Tax-Free Rallies Past UST

KEY TAKEAWAYS

- Muni in Control
- Exempts Resist Treasury Levitation
- Munis as a Buffer Zone

Relative Performance

Municipals rallied sharply last week, meaningfully outperforming Treasuries as tax-exempt yields retraced a portion of the late-July backup. AAA BVAL yields declined 8 bps in 2s, 9 bps in 5s, nearly 10 bps in 10s, and roughly 6 bps in 30s. Treasuries, by comparison, were essentially unchanged outside of a modest 1.5 bp rally in 2s.

That divergence drove some ratio richening through the intermediate part of the curve. The 2-year muni-to-Treasury ratio declined 0.8 points to 59.75%, while the 5-year ratio fell roughly a full point to 64.56%. The 10-year ratio also richened just over a point to 69.08%, moving back below the 70% level after the meaningful cheapening we saw in late July. The 30-year ratio was essentially unchanged at 85.68%.[1]

The bigger takeaway is how quickly the municipal market responded to the valuation reset. Just two weeks ago, tax-exempts were leading the selloff and ratios were cheapening sharply. That created a better entry point, and investors responded. With Treasuries largely unchanged last week, the rally in municipals was much more about muni-specific demand and technicals than a broader rates move.

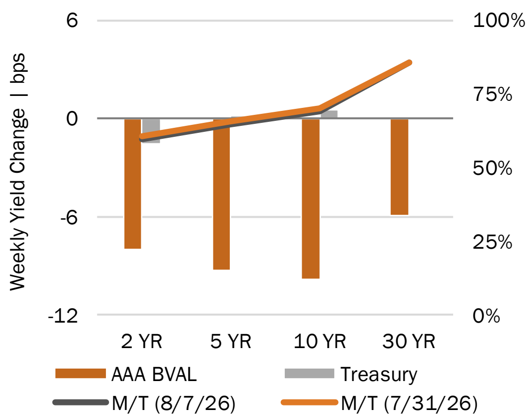
This is exactly why we've continued to emphasize relative value throughout the year. When dislocations create better starting yields and wider ratios, the municipal market has repeatedly demonstrated an ability to correct quickly once buyers step back in.[1] The recent move from above 70% to roughly 69% in 10-year ratios is another example.

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	-0.89%	0.18%	5.03%
Muni Bond 10-Year	-1.88%	-0.81%	5.92%
Muni Bond 15-Year	-2.65%	-0.39%	5.31%
Muni Long Bond	-2.48%	1.43%	1.95%
Muni Managed Money	-2.12%	-0.05%	3.94%

Data as of August 7, 2026.
Source: Bloomberg

FIGURE 2: MUNIS OUTPERFORM



Data as of August 7, 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

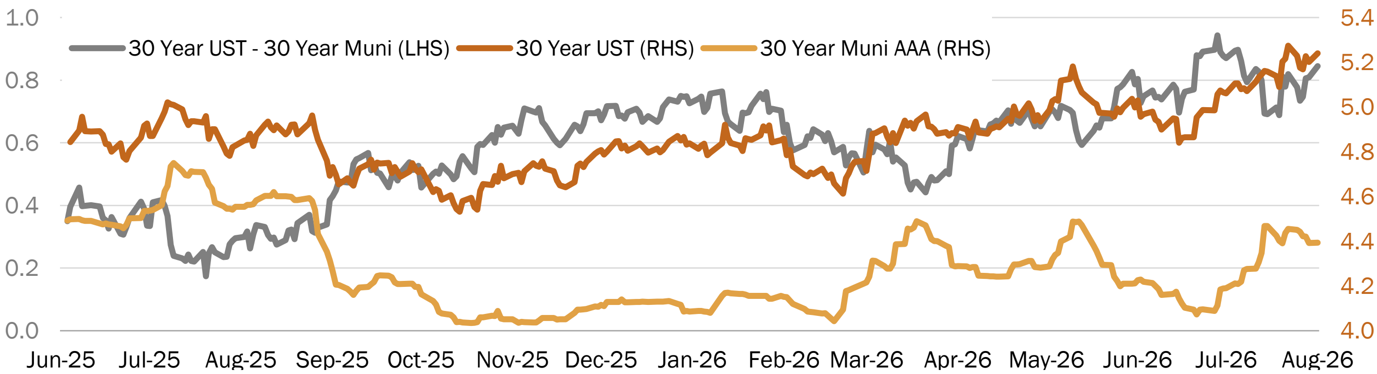
1. Source: Bloomberg

Market Technicals

One of the more interesting stories beneath the surface of the municipal market has been what's happening at the long end of the curve. Since early May, the 30-year Treasury yield has backed up roughly 64 basis points, while the 30-year AAA municipal yield has risen only about 37 basis points. Long rates have clearly been under pressure, but municipals have absorbed only a portion of that move. The result has been significant relative outperformance and a 30-year muni-to-Treasury ratio that remains in the mid-80% range. Put simply, long municipals have been remarkably resilient despite a pretty difficult backdrop for long-duration fixed income.

That distinction matters when investors talk about being afraid of duration. The long end of the Treasury curve is increasingly being driven by factors well beyond Fed policy—inflation, deficits, Treasury supply, term premium and broader fiscal uncertainty. Municipals have many of those same duration characteristics, but they also have their own technical ecosystem, tax-exempt demand and supply dynamics. That insulation has mattered. It doesn't mean long munis can't sell off if Treasury yields continue higher, but the market has already demonstrated that a 50-basis-point move in long Treasuries does not have to translate into a 50-basis-point move in long municipals. For us, that's another reason the longer end remains interesting: you're getting attractive absolute income and curve value without necessarily taking Treasury-for-Treasury volatility.

FIGURE 3: 30 YEAR AAA MUNICIPAL YIELD VS. 30 YEAR TREASURY | (IN BPS)



Data as of August 8, 2026.
Source: Bloomberg

Questions from the Field

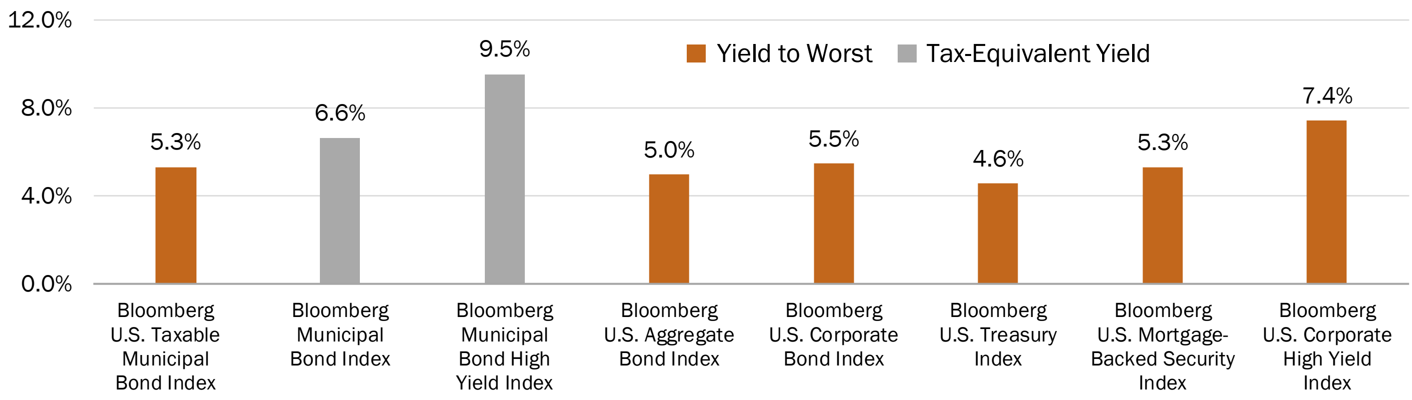
Q If higher rates eventually start to pressure the economy, where do you see the bigger credit risk—municipals or corporates?

A Higher rates affect every fixed income market, but they don't affect every borrower the same way. In a more uncertain macro environment, we think the defensive characteristics of municipal credit become more—not less—important.

For corporations, higher borrowing costs can pressure margins, refinancing costs and ultimately earnings. If growth slows at the same time, that can create a pretty direct path from macro weakness into wider corporate credit spreads.

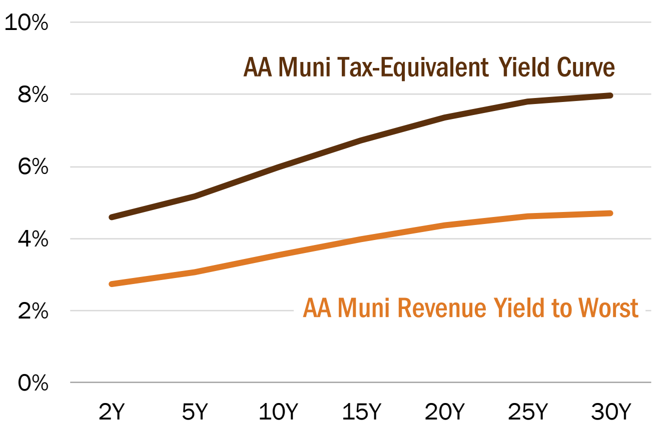
Municipals operate through a different transmission mechanism. Many of the credits we favor are essential-service issuers with dedicated revenue streams and demand that doesn't disappear because GDP slows. Water systems still provide water. Airports still operate. Utilities still provide power. That doesn't make municipal credit immune to a weaker economy, a weaker economy, but in our view, it does provide a degree of insulationThat's why we're spending as much time thinking about **credit resilience as interest-rate direction**. If the macro environment becomes more challenging, owning credits with durable revenues, strong coverage and less sensitivity to the economic cycle becomes increasingly valuable.

INDEX YIELDS



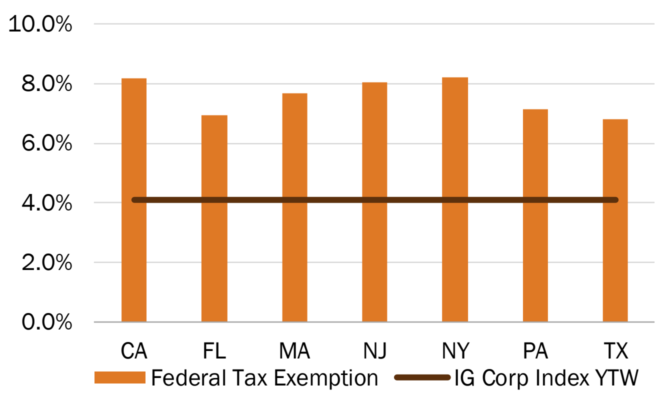
Data as of August 7, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE



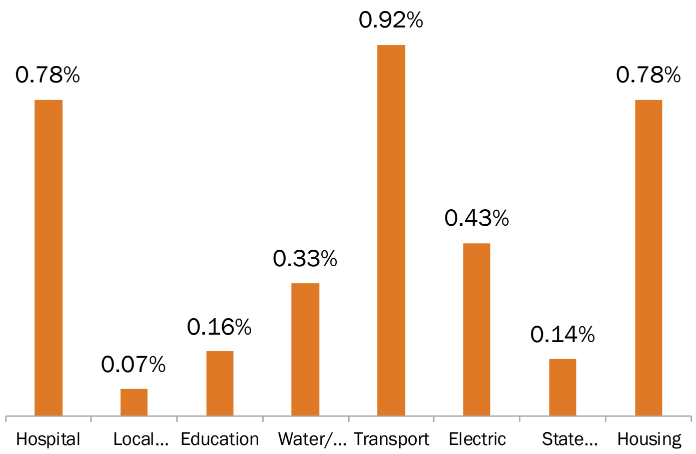
Data as of August 7, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



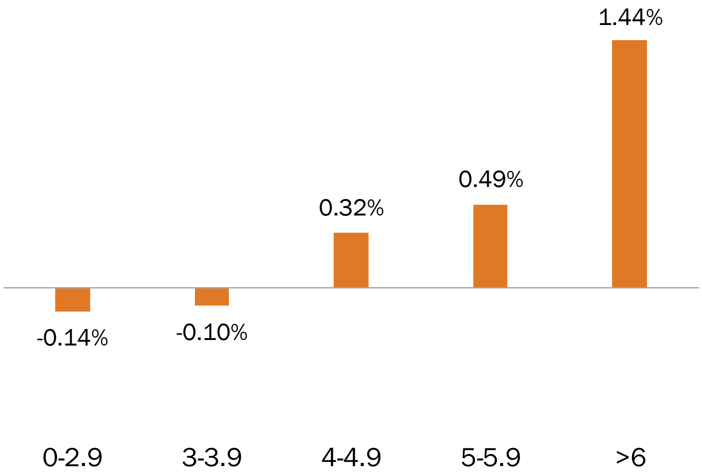
Data as of August 7, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

YTD TOTAL RETURNS BY SECTOR



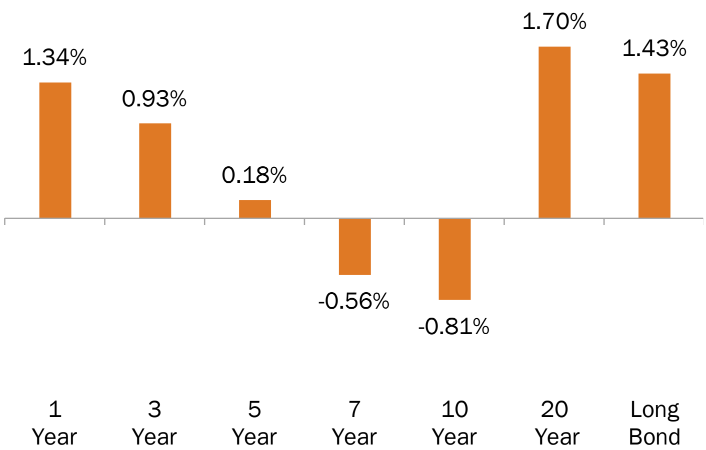
Data as of August 7, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



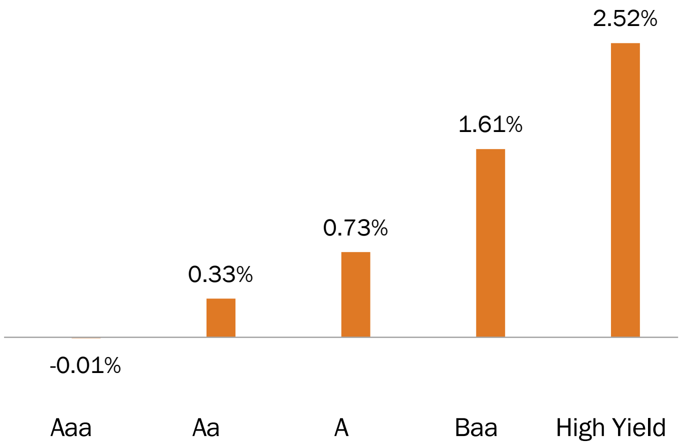
Data as of August 7, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



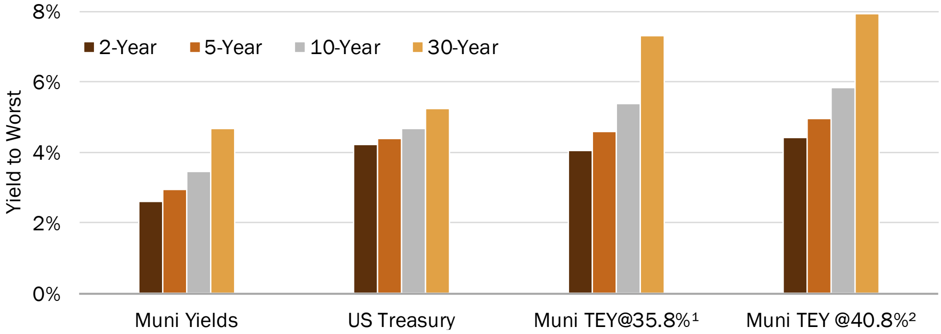
Data as of August 7, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of August 7, 2026
Source: Bloomberg

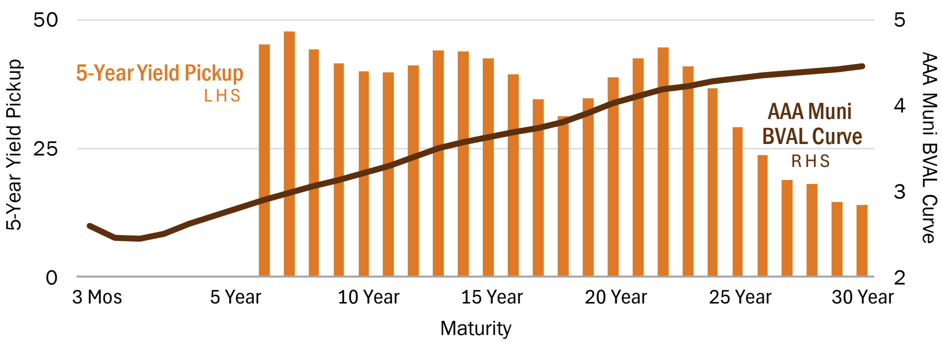
TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX



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 August 7, 2026.
Source: Bloomberg

On a tax-adjusted basis munis handily lead across tenors

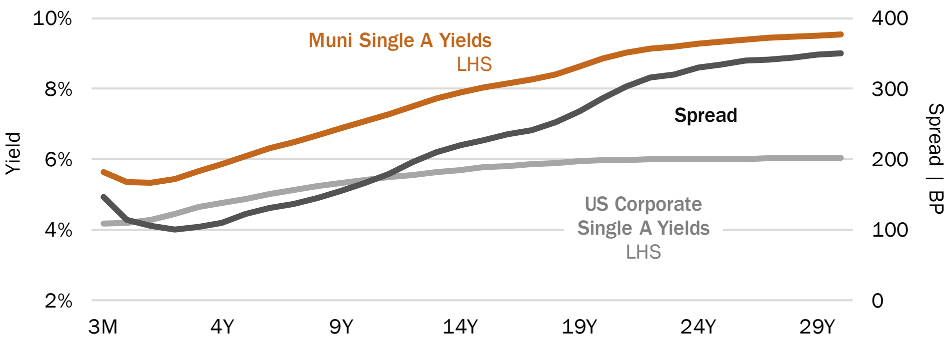
YIELD CURVE STEEPNESS



Data as of August 7, 2026.
Source: Bloomberg

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

MUNI EXCEEDS CORPORATE SPREADS



Data as of August 7, 2026.
Muni Single A Yields: Bloomberg Municipal Bond Index; US Corporate Single A Yields: Bloomberg Corporate Bond Index
Source: Bloomberg

Tax equivalent munis continue to exceed corporate spread/yields

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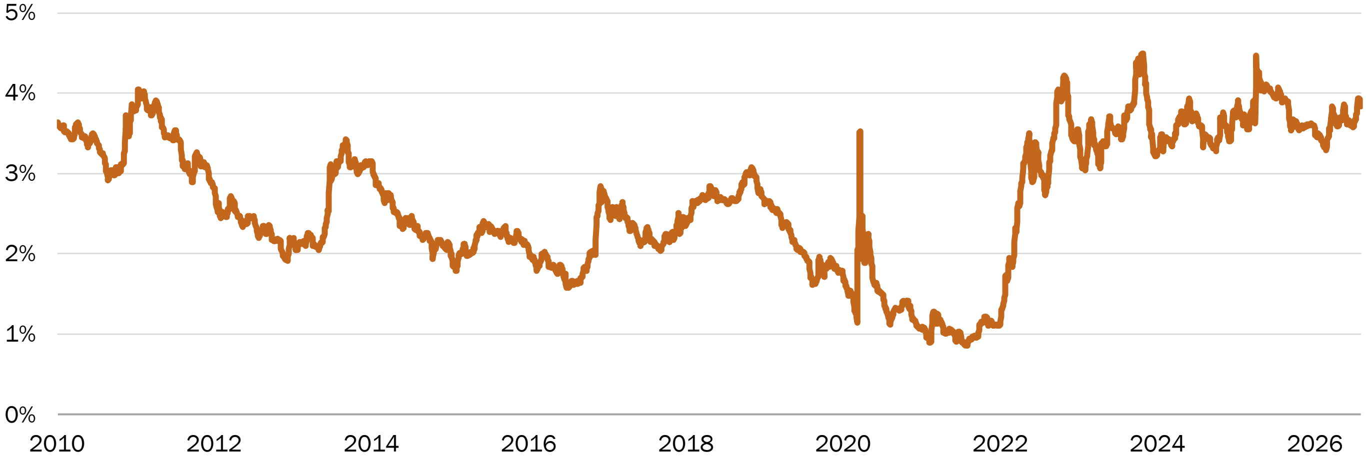
BLOOMBERG MUNICIPAL YIELD-TO-WORST



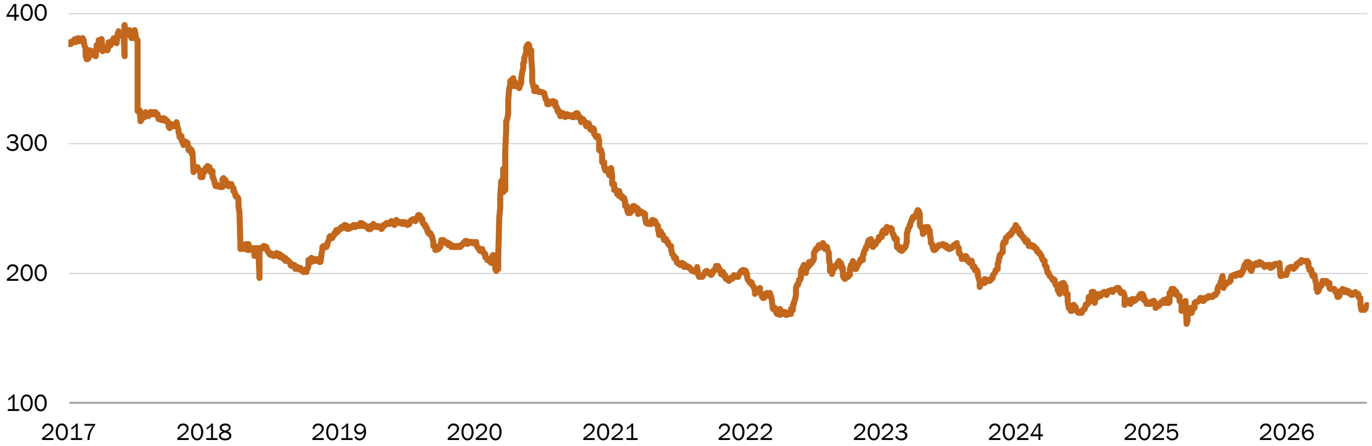
Data as of August 7, 2026
"Post GFC Average" measures the period from 1/1/2010 – 8/7/2026
Source: Bloomberg

MUNI YIELDS

Tenor	8/7/2026	7/31/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.51%	2.60%	-0.09%
5 YEAR	2.81%	2.92%	-0.11%
10 YEAR	3.21%	3.32%	-0.11%
30 YEAR	4.45%	4.51%	-0.06%
US TREASURY RATE YIELDS			
2 YEAR	4.19%	4.28%	-0.09%
5 YEAR	4.35%	4.45%	-0.10%
10 YEAR	4.65%	4.75%	-0.10%
30 YEAR	5.19%	5.27%	-0.08%
US TREASURY & AAA MUNI CURVE SLOPES[1]			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 46 bps	+ 54 bps	+ 100 bps
AAA MUNI CURVE SLOPE	+ 70 bps	+ 124 bps	+ 194 bps

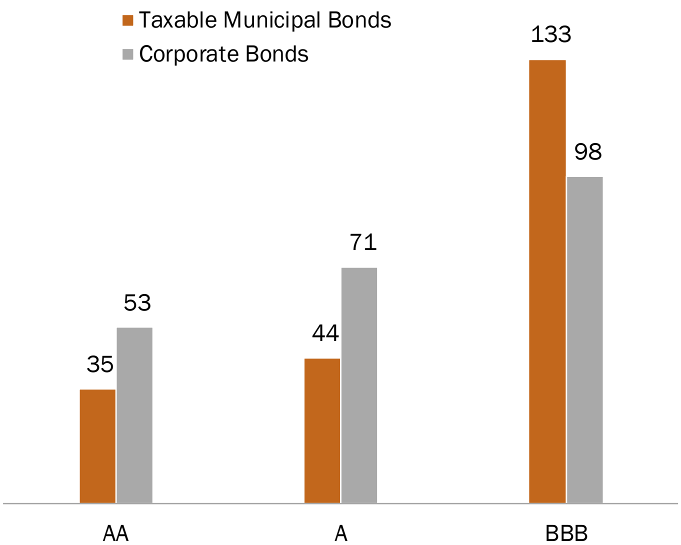
Data as of August 7, 2026
1. 2s10s – is spread between 10yr and 2yr yield; 10s30s – refers to spread between 30yr and 10yr yield; 2s30s – refers to spread between 30yr and 2yr yield
Source: Bloomberg

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of August 7, 2026
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of August 7, 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 may assist them in meeting specific income requirements even in adverse 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
The Bloomberg US 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 US Treasury Total Return Unhedged
The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.