.³

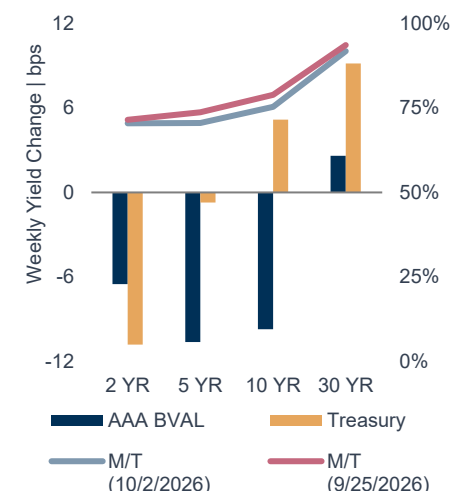
The speed of the reversal is the real story here. Just one week after one of the most significant municipal selloffs we've seen in years, buyers responded to the valuation reset. Ten-year ratios went from nearly 79% to 75% in a matter of days, while 5-year ratios moved from almost 74% to roughly 70.5%. That's a pretty good illustration of what we've been discussing all year: when absolute yields and relative value become compelling enough, demand can return quickly.³

It's also notable that municipals didn't need a broad Treasury rally to recover. Treasuries actually sold off from 10 years out, yet intermediate municipals rallied sharply. We believe that suggests last week's move was less about a macro rates tailwind and more about municipal-specific valuations and buyers stepping back into the market.

FIGURE 1: INDEX PERFORMANCE¹

	MTD	YTD	2025
Muni Bond 5-Year	0.72%	-1.81%	5.03%
Muni Bond 10-Year	1.14%	-3.96%	5.92%
Muni Bond 15-Year	1.35%	-4.88%	5.31%
Muni Long Bond	1.12%	-3.96%	1.95%
Muni Managed Money	1.10%	-3.77%	3.94%

FIGURE 2: MUNIS OUTPERFORM²



1. Data as of October 02, 2026. Source: Bloomberg

2. Data as of October 02, 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

TAX LOSS HARVESTING: A SIMPLE IDEA WITH REAL IMPACT

In a year shaped by sharp rate moves, in our view tax loss harvesting becomes one of the most effective tools available. The mechanics aren't complicated: Sell a mutual fund that's below your purchase price → realize the loss → use it to offset capital gains or reduce taxable income (up to \$3,000 per year). Any extra loss? That can be carried forward indefinitely. The key point — and often the biggest misconception — is that harvesting doesn't require stepping out of the muni market. Investors can immediately reinvest proceeds into a different municipal fund with a similar objective. That keeps tax-exempt exposure working while unlocking the value embedded in underperforming positions. From our perspective, this is less about abandoning a muni allocation and more about optimizing it.

WHY TIMING MATTERS

Loss-harvesting windows do not stay open forever. They tend to show up during periods like we've seen this year, when rate volatility pushes NAVs meaningfully below cost basis. If markets stabilize — or recover — those unrealized losses can shrink quickly. And once NAVs move back above purchase levels, the harvesting opportunity disappears. This year's AAA yield swings from January of 2026 until now have created exactly that type of window. The opportunity exists today, but it won't necessarily exist tomorrow. In other words, the clock is ticking.

IDENTIFYING AN OPPORTUNITY

A comparison between a large high yield peer (posting a larger year-to-date NAV price decline) and MMHIX highlights a compelling opportunity for tax-loss harvesting.

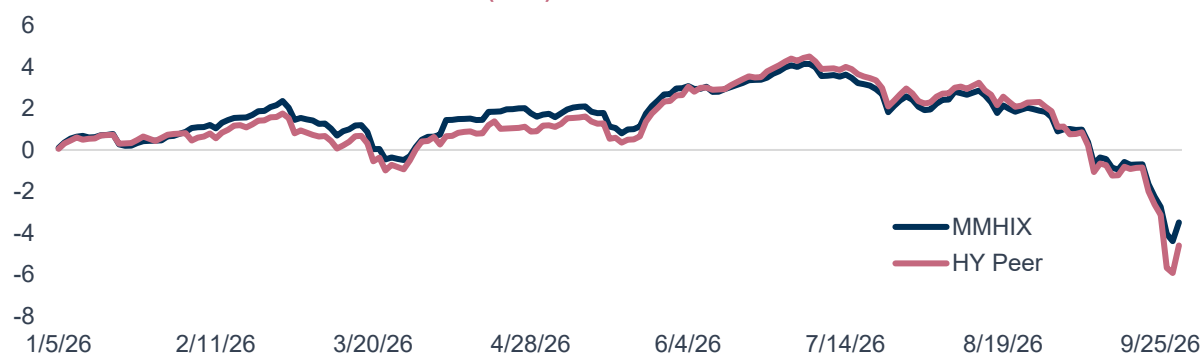
WHY MMHIX STANDS APART

Once investors decide to harvest losses, the next step becomes critical: Where should the proceeds go? The replacement fund sets the tone for how an investor re-engages with the muni market while still respecting wash-sale rules. And this is where we believe MMHIX's structure and philosophy really matter.

1. Flexibility across the entire municipal universe. MMHIX is intentionally designed to adapt — shifting across credit tiers, structures, and maturities as market conditions evolve. In a year where neither pure duration nor pure credit beta has been consistently rewarded, that flexibility has been a differentiator.
2. Bottom-up research at the center of the process. Traditional strategies often stick close to index norms. We don't. Our research framework strives to push us into relative-value pockets that we believe others may overlook — we believe a key advantage in a market where dispersion has been the rule, not the exception.
3. A different performance profile when it mattered. As the year progressed, MMHIX navigated volatility and periods of recovery in a way that stood apart from both high-yield and investment-grade peers (see Figure 3). That divergence reflects the fund's broader toolkit and its willingness to position outside the index-tracking mainstream. For investors harvesting losses from more traditional muni mutual funds, rotating into a strategy like MMHIX provides a way to maintain tax-exempt exposure and benefit from a differentiated approach aimed at an evolving muni landscape.

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FIGURE 3: PERFORMANCE NAV CHANGE (IN %)⁴



MMHIX = NYLIM MacKay High Yield Muni Bond Fund Class I. Data as of September 30, 2026.

Click on the Fund Name to access current information about the fund , which includes the prospectus, investment objectives, performance, risk, and other essential information. Returns represent past performance, which is no guarantee of future results. Current performance may be lower or higher. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Visit for the most products (<https://www.nylim.com/investment-products>) month-end performance.

4. Data as of October 02, 2026. Source: Mackay Shields, Bloomberg

Year-to-date percentage change of MMHIX (NYLIM MacKay High Yield Muni Bond Fund Class I) with the HY Peer series from January 5, 2026 through September 30, 2026. The chart is based on daily Bloomberg data and shows the cumulative change in each series over the period. The HY Peer series is presented for comparative purposes only and may differ from MMHIX in investment objectives, strategies, portfolio composition, risk characteristics and expenses. Past performance is not indicative of future results.

Questions from the Field

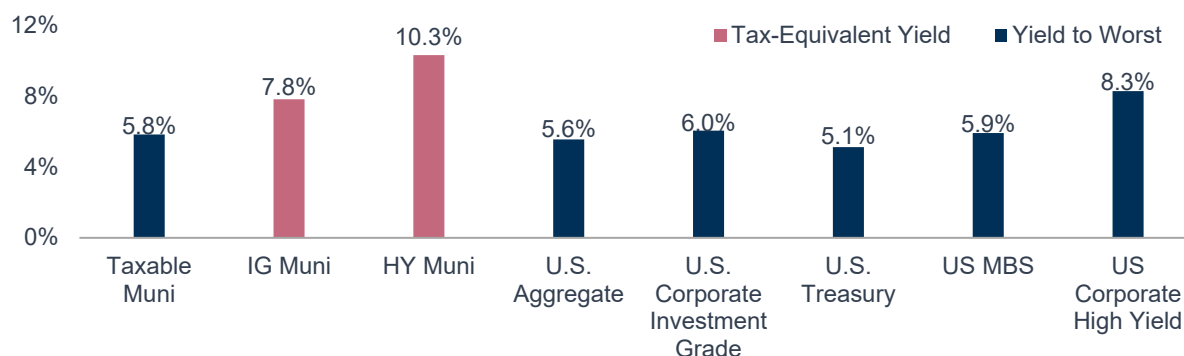
Q. With municipal issuance running at historically high levels, should investors be concerned that there is simply too much supply for the market to absorb?

A. Supply absolutely matters, and we saw that firsthand during the September selloff. When a heavy primary calendar meets weaker fund flows or broader rate volatility, dealers and investors need more yield to absorb that inventory. That can create short-term pressure on prices and ratios.

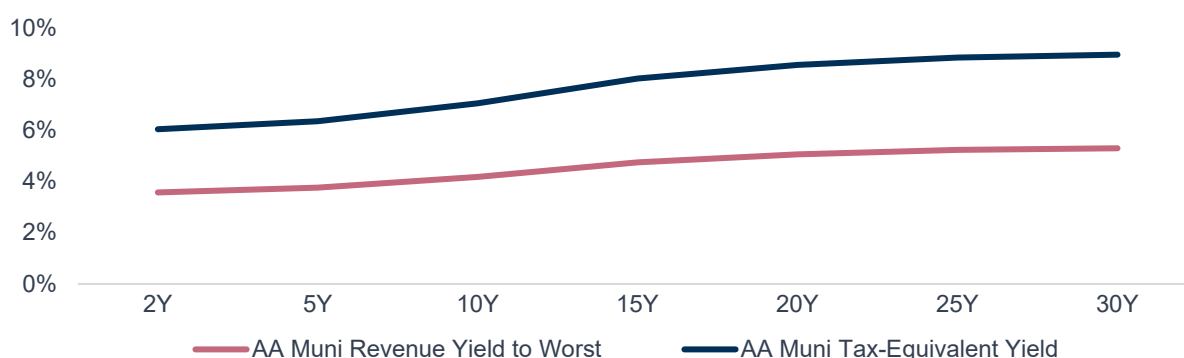
We don't view elevated issuance as inherently negative. For an active manager, supply is also inventory. More bonds coming to market means more structures, more credits and more opportunities to find pricing dislocations.

It also matters where that supply is being issued. We've seen a lot of issuance concentrated in parts of the curve where traditional SMA and passive demand already exists. That can leave other maturities and structures comparatively under-owned and create better relative value elsewhere.

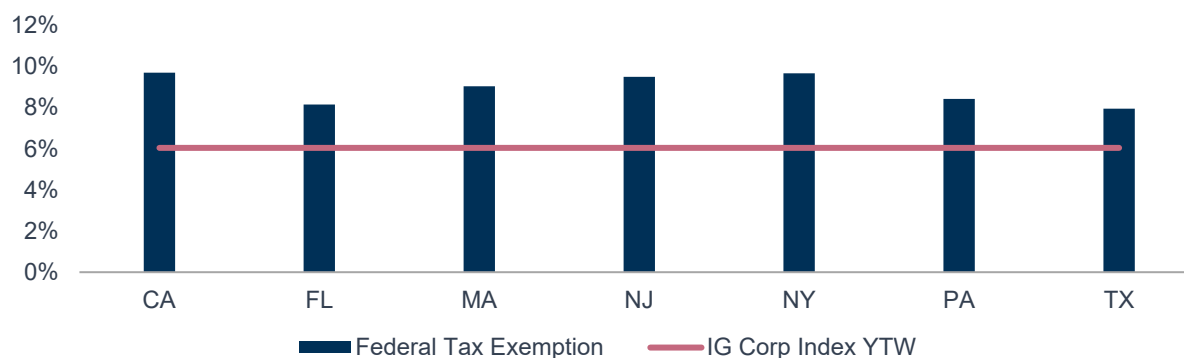
INDEX YIELDS⁵



AA MUNI TAX-EQUIVALENT YIELD CURVE⁶



IN-STATE MUNI TAX-EQUIVALENT YTW⁶

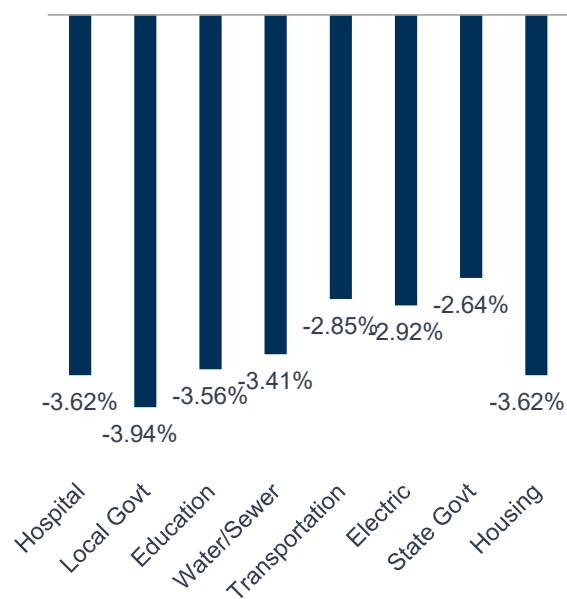


5. Data as of October 02, 2026. Tax Equivalent Yield is using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Source: Bloomberg.

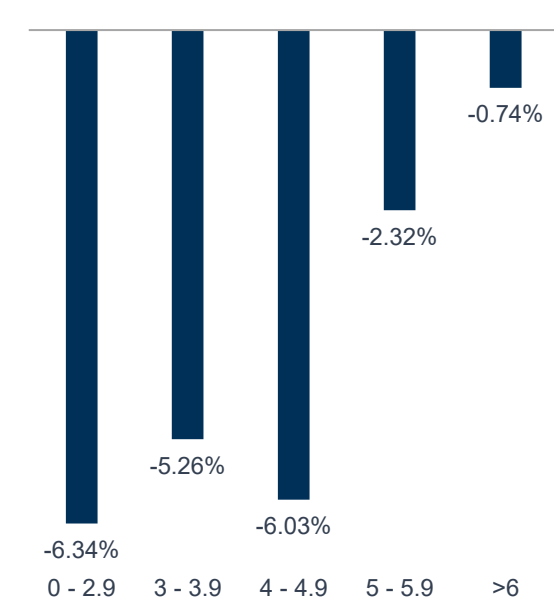
6. Data as of October 02, 2026. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Source: Bloomberg

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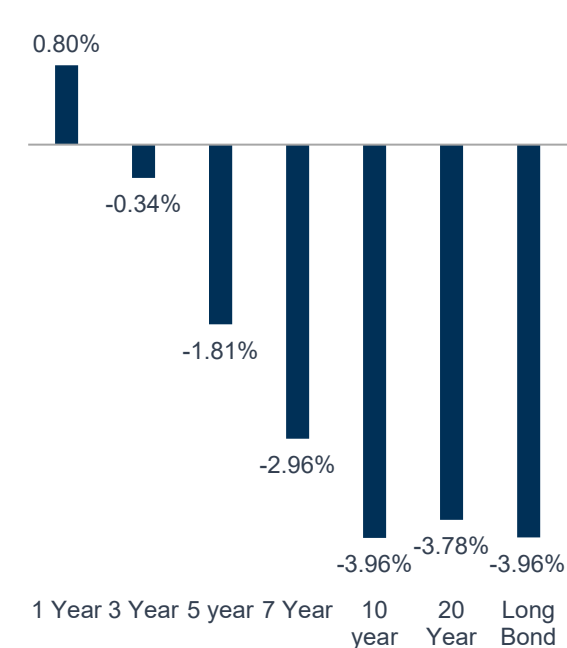
YTD TOTAL RETURNS BY SECTOR⁷



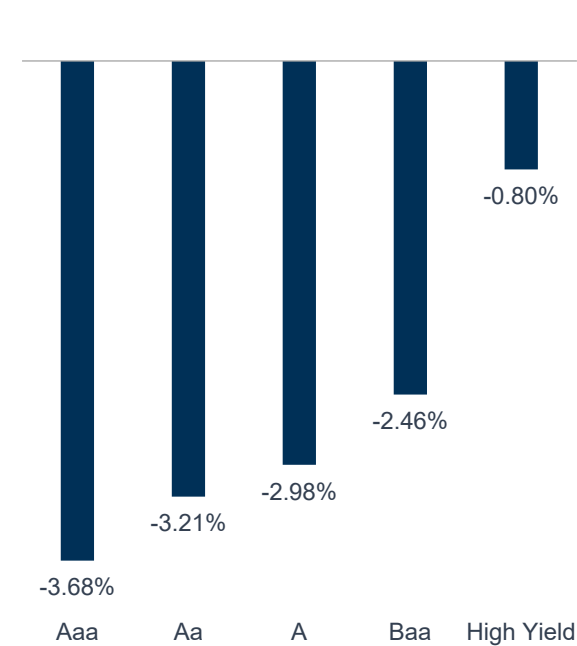
YTD TOTAL RETURNS BY COUPON⁷



YTD TOTAL RETURNS BY MATURITY⁷



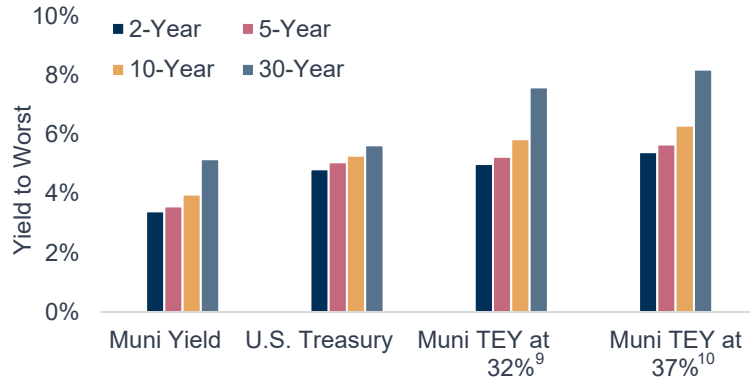
YTD TOTAL RETURNS BY RATING CATEGORY⁷



7. Data as of October 02, 2026. Source: Bloomberg.

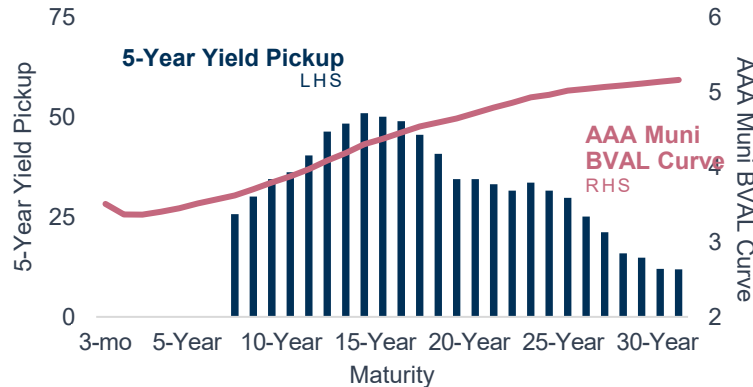
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FIGURE 4: TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX⁸



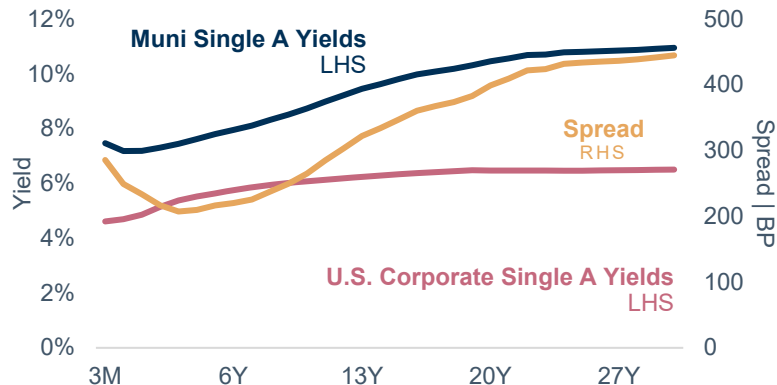
On a tax-adjusted basis munis handily lead across tenors

FIGURE 5: YIELD CURVE STEEPNESS¹¹



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

FIGURE 6: MUNI EXCEEDS CORPORATE SPREADS¹¹



Tax equivalent munis continue to exceed corporate spread/yields

8. Source: Bloomberg. Data as of October 02, 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 October 02, 2026. Muni Single A Yields: Bloomberg Municipal Bond Index; U.S. Corporate Single A Yields: Bloomberg Corporate Bond Index

BLOOMBERG MUNICIPAL YIELD-TO-WORST¹² (YTW)



MUNI YIELDS

Tenor	10/2/2026	9/25/2026	Change (+/-)
Bloomberg AAA Muni Key Rate Yields¹³			
2-year	3.40%	3.47%	-0.07%
5-year	3.57%	3.67%	-0.11%
10-year	3.97%	4.07%	-0.10%
30-year	5.16%	5.14%	0.03%
U.S. Treasury Key Rate Yields¹³			
2-year	4.83%	4.81%	0.02%
5-year	5.06%	4.98%	0.08%
10-year	5.28%	5.17%	0.11%
30-year	5.63%	5.49%	0.14%
U.S. Treasury & AAA Muni Curve Slopes¹⁴			
	2s10s	10s30s	2s30s
U.S. Treasury Curve Slope	+45 bps	+35 bps	+80 bps
AAA Muni Curve Slope	+57 bps	+119 bps	+176 bps

Data as of October 02, 2026.

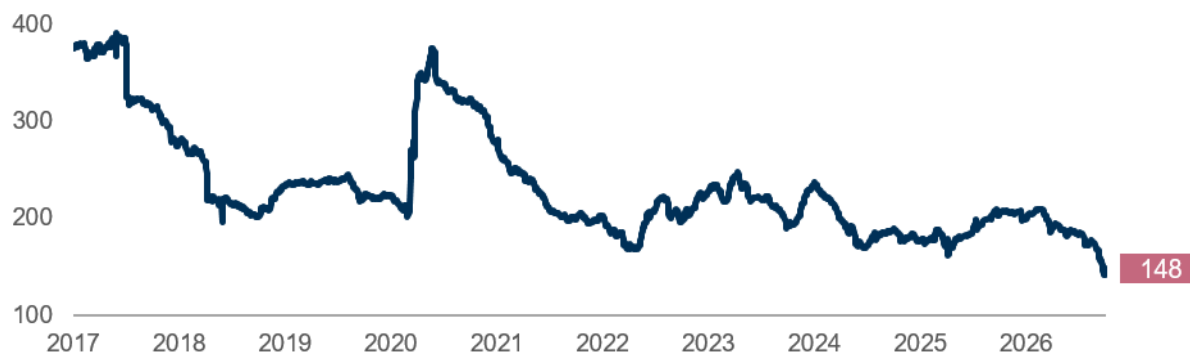
12. Source: Bloomberg. "Post GFC Average" measures the period from 01/01/2010–10/02/2026.

13. Source: Bloomberg.

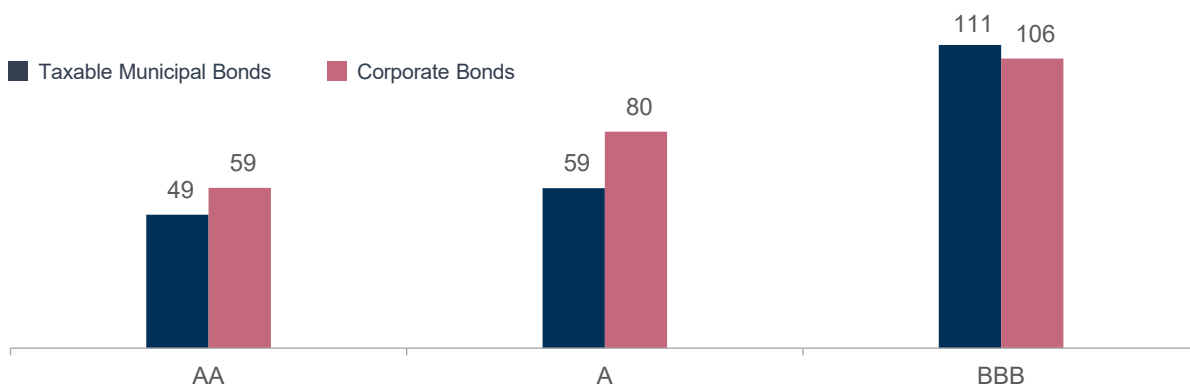
14. Source: Bloomberg. 2s10s—is spread between 10yr and 2yr yield; 10s30s—refers to spread between 30yr and 10yr yield; 2s30s—refers to spread between 30yr and 2yr yield.

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 October 02, 2026. Source: Bloomberg.

16. Data as of October 02, 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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MMHIX Risk: A portion of the Fund's income may be subject to state and local taxes or the alternative minimum tax. Investing in below investment grade securities may carry a greater risk of nonpayment of interest or principal than higher-rated bonds. The Fund may invest in derivatives, which may increase the volatility of the Fund's NAV. 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. Investing in below investment grade securities may carry a greater risk of nonpayment of interest or principal than higher-rated 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 may assist them in meeting specific income requirements even in adverse scenarios.

Additional Yield Definition

BVAL AA, A, BBB and BB Yields are 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.

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.

