

Munis Find a Way to Balance Risks

KEY TAKEAWAYS

- Munis find their ceasefire swagger
- Taxable munis keeping insights on top
- California school district thoughts

Relative Performance

Municipals rallied sharply last week, outperforming Treasuries across the curve as yields moved meaningfully lower. AAA BVAL yields declined 10 bps in 2s, 11–12 bps in 5s and 10s, and over 11 bps in 30s. Treasuries also rallied, but to a lesser degree, with yields falling 4–5 bps in the front and intermediate maturities, while the long end was largely unchanged.

The move drove a significant reversal in relative value, with muni-to-Treasury ratios richening across the curve. The 2-year ratio declined more than 2 points to 60.63%, while the 5-year ratio fell over 2 points to 62.63%. The most notable move occurred in the belly, where the 10-year ratio richened nearly 2.5 points to 67.98%, retracing a meaningful portion of the prior week's cheapening. The 30-year ratio followed, declining to 88.89%.

This was a classic reversal dynamic. After a sharp cheapening in late March driven by rate volatility and weaker technicals, municipals responded quickly as demand stepped back in and Treasuries stabilized. The speed of the move underscores how sensitive relative value has become to macro-driven rate swings.

Stepping back, this is exactly the type of environment we've been highlighting. Volatility is creating two-way moves in ratios, but those moves are increasingly presenting tactical opportunities. The recent richening doesn't eliminate the broader relative value story—it simply reflects how quickly the market can adjust when flows turn.

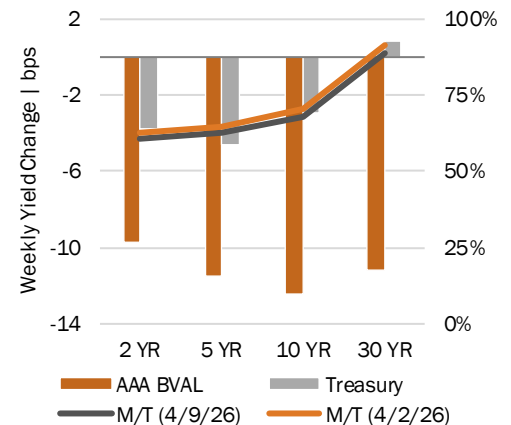
Bottom line: municipals rallied, outperformed Treasuries, and reversed a meaningful portion of the recent cheapening. Volatility is driving the tape, but it continues to create actionable entry points as valuations move in both directions.

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	0.60%	0.60%	5.03%
Muni Bond 10-Year	1.06%	0.27%	5.92%
Muni Bond 15-Year	1.39%	0.98%	5.31%
Muni Long Bond	1.68%	1.45%	1.95%
Muni Managed Money	1.28%	0.79%	3.94%

Data as of April 9, 2026.
Source: Bloomberg

FIGURE 2: MUNIS OUTPERFORM



Data as of April 9, 2026. 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.
Source: Bloomberg



Market Technicals

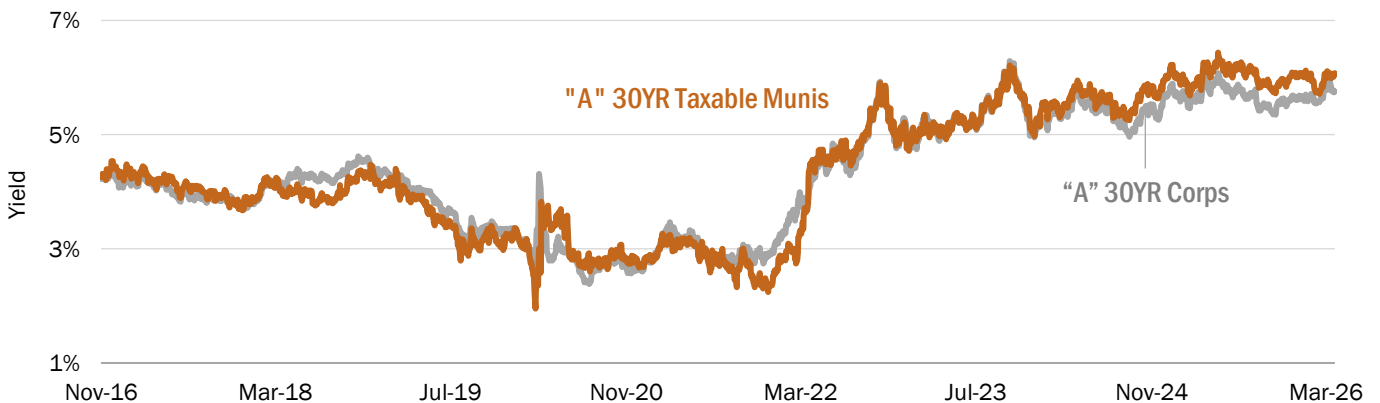
Intermediate taxable municipals continue to validate their role in portfolio construction: One of our key insights to start 2026 was that intermediate taxable municipals can potentially enhance “core” fixed income allocations—and year-to-date performance is reinforcing that view. Through April 10, the Bloomberg Intermediate Taxable Muni Index has returned 0.48%, outperforming the Bloomberg U.S. Corporate Index at 0.11%. Importantly, that outperformance has come with meaningfully lower duration exposure (4.4 years versus 6.9 years), underscoring the sector’s ability to deliver stronger risk-adjusted returns in a rate-volatile environment.

Looking beyond the intermediate segment, the opportunity set remains compelling further out the curve. Taxable municipals are currently offering a yield pickup relative to like-rated U.S. corporates, suggesting that even for investors less constrained by duration, relative value persists.

Beyond these near-term dynamics, the asset class continues to benefit from several structural advantages. Taxable municipals tend to exhibit higher overall credit quality, lower leverage, and more stable revenue frameworks relative to corporates, with many issuers tied to essential service provision or broad-based taxing authority. The investor base is also more stable and less prone to forced selling, which has historically supported resilience during periods of market stress. In addition, the market remains less efficiently covered than corporates, creating opportunities for security selection and relative value.

Taken together, this reinforces our broader view: taxable municipals offer a differentiated combination of yield, diversification, and credit durability that can potentially enhance return profiles across multi-asset portfolios—not just tactically, but as a structural allocation.

FIGURE 3: TAXABLE MUNI VS CORP RATES



30YR Taxable Munis: Bloomberg U.S. Taxable Municipal Bond Index; 30-YR Corps: Bloomberg U.S. Corporate Bond Index
 Data as of April 10, 2026.
 Source: Bloomberg

Questions from the Field

Q How should investors think about the recent headlines around fiscal stress in California school districts?

A The headlines are directionally right, but they flatten what's really a more nuanced credit story. Some districts are working through structural imbalances, and in a few cases that's led to "lack of going concern" designations from the state. But this is still a large, predominantly high-quality sector, and the pressures we're seeing are less about systemic deterioration and more about the unwind of temporary support.

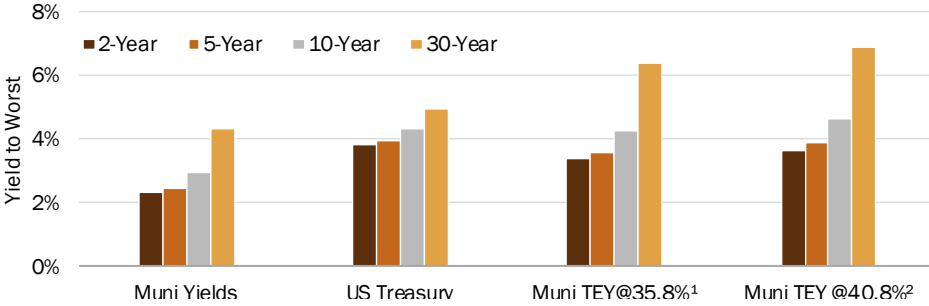
Over the past several years, districts benefited from a combination of federal COVID-era aid and strong state funding tied to healthy tax receipts. Those revenues, in many cases, found their way into recurring expenditures—particularly labor. Now both funding sources are moderating at the same time, and that's exposing underlying mismatches. Enrollment declines are part of the conversation, but they tend to be a secondary factor unless they're particularly acute.

From a credit standpoint, what matters is how that operating pressure translates—if at all—to bondholder risk. In California, that linkage is more limited than in many other states. School district bonds are supported by voter-approved property taxes that districts are constitutionally required to levy without limitation until the debt is repaid, and those revenues carry a perfected statutory lien for bondholders. That creates a dedicated, enforceable stream that sits apart from the district's general operating pressures.

So while we're monitoring the fiscal adjustments—staffing changes, facility right-sizing, and broader budget management—our focus remains on the underlying economic strength within each district and the durability of that pledged tax base. The situation warrants attention, but the structural protections in California are doing a lot of the work here.



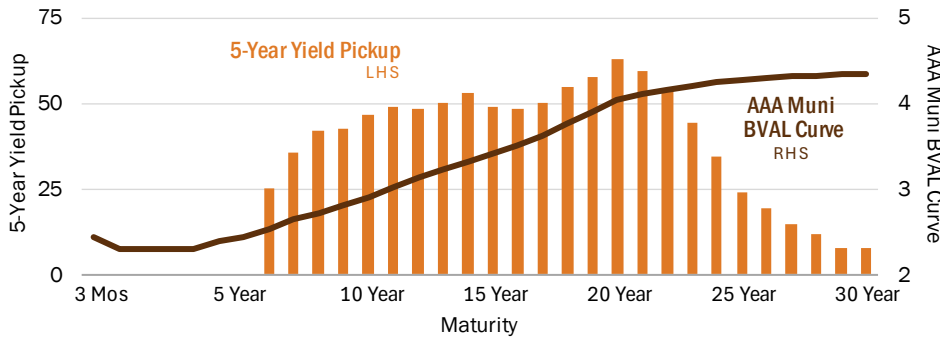
TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX



On a tax-adjusted basis munis handily lead across tenors

1. Tax Equivalent Yield is using 32% federal tax rate, including 3.8% Net Investment Income Tax.
 2. Tax Equivalent Yield is using 37% federal tax rate, including 3.8% Net Investment Income Tax.
 Data as of April 9, 2026.
 Source: Bloomberg

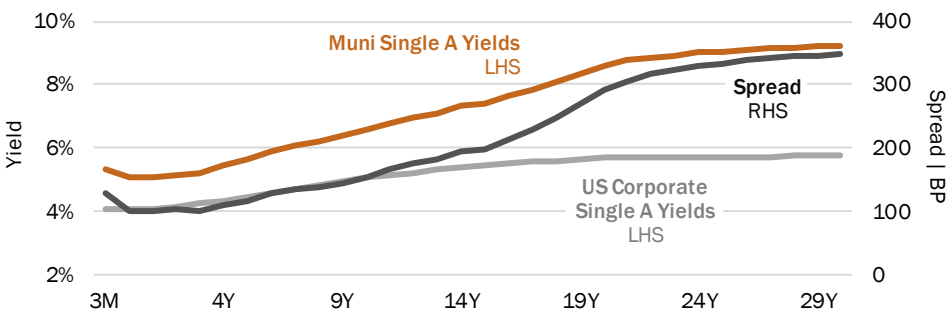
YIELD CURVE STEEPNESS



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

Data as of April 9, 2026.
 Source: Bloomberg

MUNI EXCEEDS CORPORATE SPREADS



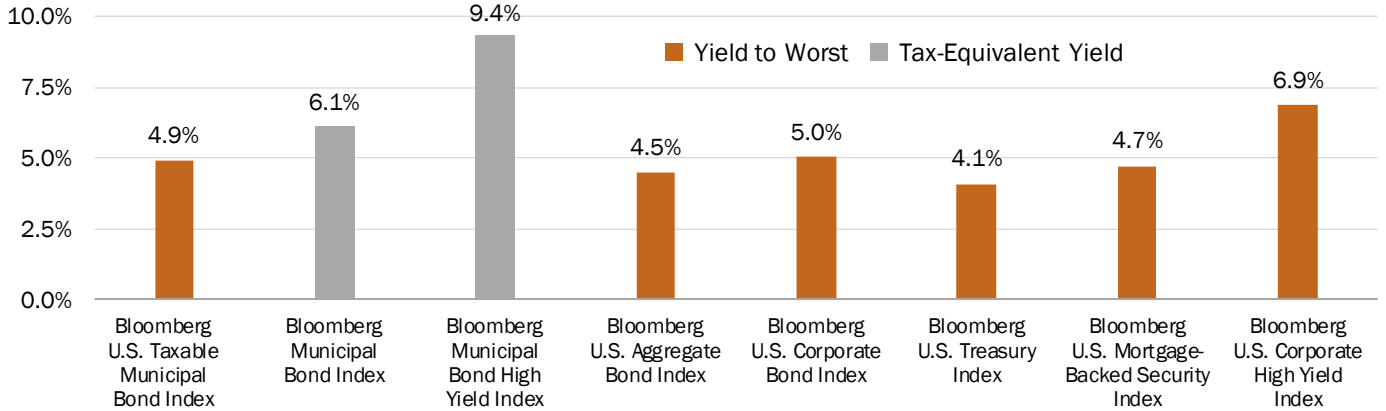
Tax equivalent munis continue to exceed corporate spread/yields

Data as of April 9, 2026.
 Muni Single A Yields: Bloomberg Municipal Bond Index; US Corporate Single A Yields: Bloomberg Corporate Bond Index
 Source: Bloomberg

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INDEX YIELDS

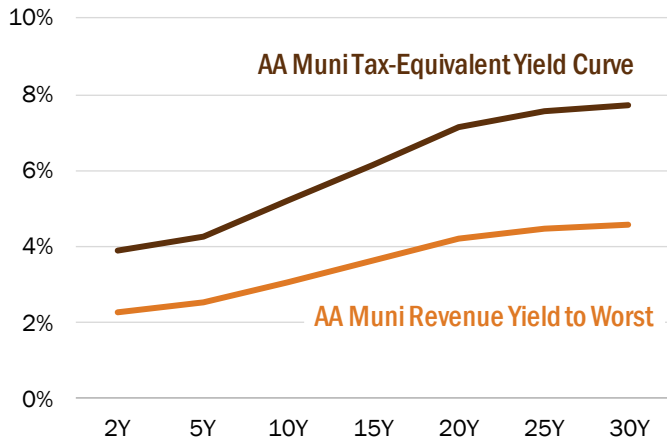


Data as of April 9, 2026

1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE

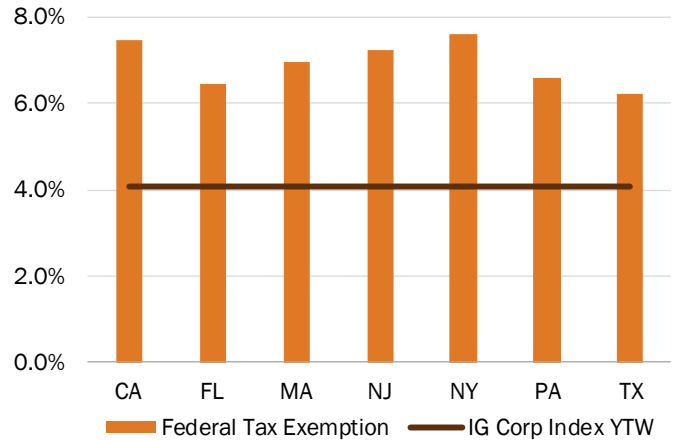


Data as of April 9, 2026

1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



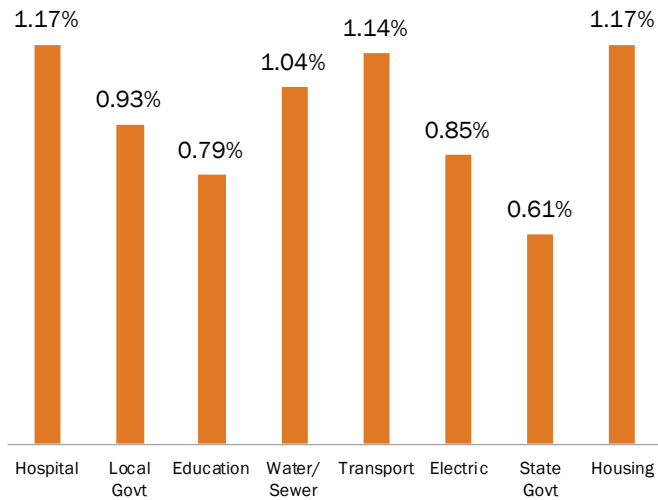
Data as of April 9, 2026

1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

Source: Bloomberg

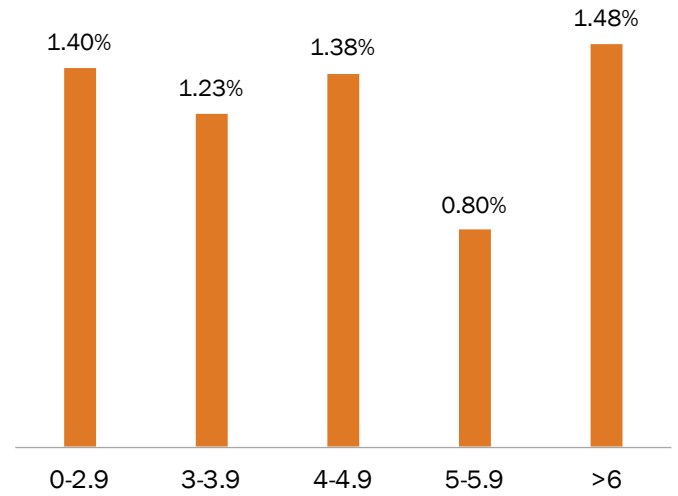


YTD TOTAL RETURNS BY SECTOR



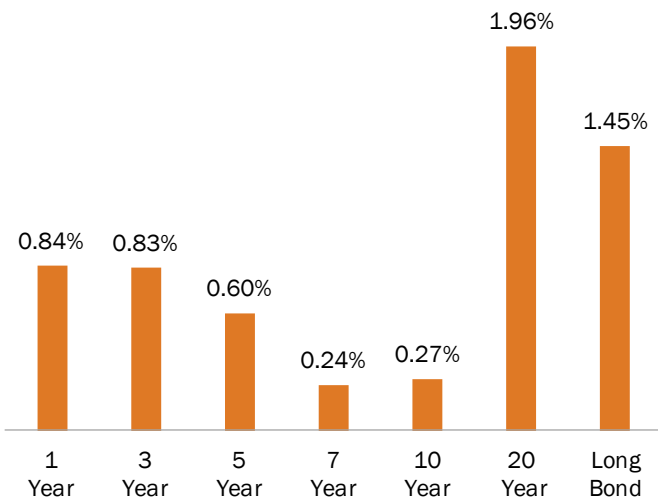
Data as of April 9, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



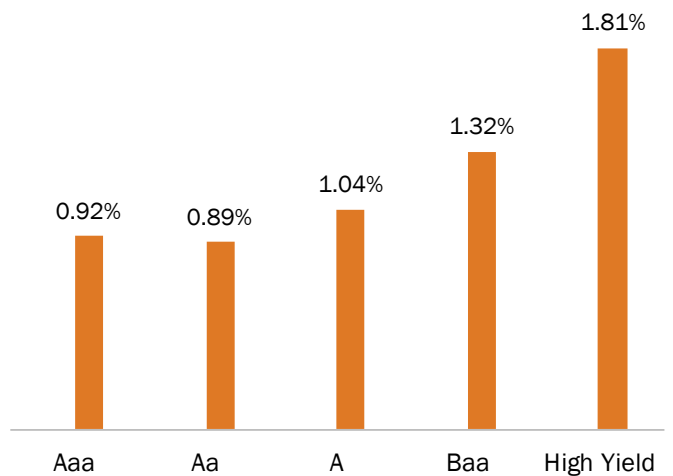
Data as of April 9, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of April 9, 2026
Source: Bloomberg

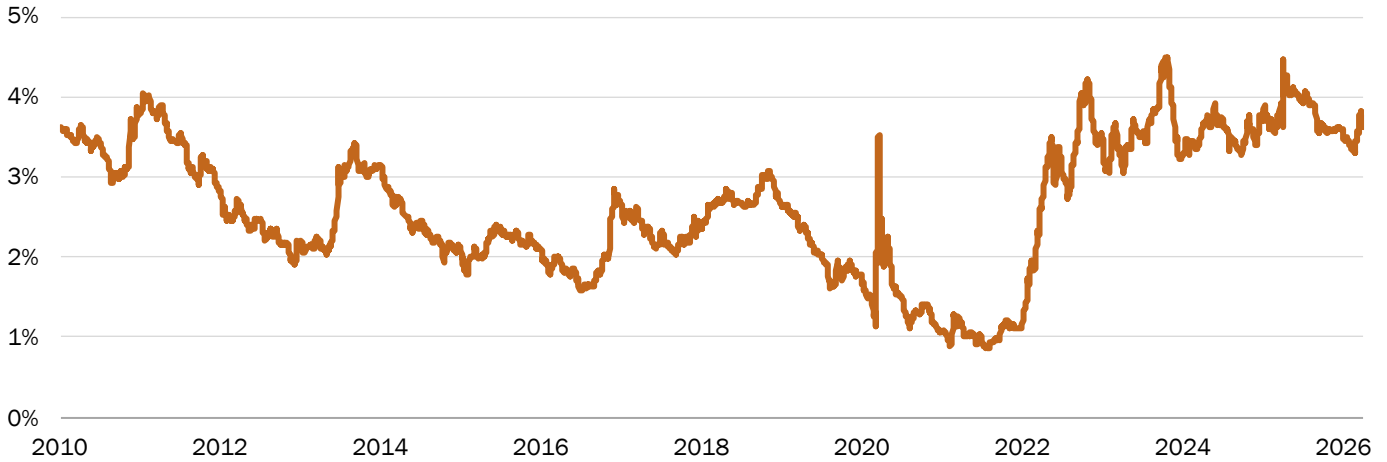
YTD TOTAL RETURNS BY RATING CATEGORY



Data as of April 9, 2026
Source: Bloomberg



BLOOMBERG MUNICIPAL YIELD-TO-WORST



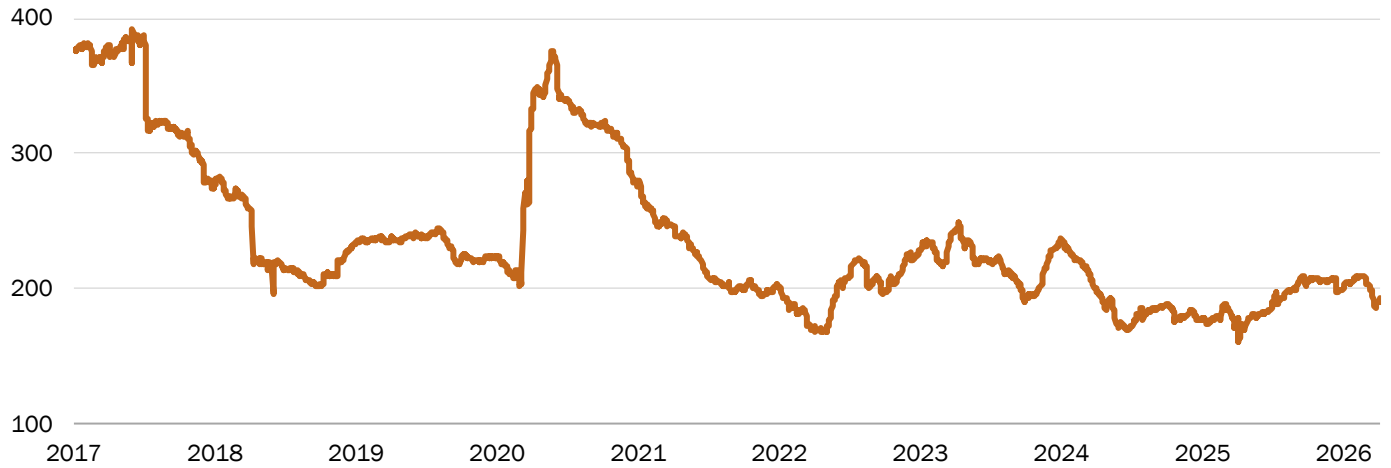
Data as of April 9, 2026
 “Post GFC Average” measures the period from 1/1/2010 – 4/9/2026
 Source: Bloomberg

MUNI YIELDS

Tenor	4/9/2026	4/2/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.29%	2.39%	-0.10%
5 YEAR	2.45%	2.56%	-0.11%
10 YEAR	2.91%	3.04%	-0.12%
30 YEAR	4.35%	4.46%	-0.11%
US TREASURY RATE YIELDS			
2 YEAR	3.78%	3.79%	-0.01%
5 YEAR	3.91%	3.94%	-0.03%
10 YEAR	4.29%	4.31%	-0.02%
30 YEAR	4.90%	4.88%	0.02%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 51 bps	+ 61 bps	+ 112 bps
AAA MUNI CURVE SLOPE	+ 62 bps	+ 143 bps	+ 206 bps

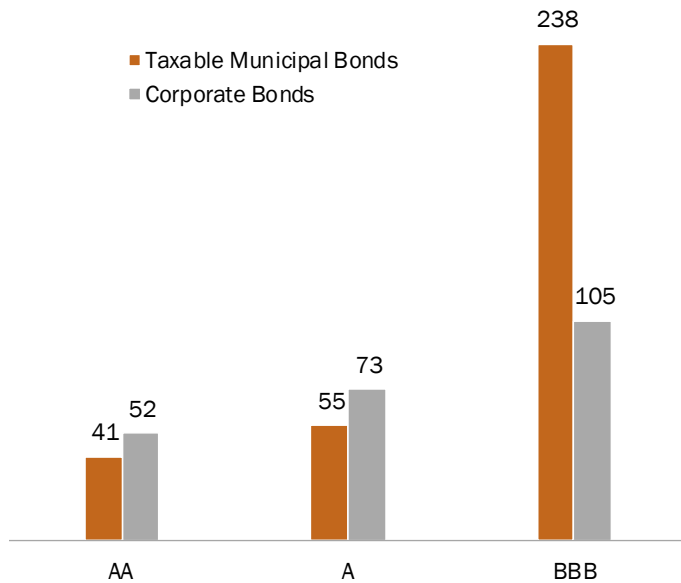
Data as of April 9, 2026
 1. 2s10s – is spread between 10yr and 2yr yield; 10s30s – refers to spread between 30yr and 10yr yield; 2s30s – refers to spread between 30yr and 2yr yield
 Source: Bloomberg

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of April 9, 2026
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of April 9, 2026
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.

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 the worst 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

Bloomberg U.S. Taxable Municipal Bond Index

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.

Bloomberg Municipal AMT index

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.

Muni IG AMT ex Territories Index

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

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

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.

INDEX DESCRIPTIONS (CONT'D)

Bloomberg Municipal 1-10 Year Blend 1-12 Year Index

The 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

The 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 Municipal Bond High Yield Index

The Bloomberg Municipal Bond: High Yield Index is a flagship measure of the US municipal tax-exempt non-investment grade bond market. Included in the index are securities from all 50 US 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.

Bloomberg U.S. Aggregate Bond Index

The 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

The Bloomberg US Corporate Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility, and financial issuers. The index is a component of the US Credit and US Aggregate Indices, and provided the necessary inclusion rules are met, US 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

The 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 Security Index

The US MBS 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 US MBS Index.

Bloomberg U.S. Corporate Bond Index

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

Bloomberg U.S. Corporate High Yield Index

The Bloomberg US Corporate High Yield Bond 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

The Bloomberg Global Aggregate 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.

Bloomberg US Municipal Bond Index Total Return Index Value Unhedged

The Bloomberg U.S. Municipal 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 US Aggregate Total Return Value Unhedged

The Bloomberg US 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 Taxable Municipal Bond Index

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Bloomberg US Treasury Total Return Unhedged

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.