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Outcomes over Optics:

Rethinking the Muni Playbook

Webinar key takeaways



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NEW YORK LIFE Investment Management | MACKAY SHIELDS

Outcomes over Optics: Rethinking the Muni Playbook

Rising interest rates are reshaping the municipal bond market in 2026.

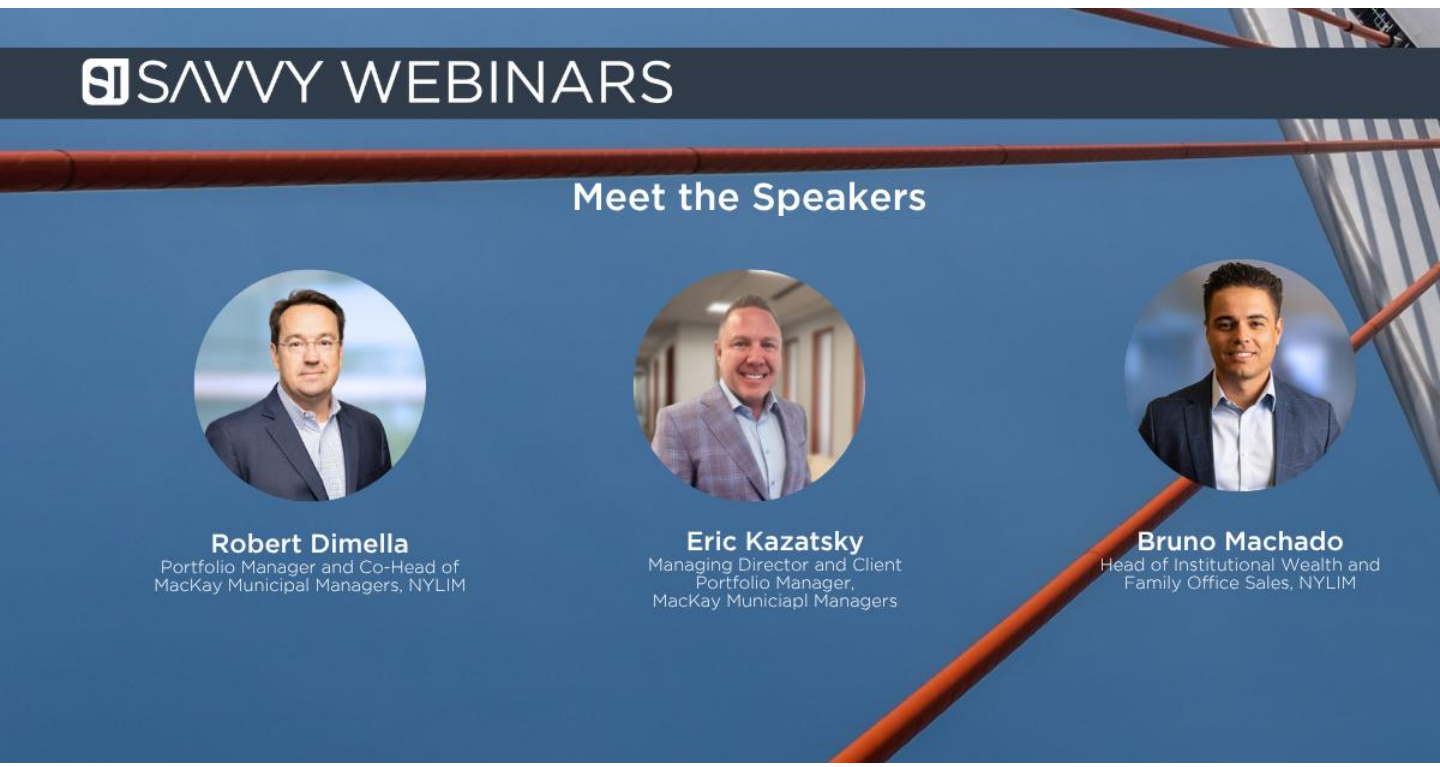
After the strongest start to a year in two decades, early gains have given way to losses, while higher yields are opening up new opportunities for some investors. As more income becomes available, questions about duration, credit risk, and portfolio flexibility are shaping investment decisions.

New York Life Investment Management (NYLIM) explored these issues in a webinar, "Outcomes over Optics: Rethinking the Muni Playbook." The conversation was moderated by **Eric Kazatsky**, Managing Director and Client Portfolio Manager, and featured perspectives from:

Robert Dimella, Portfolio Manager and Co-Head of MacKay Municipal Managers, NYLIM

Bruno Machado, Head of Institutional Wealth and Family Office Sales, NYLIM

The panel discussed how a flexible approach to portfolio construction may help investors navigate today's municipal bond market and identify opportunities beyond conventional strategies.



WEBINAR TAKEAWAYS

Here are five key takeaways from their discussion:

1) Income opportunity

After a strong start to 2026, municipal bonds have come under pressure as interest rates have gone up. This has pushed down prices but has also created an unusually attractive entry point for new investors. The panel emphasized that today's higher yields enable investors to earn substantial tax-exempt income without having to bet on future interest rate moves.

Rare moment: Muni bond yields are up about 100 to 150 basis points across parts of the curve this year, reaching levels in some cases not seen in decades.

Tax-equivalent yields: The 10-year AAA municipal tax-equivalent yield was about 6.7% as of October 2, compared with roughly 5.3% for comparable Treasuries, assuming a 40.8% federal tax rate.

Waiting has a cost: Investors holding cash for potentially higher rates must also factor in the income they could be earning today.

"Time in the market is more important, especially at these yield levels."
Robert Dimella

2) Across the Curve

The shift in municipal bond yields has led to opportunities across different maturities. But investors should ask whether, and where, they're being compensated for taking on duration risk. Traditional bond ladders may sacrifice potential income and total returns, particularly for longer investment horizons.

Further out: Yields on 15-year municipal bonds have risen sharply this year, partly due to supply-demand imbalances. High-quality bonds in the 15- to 20-year range now look especially compelling.

Barbell strategy: Combining longer-dated bonds with maturities of two to three years can be an effective approach.

Structure matters: Many long-term municipal bonds are called before maturity, so the bond's issuer, sector, and call structure are important to consider.

"By limiting yourself just to 1 to 10, you're giving up a lot of income potential and possibly total return depending on the shape of the yield curve."
Robert Dimella

3) Credit selection

While yields have risen, not all parts of the municipal bond market are created equal. The panel stressed the importance of distinguishing between bonds that are temporarily cheap, perhaps due to technical market pressures, and those with more serious financial problems.

High-quality: Credit spreads are still relatively tight, so A-rated and AA-rated bonds can be attractive without taking on too much risk.

Market forces: Bonds with strong fundamentals can be bought at discounted prices when tax-loss harvesting or fund redemptions are creating pressure to sell.

Doing the homework: Investing in riskier project finance bonds requires careful research to make sure the added yield actually justifies the exposure.

"The conversations that I'm having are less about the vehicle, the wrapper, and more about the outcome. We try to be a solution-oriented platform, and we're always asking clients, well, what are you trying to accomplish? What are you trying to solve for?"
Bruno Machado

"There are no bad bonds, there are bad prices." Robert Dimella

4) A bolt-on strategy

Traditional municipal bond ladders and separately managed accounts can certainly provide attractive income, but they don't have to make up the whole portfolio. Adding flexible, active strategies can help investors look for greater opportunities without necessarily taking on more risk, as the panel discussed.

Beyond ladders: Instead of following rigid portfolio guidelines, flexible mandates can invest in different maturities, credit ratings, and bond structures.

Managing liquidity: Active managers can buy when others are selling, though investors also have to consider their own liquidity needs.

Adaptation: Flexible strategies can enable managers to harvest tax losses and to adjust portfolios as market conditions change.

"The worst thing a municipal client can do is actually force themselves into a liquidation, going into a selling mode. If you can flip and be actually a bidder when everybody else is selling, that's very, very attractive."
Robert Dimella

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