MacKay Municipal Managers™
MMM Weekly Monitor

AUGUST 18, 2026

Active Making its Case for Munis

KEY TAKEAWAYS

- Munis Outperform on Long End
- Active vs. Passive
- Volatility Creates Opportunity

Relative Performance

Municipals were relatively quiet last week, even as Treasuries saw a much larger move at the front end of the curve. AAA BVAL yields declined just 1.5 bps in 2s, 1 bp in 5s, and less than 1 bp in 10s, with the 30-year essentially unchanged. Treasuries, by comparison, rallied nearly 8 bps in 2s and 5 bps in 5s, while 10s were little changed and 30-year yields actually rose roughly 2.5 bps.[1]

That produced an interesting relative performance story. The 2-year muni-to-Treasury ratio was essentially unchanged at 59.82%, while the 5-year ratio richened modestly to 64.22%. Further out, municipals outperformed more meaningfully, with the 10-year ratio declining 0.8 points to 68.24% and the 30-year ratio richening nearly a full point to 84.59%.[1]

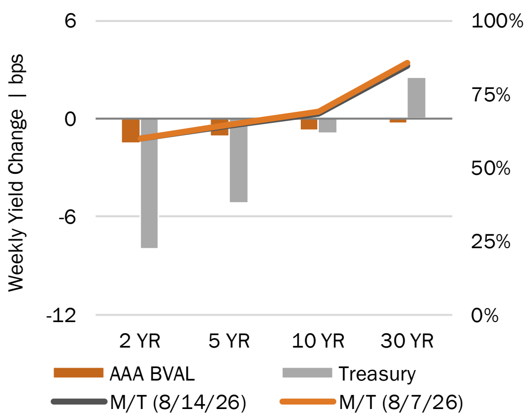
The bigger takeaway continues to be the resilience of the long end. Treasuries experienced another curve-shaping move, with front-end yields rallying while long rates moved higher. Municipals largely ignored it. That's becoming an increasingly important theme: Fed expectations may move the front end, but they aren't dictating the entire municipal curve.

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	0.76%	0.94%	5.03%
Muni Bond 10-Year	1.00%	0.19%	5.92%
Muni Bond 15-Year	0.83%	0.44%	5.31%
Muni Long Bond	0.77%	2.22%	1.95%
Muni Managed Money	0.81%	0.76%	3.94%

Data as of August 14, 2026.
Source: Bloomberg

FIGURE 2: MIXED PERFORMANCE



Data as of August 14, 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

The active versus passive debate isn't new, but municipals have always been a little different. This is still a fragmented, credit-driven market where curve positioning, security selection, structure, taxes and liquidity can matter just as much as the direction of rates. That creates a much different playing field than simply owning an index.

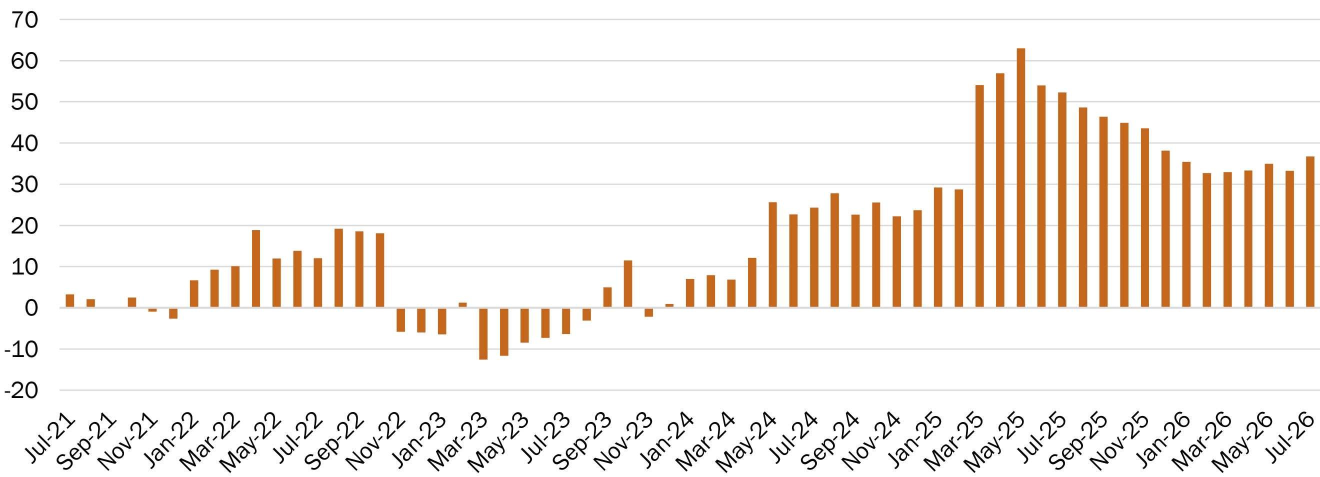
The results so far in 2026 are a good example. Looking across intermediate-term municipal mutual funds and ETFs through July 31, active strategies returned approximately 0.43% year-to-date versus essentially 0% for passive strategies. One year doesn't prove the case for active management, but the longer-term results are even more interesting. On a rolling five-year basis, active intermediate muni strategies have outperformed passive roughly 80% of the time.[1]

Why does that matter today? Because the opportunity set isn't evenly distributed. We've spent much of this year talking about the same thing: In our view there are portions of the front end that are crowded by SMA and passive demand, whereas the longer intermediate curve, BBB credit has provided more attractive risk compensation than other parts of the quality spectrum, and individual structures can behave very differently even when the bonds carry similar ratings. An index doesn't ask whether it's being adequately compensated for owning a bond. It owns the bond because the methodology tells it to.

That's really the distinction. Active management isn't about making a heroic call on rates or trying to beat the market every month. It's about having more ways to potentially generate a better outcome—moving along the curve when valuations change, allocating credit risk where you're actually being paid for it, avoiding credits where you're not, harvesting losses when volatility creates the opportunity, and taking advantage of a market where pricing inefficiencies still exist.

The first seven months of 2026 have been a pretty good laboratory for that argument. We've had changing Fed expectations, geopolitical volatility, major moves in Treasury yields, heavy issuance and meaningful changes in the shape of the municipal curve. In that type of market, we believe flexibility has value.

FIGURE 3: ACTIVE MANAGER EXCESS RETURN ROLLING ANNUALIZED 5-YEAR PERIODS JULY 2016 — JULY 2026 | (IN BPS)



Data as of August 14, 2026.
Source: Bloomberg

1. Source: Morningstar - For further information, please see index descriptions at the end of this presentation
Active: Morningstar U.S. Active Fund Muni National Intermediate
Passive: Morningstar U.S. Passive Fund Muni National Intermediate

Questions from the Field

Q After all of the volatility we've seen this summer, has your overall view of the municipal market changed?

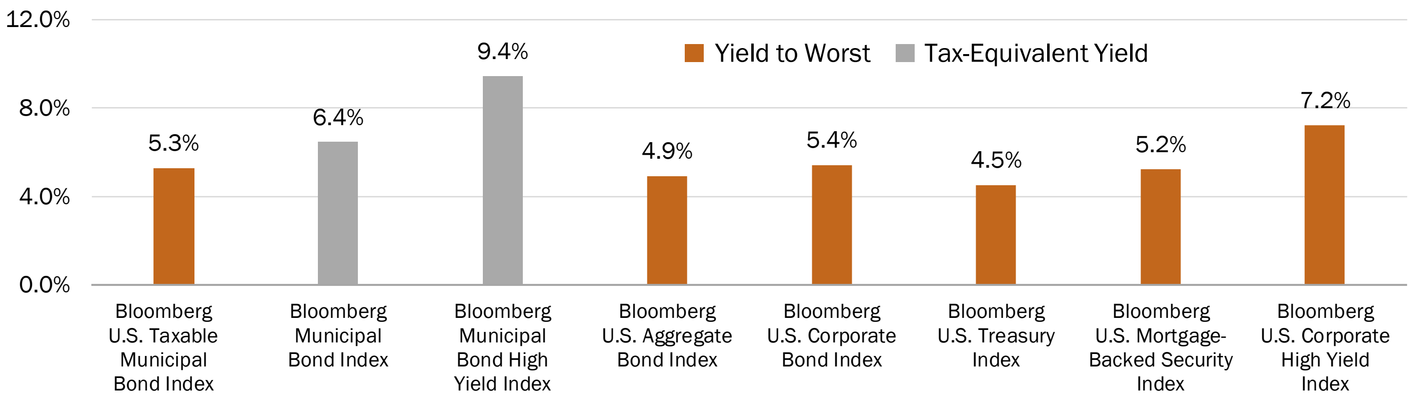
A Not really. If anything, the volatility has improved the opportunity set.

Yields have reset higher, tax-equivalent income remains compelling, and we've seen relative value return to parts of the market that had become expensive earlier in the year. At the same time, municipal credit fundamentals remain broadly healthy and demand for tax-exempt income continues to provide a strong technical underpinning.

What has changed is that the market is becoming more selective. Not every part of the curve offers the same value, and not every additional step in credit risk is being compensated equally. That's where we think investors need to spend their time.

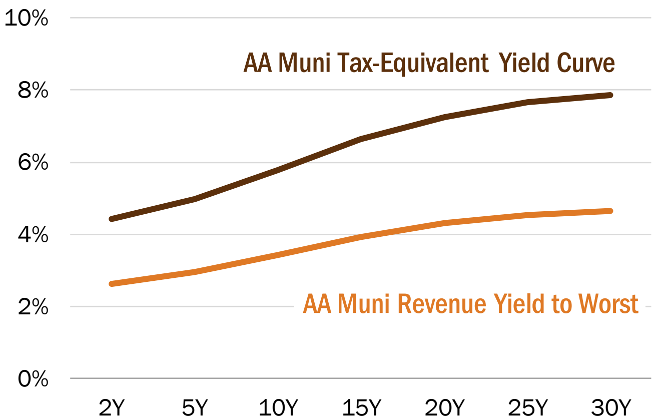
The other important point is that you don't need a perfect rate forecast to make the case for municipals today. Starting yields are doing much more of the work, which gives investors a larger income cushion if volatility continues.

INDEX YIELDS



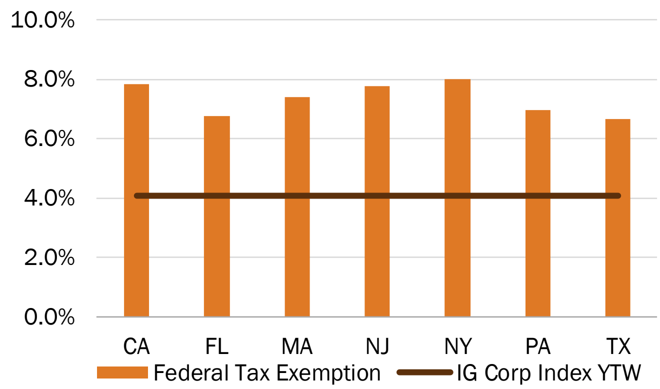
Data as of August 14, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE



Data as of August 14, 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 14, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

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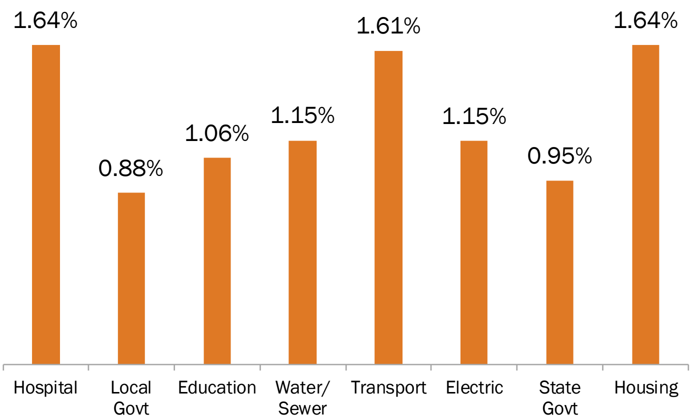
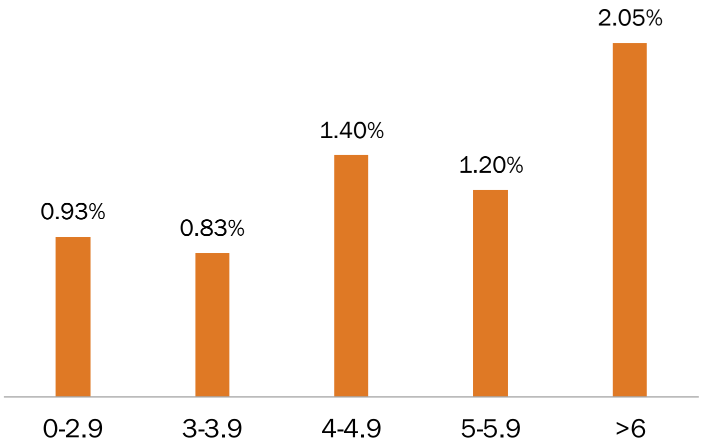
YTD TOTAL RETURNS BY SECTOR



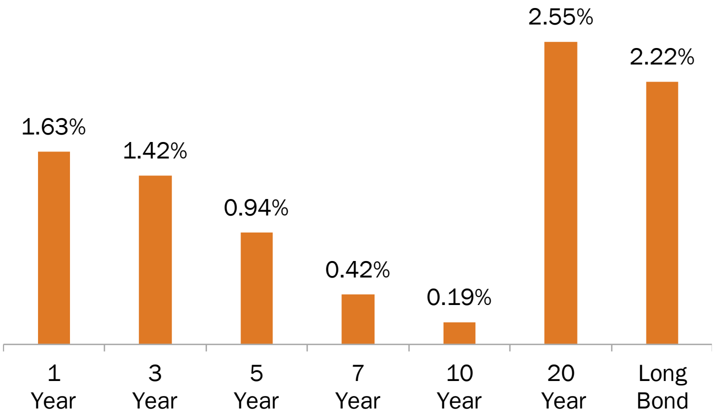
Data as of August 14, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



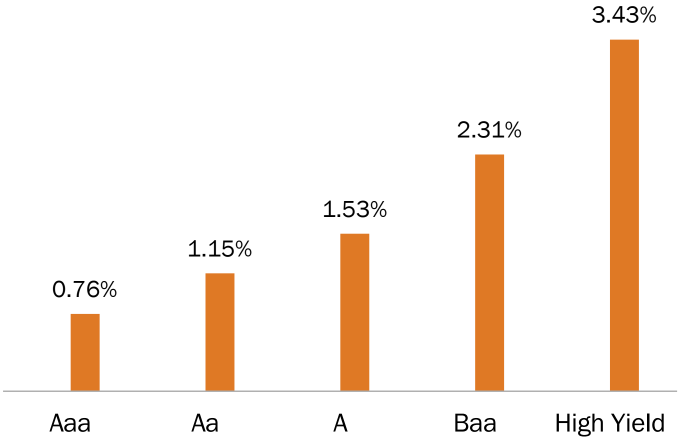
Data as of August 14, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



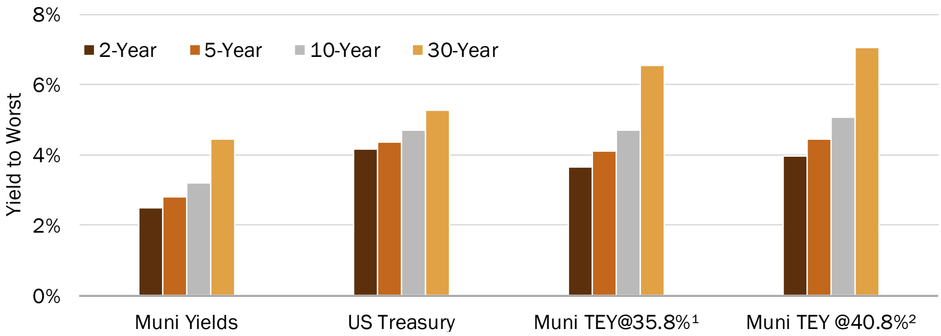
Data as of August 14, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of August 14, 2026
Source: Bloomberg

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

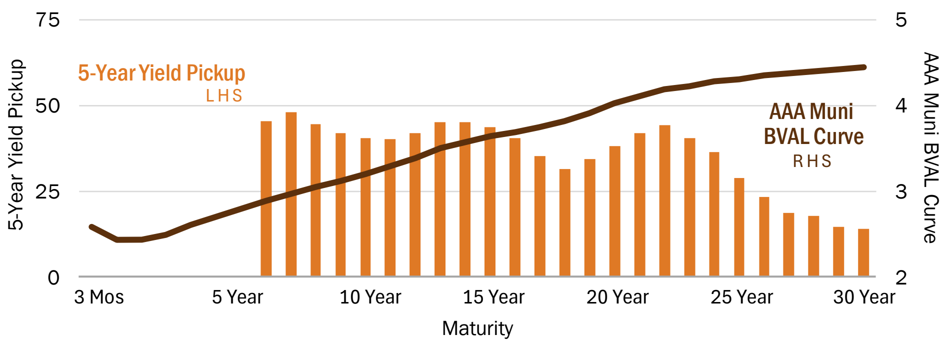


1. Tax Equivalent Yield is using 32% federal tax rate, including 3.8% Net Investment Income Tax.
2. Tax Equivalent Yield is using 37% federal tax rate, including 3.8% Net Investment Income Tax.

Data as of August 14, 2026.
Source: Bloomberg

On a tax-adjusted basis munis handily lead across tenors

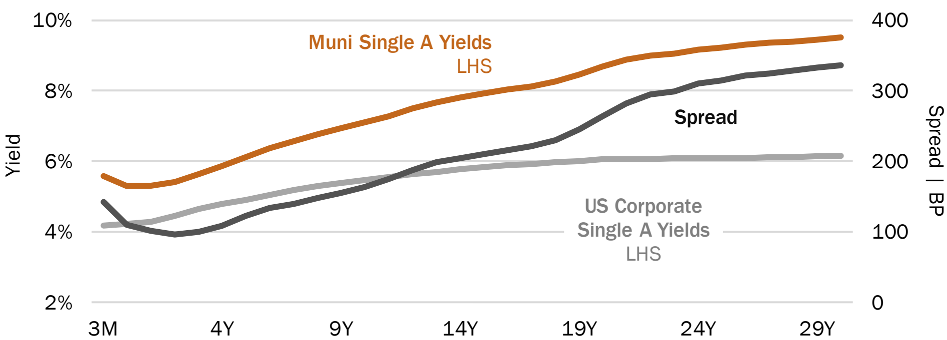
YIELD CURVE STEEPNESS



Data as of August 14, 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 14, 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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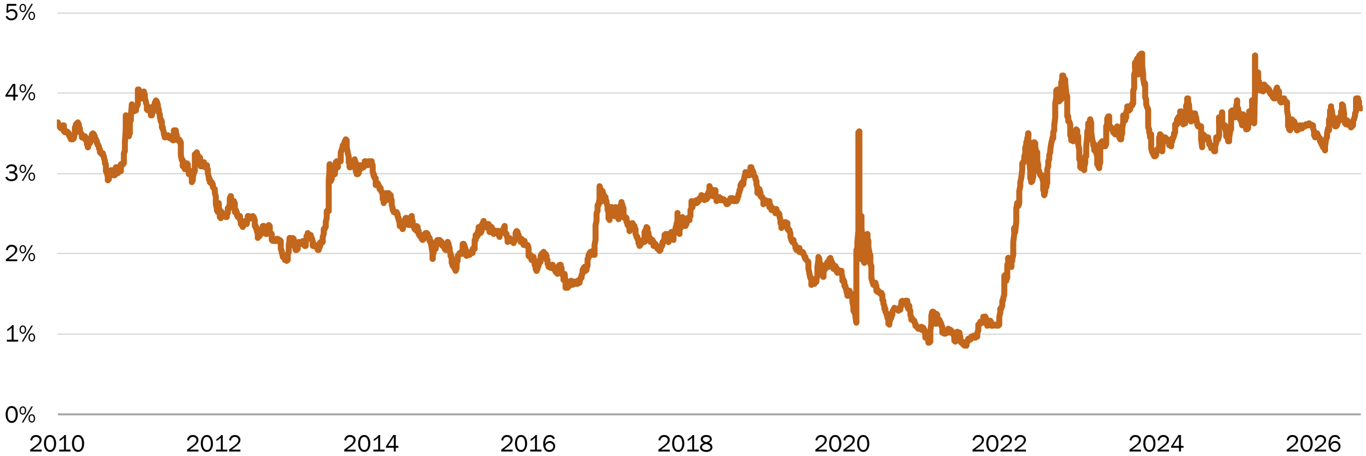
BLOOMBERG MUNICIPAL YIELD-TO-WORST



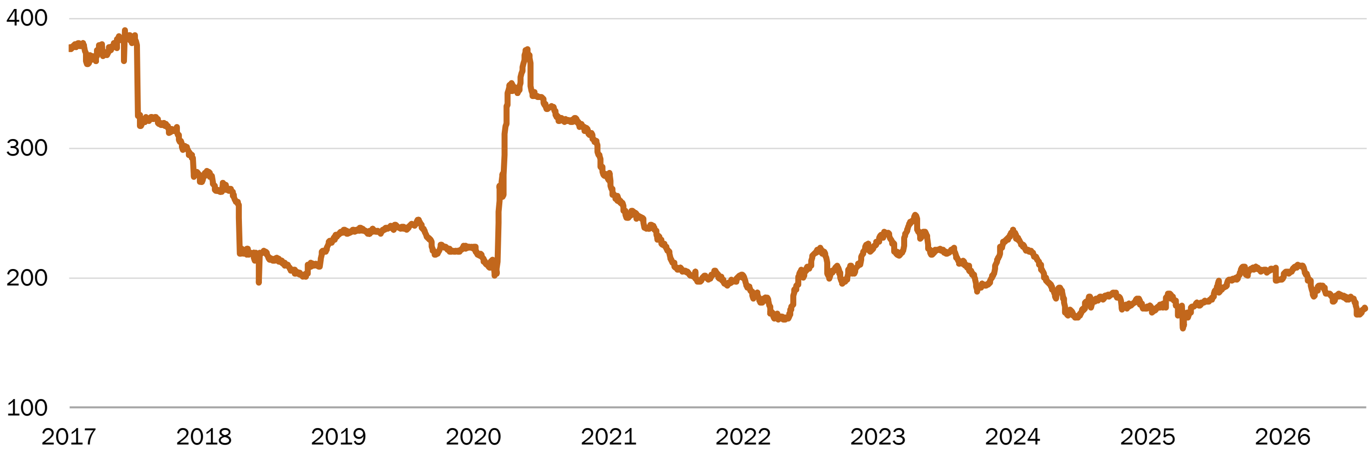
Data as of August 14, 2026
"Post GFC Average" measures the period from 1/1/2010 – 8/7/2026
Source: Bloomberg

MUNI YIELDS

Tenor	8/14/2026	8/7/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.49%	2.51%	-0.01%
5 YEAR	2.80%	2.81%	-0.01%
10 YEAR	3.20%	3.21%	-0.01%
30 YEAR	4.45%	4.45%	0.00%
US TREASURY RATE YIELDS			
2 YEAR	4.17%	4.19%	-0.02%
5 YEAR	4.36%	4.35%	0.01%
10 YEAR	4.68%	4.65%	0.03%
30 YEAR	5.25%	5.19%	0.06%
US TREASURY & AAA MUNI CURVE SLOPES[1]			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 51 bps	+ 57 bps	+ 108 bps
AAA MUNI CURVE SLOPE	+ 71 bps	+ 125 bps	+ 196 bps

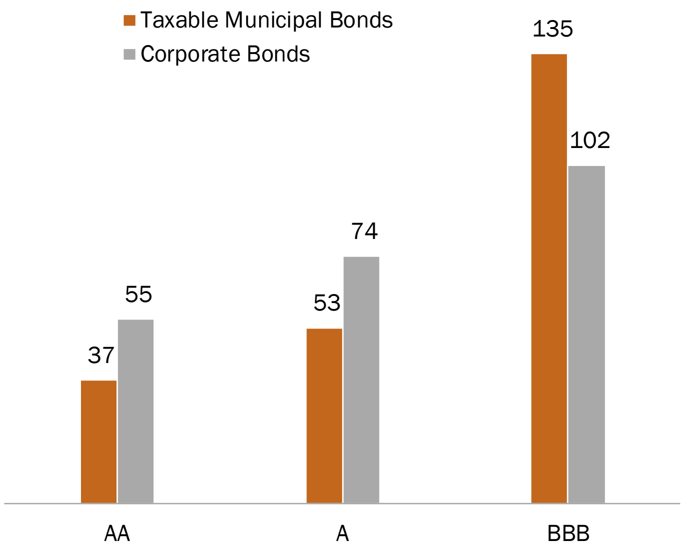
Data as of August 14, 2026
1. 2s10s – is spread between 10yr and 2yr yield; 10s30s – refers to spread between 30yr and 10yr yield; 2s30s – refers to spread between 30yr and 2yr yield
Source: Bloomberg

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of August 14, 2026
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



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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.

Morningstar U.S. Active Fund Muni National Intermediate

The Morningstar U.S. Active Fund Muni National Intermediate category contains mutual funds and exchange-traded funds (ETFs) that primarily invest in investment-grade municipal bonds issued by state and local governments with durations typically ranging between 4.5 and 7 years. Because they are actively managed, the fund managers dynamically adjust credit exposure, interest rate sensitivity, and yield curve positioning rather than tracking a static index.

Morningstar U.S. Passive Fund Muni National Intermediate

The Morningstar U.S. Passive Fund Muni National Intermediate category includes intermediate-term national municipal bond portfolios that invest in tax-exempt debt issued by state and local governments. Passive options and index ETFs in this group track broad municipal indexes to offer low-cost, tax-free income with moderate interest-rate risk.