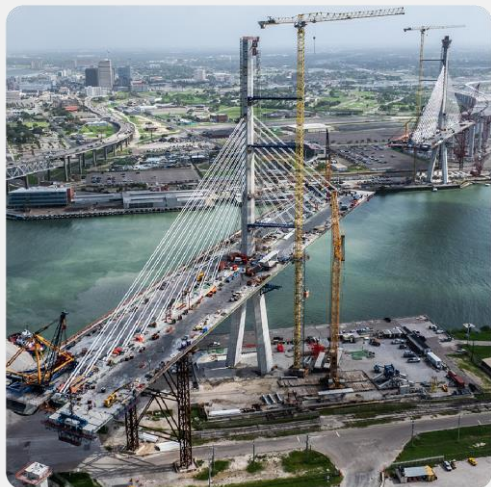




MacKay Municipal Managers™—Mid-Year Insights for 2026

Municipals

Discipline drives differentiated results in 2026

At the midpoint of 2026, we believe the municipal market continues to offer a compelling case for allocation. Near-record demand is meeting heightened supply, creating a market that remains well supported but more discerning. Importantly, absolute yield levels continue to provide a meaningful tax-exempt income opportunity, while valuations appear reasonable and credit fundamentals remain broadly supportive. As investors balance income needs with a market shaped by shifting supply, demand, and curve dynamics, we believe active management grounded in credit research and relative value discipline remains important to capturing opportunities and managing risk through the balance of the year. The opportunity appears durable, but selectivity should matter more now.

Top Five MacKay Municipal Managers' Market Insights for 2026

Theme	Rationale	Portfolio in Action	Mid-Year Status
1 ESSENTIAL SERVICE MUNIS LEAD IN 2026, PROVING REVENUE RESILIENCE	Investment grade essential-service revenue-backed bonds, supported by secured or dedicated revenue streams, appear well positioned to outperform their tax-backed equivalents in 2026. Their credit strength is driven less by political decision-making and more by stable, diversified cash flows and strong debt service coverage tied to non-discretionary demand. As fiscal tightening and political churn raise questions around GO flexibility, these revenue sectors may increasingly serve as relative risk mitigants within the municipal market.	We have maintained an underweight to State and Local General Obligation bonds across our portfolios, reflecting tighter relative valuations and growing fiscal differentiation as COVID-era support fades. While many State and Local issuers remain fundamentally sound, slower tax receipts, elevated spending needs, and political uncertainty may expose those with less budget flexibility or weaker fiscal discipline. In our view, current valuations do not always compensate investors for those risks.	ON TARGET - The revenue bond sector is outperforming general obligation (2.44% vs. 2.02%) YTD.¹ - After years of steady improvement, general obligation credit rating actions turned negative. YTD, general obligation issuers have been upgraded 0.81 times for every downgrade.²

1. Source: Bloomberg as of 6/30/2026.

2. Source: Bloomberg, 6/29/2026.

Theme	Rationale	Portfolio in Action	Mid-Year Status
1 (CONT'D) ESSENTIAL SERVICE MUNIS LEAD IN 2026, PROVING REVENUE RESILIENCE	Political shifts—highlighted by 36 gubernatorial elections—add a secondary layer of uncertainty. Platforms centered on expanded social spending or broader policy ambitions may further pressure operating budgets already challenged by reduced federal inflows. While this political noise will not affect all issuers equally, it is likely to widen dispersion and create pockets of mispricing across the GO market. Diminishing federal support is becoming a defining factor for the municipal market in 2026, creating downstream volatility for many state and local governments. As federal aid—pandemic-related or otherwise—recedes, budget pressures intensify, leaving governments with fewer resources to manage rising costs, fund social programs, and maintain financial flexibility. These strains fall most heavily on general obligation (GO) credits in our view, where policymakers must navigate competing priorities within increasingly constrained budgets.	We continue to favor essential service revenue bonds, where dedicated revenue streams and resilient demand characteristics may provide stronger credit visibility.	ON TARGET According to Pew ³, “After five years of widespread volatility, state tax revenue growth fell more in line with historical norms in fiscal year 2025.” Pew also states, “The number of states performing below their long-term revenue trends held steady in fiscal 2025, suggesting that growth in most states had settled into a more stable—though still below trend—post-pandemic pattern. Early fiscal 2026 data suggests that this has largely continued, with revenue growing steadily but failing to regain lost ground relative to long-term trends.”
2 INVESTMENT GRADE CURVE POSITIONING DRIVES RETURNS IN 2026	In 2025, the municipal yield curve normalized from significant steepening (Source: Bloomberg), leaving the 12-22 year segment particularly attractive. Regardless of where interest rates ultimately move, we believe the best relative value in Investment Grade municipals resides in this area. In our observation, persistent demand from SMA and passive strategies has compressed valuations from 10 years and in on the curve, pushing investors toward the outer limits of their comfort zones in search of incremental yield. However, the structural constraints of these investment vehicles ultimately cap their ability to extend further, leaving the most compelling relative value firmly in the hands of flexible, unconstrained managers operating in less crowded portions of the curve. The structure of the Investment Grade municipal curve remains one of the most important return drivers for 2026. New issuance patterns should concentrate in shorter and intermediate maturities as issuers seek to capitalize on rich valuations created by SMA and ETF demand. This technical imbalance reinforces valuation compression in the front and belly of the curve and further supports deliberate positioning in the longer end, where superior valuation, favorable rolldown potential, and improved forward return characteristics create a meaningful performance advantage.	We entered the year positioned to take advantage of the more attractive portions of the investment grade municipal curve, with exposure focused on longer intermediate maturities while remaining selective in shorter, richer segments. As the curve flattened from historically steep levels, this positioning contributed to performance relative to benchmark. Throughout the period, we continued to emphasize structures and maturities where valuations were more compelling and technical demand was less crowded. This active approach allowed the portfolios to maintain attractive income potential while preserving flexibility around credit selection, liquidity, and curve positioning.	ON TARGET - The long end of the municipal curve has led performance year-to-date, with the 12-year and longer segments of the Bloomberg Municipal Index outperforming the broader Index. The 15-Year (12–17) Index returned 2.33%, the 20-Year (17–22) Index returned 4.42%, and the Long 22+ Year Index returned 4.01%, compared with 2.32% for the overall Index.⁴ - The AAA municipal yield curve between 10- and 20-year maturities has flattened from peak levels but remains attractive by recent standards. At 84 bps, the spread between 10-year and 20-year AAA municipal yields has been wider only 13% of the time over the past ten years, supporting the continued opportunity in longer intermediate maturities.⁵ - New issuance has skewed shorter, with approximately 41% of municipal bonds coming to market inside of 10 years, compared with roughly 33% over the prior decade. This has reinforced the crowded trade in shorter maturities, while leaving under-owned longer intermediate bonds with more attractive return potential.⁶

3. Source: The Pew Charitable Trusts, “State Tax Revenue Stabilizes Amid Rising Fiscal Uncertainty,” April 2, 2026.

4. Source: Bloomberg as of 6/30/2026.

5. Source: ICE as of 06/30/2026.

6. Source: JPMorgan as of 6/26/2026.

Theme	Rationale	Portfolio in Action	Mid-Year Status
3 DISPERSION OF HIGH YIELD MUNI FUND RETURNS PUTS ONUS ON CREDIT SELECTION VS INCOME	Yield isn't everything in high yield. For those solely focused on the "yield" portion of total returns, it is important to note that income is only one leg of the total return stool, and yield alone is an insufficient guide—particularly as dispersion across high yield fund returns, already evident in 2025, is poised to widen further in 2026. Idiosyncratic credit risks are increasingly driving outcomes and putting price appreciation at risk, especially as several high-profile credit events approach key inflection points. In this environment, capital preservation, volatility management, and the avoidance of permanent impairment are just as critical as income generation. Emphasizing liquidity, transparency, and proactive downside risk management—while avoiding the more esoteric risks embedded in lower-quality or project-finance-driven credits—allows investors to capture incremental spread without assuming disproportionate volatility. Success in 2026 will depend on disciplined credit research, proactive surveillance, and targeted, thoughtful risk-taking where compensation is clear and measurable.	We have maintained a disciplined posture within high yield municipal portfolios, emphasizing liquidity, structural protections, and credits where potential compensation is clearer. We remain constructive on select opportunities, particularly bonds with strong covenants, durable revenue profiles, or discounted structures that offer upside potential with some downside risk mitigation. At the same time, tight compensation reinforces the importance of avoiding highly leveraged issuers and credits where incremental yield does not adequately compensate for downside risk. Our focus remains on total return through the cycle, supported by disciplined underwriting and downside risk management.	PENDING High yield muni compensation remains limited by historical standards. At 183 bps, the YTW differential of the Bloomberg HY Muni Index versus the Bloomberg Municipal Index has been higher approximately 89% of the time over the past decade, suggesting limited excess compensation for deeper credit risk.⁷
4 INTERMEDIATE TAXABLE MUNICIPALS ELEVATE MULTI-ASSET PORTFOLIOS	Having outperformed the Bloomberg Aggregate Fixed Income index in 8 of the last 10 years (Source: Bloomberg), we believe intermediate taxable municipals can strengthen the return profiles of "core"-focused fixed income portfolios. For multi-asset allocators, taxable munis provide an under-recognized source of yield, diversification, and credit resilience that historically have weathered volatility shocks across fixed income markets. We expect these benefits to prove particularly prominent when compared with US corporate bonds in 2026, as an oncoming wave of corporate supply could lead to deteriorating technicals as well as negative ratings migration in that asset class. An allocation to taxable munis, which offer greater credit quality stability and a more favorable supply-demand dynamic, is likely to gird multi-asset portfolios against these potential detractors. Rising international interest should only add to this relief by supporting deeper liquidity and tighter spreads.	Taxable municipals continue to serve as a diversified source of high-grade income within multi-asset portfolios. Year to date, the sector has benefited from strong credit quality, stable investor demand, and a subdued issuance backdrop, helping support spreads despite ongoing macroeconomic uncertainty. With corporate valuations tight and growth concerns still present, we believe taxable municipals continue to offer attractive relative value versus other high-quality fixed income sectors.	ON TARGET - Taxable municipals have outperformed core fixed income year to date, returning 1.17% versus 0.62% for the Bloomberg U.S. Aggregate Index and 0.70% for the Morningstar Intermediate Core Bond category.⁸ - The sector has also generated positive excess returns versus duration-matched government bonds, with excess returns of +109 bps year to date.⁹
5 COMPLEMENT PASSIVE SMA EXPOSURE BY ADDING MORE FLEXIBLE PRODUCTS	Passive SMAs have several structural constraints that prevent them from accessing some of the most attractively priced segments of the municipal market. Not only does this reality represent foregone opportunities and exposure to less attractive positions, but it also leaves demand imbalances that increase the relative value of the securities and tactics that these vehicles pass over. That alpha need not be left uncaptured; adding allocations to managers that have greater flexibility can complete the return picture. Areas such as AMT bonds, electric and natural-gas prepaids, and housing securities remain underrepresented in passive portfolios—not due to credit concerns, but because passive methodologies are not equipped to analyze their structural complexity or variable cash flows. Active managers, by contrast, can target these overlooked areas while also managing positions to proactively capture structural advantages brought by shifting markets.	We continue to see investors complement traditional SMA exposure with more flexible municipal strategies that can access broader market segments and respond actively to relative-value opportunities. This includes moving beyond crowded areas of the yield curve, emphasizing differentiated structures, and selectively adding overlooked sectors where compensation appears attractive. In our view, this flexibility can enhance income and total return potential while reducing overconcentration in commonly owned, benchmark-like segments of the municipal market.	ON TARGET - Traditional 1–10 year managed-money municipal exposure continues to offer lower starting yields than broader actively managed municipal opportunities. The Bloomberg Managed Money Short/Intermediate 1–10 Year Blend yields 2.73%, versus an average yield of 3.28% for actively managed funds in the Morningstar Muni National Intermediate category, highlighting the income tradeoff associated with narrower, SMA exposure.¹⁰ - For investors willing to extend duration, the average yield for actively managed funds in the Morningstar Muni National Long category is 3.77%, more than 100 bps above the short/intermediate managed-money proxy.¹¹

7. Source: Bloomberg as of 6/30/2026

8. Source: Bloomberg, Morningstar as of 6/30/2026.

9. Source: ICE as of 6/30/2026.

10. Source: Bloomberg as of 6/30/2026.

11. Source: Morningstar as of 6/30/2026

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Bloomberg Managed Money Intermediate (1-17 yr) Index: Bloomberg Managed Money Intermediate (1-17 yr) Index consists of fixed-coupon, tax exempt municipal bonds issued within the past five years with maturities greater than 1 year and remaining effective maturity no more than seventeen years, with a par value of at least \$7 million and issued as part of a transaction of at least \$75 million. Securities must be rated in the highest two rating categories by Moody's, S&P and Fitch (based on middle rating if rated by three agencies, lower rating if rated by two agencies, sole rating if rated by only one agency). Bonds whose purpose is for health care or housing are excluded.

Bloomberg Municipal Bond Index: 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 Municipal High Yield Index: An unmanaged index of municipal bonds with the following characteristics: fixed coupon rate, credit rating of Ba1 or lower or non-rated using the middle rating of Moody's, S&P, and Fitch, outstanding par value of at least \$3 million, and issued as part of a transaction of at least \$20 million. In addition, the bonds must have a dated-date after December 31, 1990 and must be at least one year from their maturity date.

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