

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.



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Tis The Season to Be Swapping!

- Munis outperform while treasuries cool their jets
- We explain how to turn losses into assets
- We do not have a supply crystal ball, but we love the trend

Relative Performance

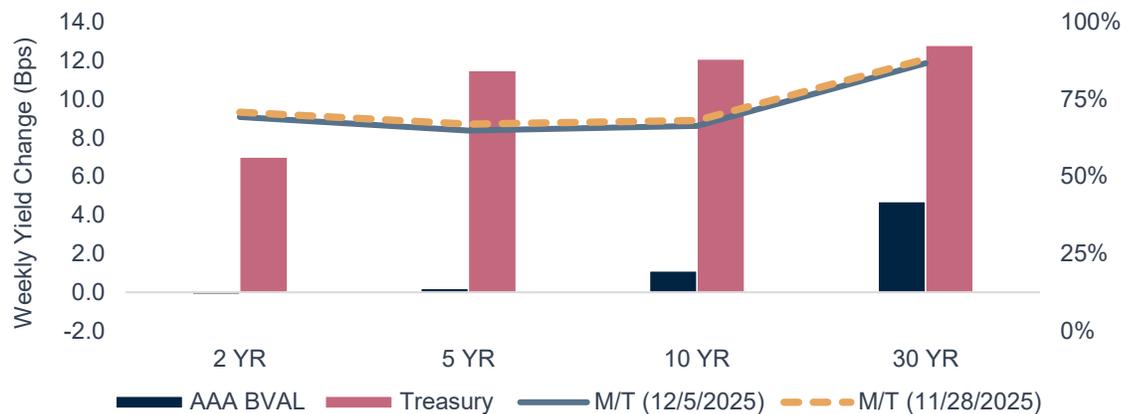
Treasuries sold off meaningfully this week, with yields rising 7–13 bps across the curve as investors digested firmer macro signals and reassessed the probability of near-term easing. Municipals, by contrast, barely moved. AAA BVAL shifts were limited to –0.10 to +4.70 bps, underscoring just how insulated the tax-exempt market was from the Treasury volatility.

That divergence translated directly into muni outperformance versus Treasuries. With U.S. rates backing up and muni yields effectively holding their ground, Muni-to-Treasury ratios tightened across the curve.

Simply put: Treasuries cheapened; munis didn't, and the ratio compression reflects that stability.

Turning to month-to-date performance, December is off to a slow start. Municipals are down roughly 12 bps MTD, a noticeable deviation from the 20-year average December return of +0.40%. Not the ideal opening to a month that historically benefits from strong technical support. But we believe the calendar is still firmly on investors' side. December tends to be a back-loaded month for municipals, with reinvestment flows, reduced supply (though this month could be a bit of a spoiler here and we are watching carefully), and seasonal positioning often asserting themselves as the month progresses. Our view remains constructive: despite the early stumble, there is ample time for munis to realign with their long-term December pattern — and the underlying technical picture still argues in favor of that outcome.

FIGURE 1: MUNIS OUTPERFORM¹



1. Data as of December 5, 2025. Source: Bloomberg. Spot Muni, Spot AA rates.

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



Market Technicals

The municipal market of 2025 has delivered no shortage of plot twists. Rate volatility, shifting expectations around the Fed, and uneven performance across credit tiers have produced a muni environment where even strong demand hasn't translated into clean, upward-sloping total return paths. For many investors who put money to work early in the year, the math is simple: some fund NAVs today sit below their original purchase levels.

That drawdown may feel discouraging at first glance, but in our view, it also presents something rare in muni land — a loss that actually carries value. Unrealized losses are more than a paper annoyance; they are a tool. And for investors willing to be opportunistic, tax-loss harvesting turns volatility into a tangible after-tax benefit while keeping long-term strategy fully intact.

Tax Loss Harvesting: A Simple Idea With Real Impact

In a year shaped by sharp rate moves, 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 late 2024 into the first half of 2025 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 one of the largest year-to-date NAV price declines) 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 pushes us into relative-value pockets that we believe others may overlook — 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 its high-yield peers. (See Figure 2) 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.

FIGURE 2: NYLI MACKAY HIGH YIELD MUNI BOND FUND (MMHIX) VS. PEER



To access the most up-to-date information about a specific fund, simply click [here](#). 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. This illustration 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.

2. Data as of December 3, 2025.
Source: Bloomberg

Questions from the Field

Q. What are your supply projections for 2026?

We typically do not make projections in as far as where we think muni issuance will end up, despite the fact that supply and demand dynamics are one of the critical inputs in our portfolio management approach. We can observe that prior to 2025, the single highest year of municipal sales was last year at \$556 billion. You would have to go back another 14 years to find a year that even came close which was \$546 billion in 2010, as the Build America Bond era reached its peak. This year new sales are already at \$581 billion with a few weeks left on the calendar. Can we breach above \$600 billion? It is possible, though it will be close. However, it is our view that we can easily hit that \$600 billion level next year and several large dealer desks have already put out forecasts at or even in excess of that level.

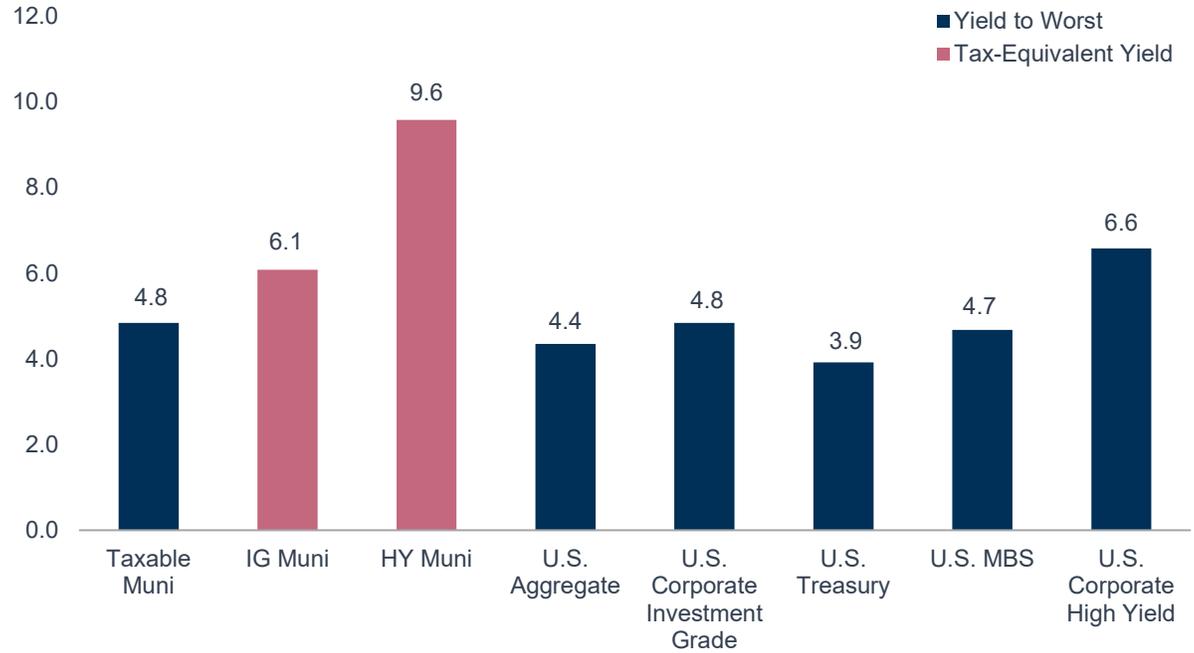
FIGURE 3: HISTORY OF ANNUAL MUNI SALES | \$BILLIONS³



The key takeaway for our team in 2025 was that despite the rate volatility and despite the increased levels of supply, the market, on the whole has been pretty orderly. That is an encouraging sign for issuers and investors alike who, for the first time in quite some time, are seeing the aggregate size of the municipal market expand.

3. Source: Bloomberg. Data as of December 3, 2025.

INDEX YIELDS (in %)⁴



AA MUNI TAX-EQUIVALENT YIELD CURVE⁵



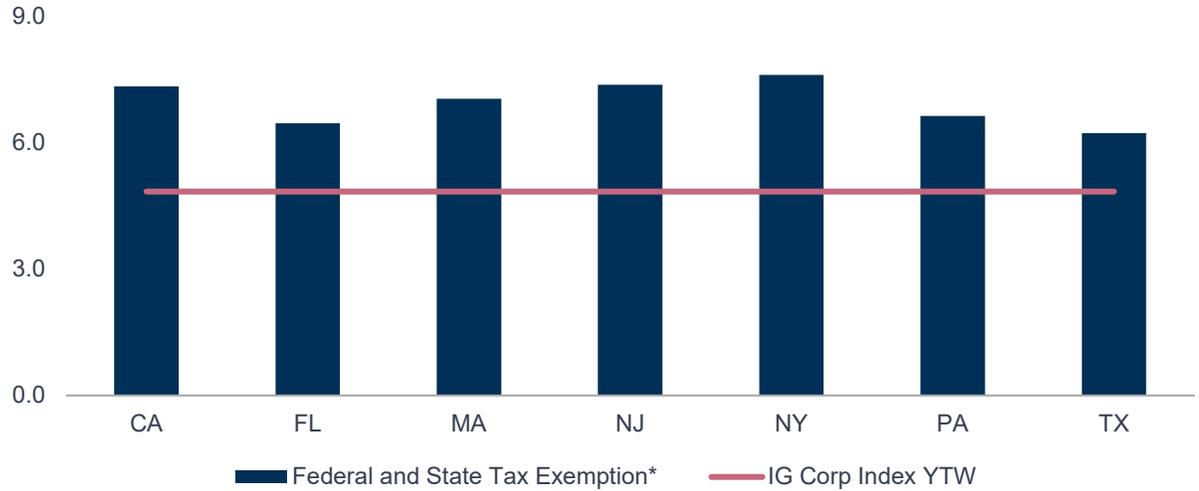
Data as of 12/05/2025.

4. Source: Bloomberg. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Taxable Muni: Bloomberg Taxable Municipal Bond Index; IG Muni: Bloomberg Taxable Municipal Bond Index; HY Muni: Bloomberg High Yield Municipal Bond Index; U.S. Aggregate: Bloomberg U.S. Aggregate Bond Index; U.S. Corporate Investment Grade: Bloomberg U.S. Corporate Investment Grade Index; U.S. Treasury: Bloomberg U.S. Treasury Index; U.S. MBS: Bloomberg U.S. Mortgage-Backed Securities Index; U.S. Corporate High Yield: Bloomberg U.S. Corporate High Yield Index.

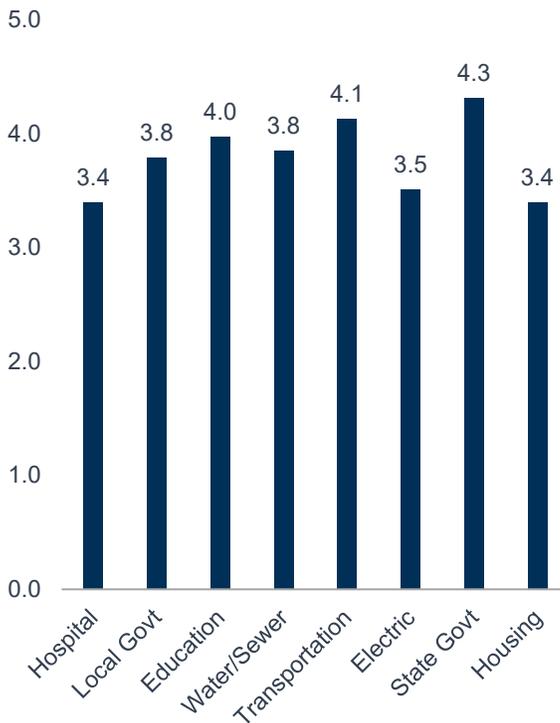
5. Source: Bloomberg. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

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

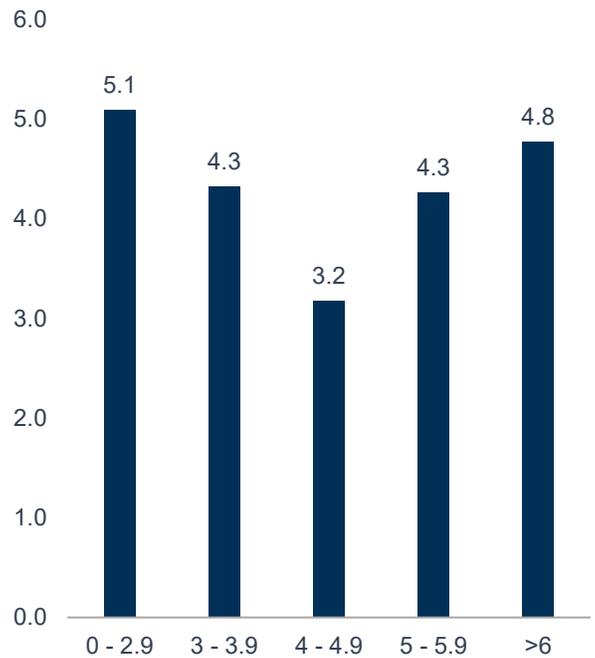
IN-STATE MUNI TAX-EQUIVALENT YTW (in %)⁶



YTD TOTAL RETURNS BY SECTOR (in %)⁷



YTD TOTAL RETURNS BY COUPON (in %)⁸



Data as of 12/05/2025.

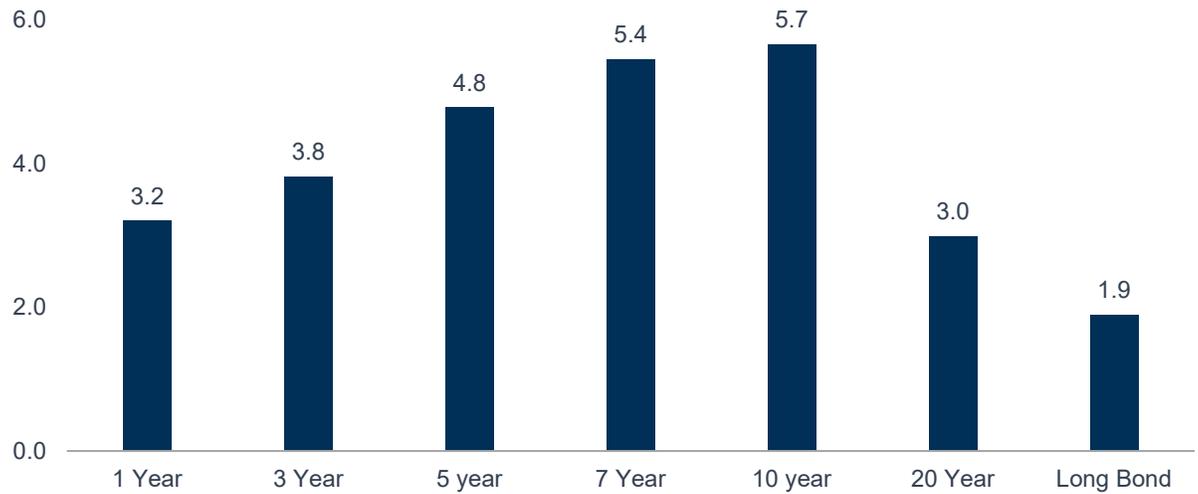
6. Source: Bloomberg. *Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Using respective maximum state income tax rate.

7. Source: Bloomberg.

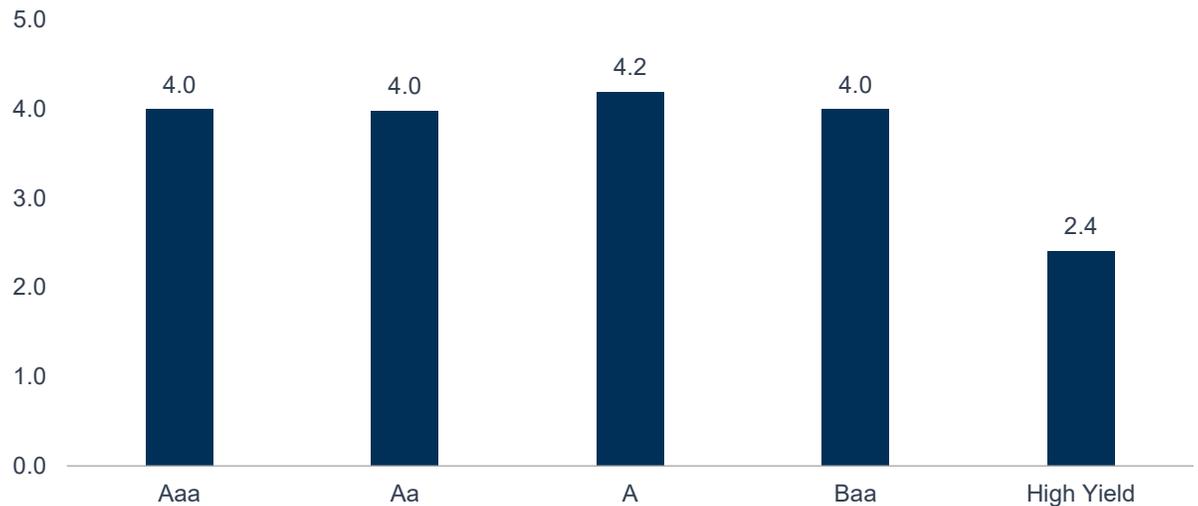
8. Source: Bloomberg.

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YTD TOTAL RETURNS BY MATURITY (in %)⁹



YTD TOTAL RETURNS BY RATING CATEGORY (in %)¹⁰



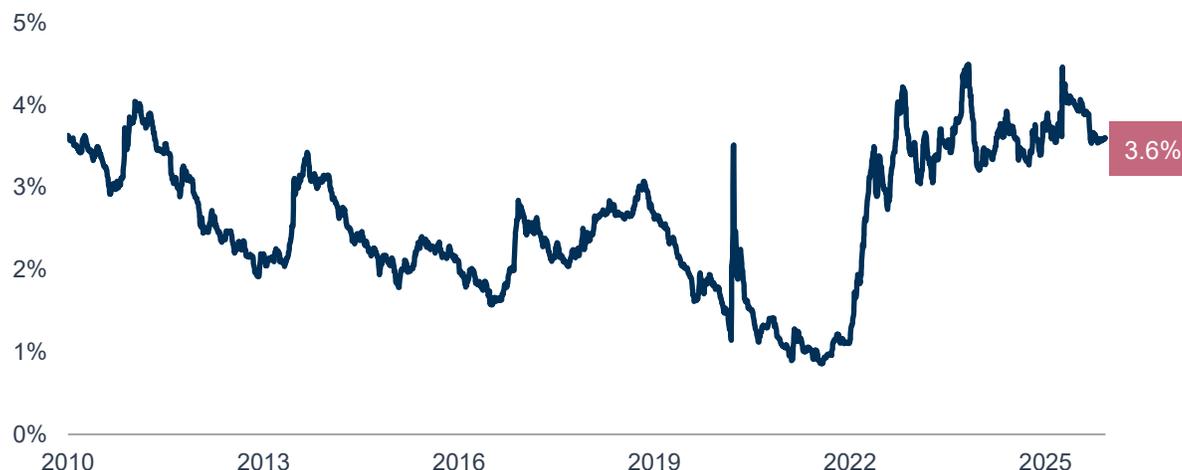
Data as of 12/05/2025.

9. Source: Bloomberg.

10. Source: Bloomberg.

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BLOOMBERG MUNICIPAL YIELD-TO-WORST¹¹ (YTW)



MUNI YIELDS

Tenor	11/28/2025	12/05/2025	Change (+/-)
Bloomberg AAA Muni Key Rate Yields¹²			
2-year	2.47%	2.47%	-0.00%
5-year	2.41%	2.41%	+0.00%
10-year	2.74%	2.75%	+0.01%
30-year	4.11%	4.16%	+0.05%
U.S. Treasury Key Rate Yields¹²			
2-year	3.47%	3.56%	+0.09%
5-year	3.59%	3.72%	+0.13%
10-year	4.02%	4.14%	+0.12%
30-year	4.67%	4.79%	+0.12%
U.S. Treasury & AAA Muni Curve Slopes¹³			
	2s10s	10s30s	2s30s
U.S. Treasury Curve Slope	+58 bps	+65 bps	+123 bps
AAA Muni Curve Slope	+28 bps	+141 bps	+168 bps

Data as of 12/05/2025.

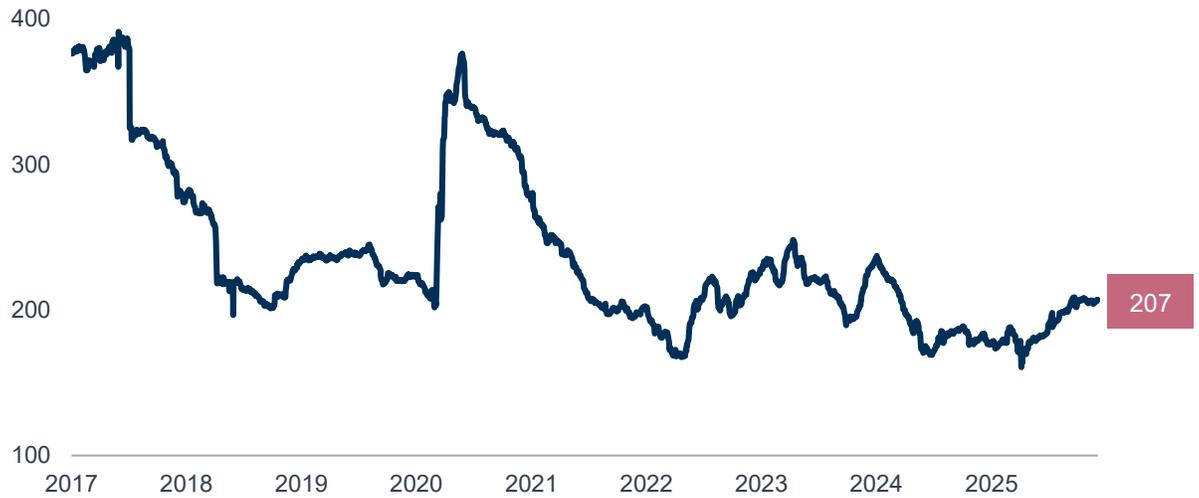
11. Source: Bloomberg. "Post GIFC Average" measures the period from 01/01/2010–12/05/2025.

12. Source: Bloomberg.

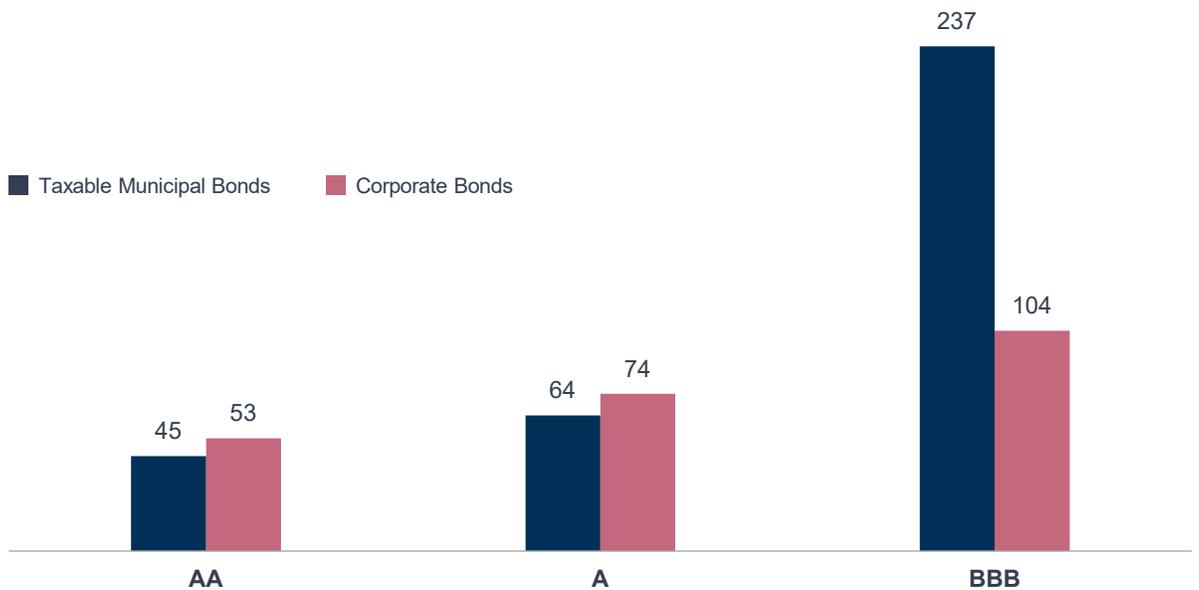
13. Source: Bloomberg. 2s10s–is spread between 10yr and 2yr yield; 10s30s–refers to spread between 30yr and 10yr yield; 2s30s–refers to spread between 30yr and 2yr yield.

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BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL¹⁴



TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS¹⁵



14. Data as of 12/05/2025. Source: Bloomberg.

15. Data as of 12/05/2025. 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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LONG TERM FUND FLOWS¹⁶ (USD BILLION)



Data as of 12/05/2025.

16. Source: Bloomberg.

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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.

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.

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.

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 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.

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.

INDEX DESCRIPTIONS (continued)

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 US Treasury Total Return Unhedged Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury.



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