MacKay Municipal Managers™
MMM Weekly Monitor

AUGUST 4, 2026

Munis Get Back to Historical Business

KEY TAKEAWAYS

- Mixed Performance
- Curve Continues to Normalize
- Municipal Credit Quality

Relative Performance

Municipals experienced another modest selloff last week, although the relative story varied considerably across the curve. AAA BVAL yields rose 1 bp in 2s, 3 bps in 5s and 10s, and roughly 2.5 bps in 30s. Treasury yields, meanwhile, experienced a mixed week, with the 2-year yield falling nearly 7 bps following the FOMC meeting and softer labor market data, while the 30-year Treasury yield rose more than 9 bps as investors continued to price in long-term fiscal and inflation concerns.[1]

The divergence produced a mixed picture for muni-to-Treasury ratios. Front-end ratios cheapened modestly, with the 2-year ratio rising 0.9 points to 60.90% and the 5-year ratio edging higher to 65.91% as short Treasuries rallied more than municipals. Further out the curve, municipals held in better than Treasuries. The 10-year ratio improved modestly to 70.47%, while the 30-year ratio richened nearly two points to 85.89%, reflecting the municipal market's relative resilience during the long-end Treasury selloff. [1]

The move reinforces one of the themes we've highlighted throughout the year: municipals are increasingly trading on their own technicals rather than simply following every move in the Treasury market. Strong reinvestment demand and disciplined new issuance continue to provide an important anchor for tax-exempt valuations, particularly in longer maturities where investor demand has remained consistent.

From a positioning standpoint, the week's steepening further supports our constructive view on the longer end of the municipal curve. While front-end rates remain heavily influenced by changing Fed expectations, longer-dated municipals continue to benefit from attractive carry, favorable roll-down characteristics, and a technical backdrop that has remained surprisingly resilient despite ongoing macro volatility.

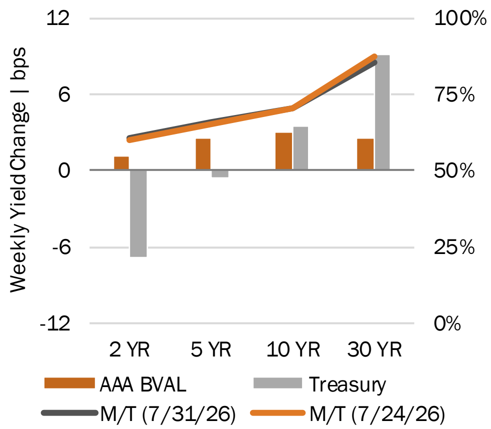
1. Source: Bloomberg

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 July 31, 2026.
Source: Bloomberg

FIGURE 2: MUNIS UNDERPERFORM



Data as of July 31, 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

As the municipal curve continues to normalize, we believe intermediate and longer intermediate maturities remain among the most attractive places to deploy capital, not because we're making a rate call, but because the curve is once again paying investors to own them.

One of the more underappreciated developments this year has been the changing shape of the municipal yield curve. For years, investors operated in a market where the front end of the curve offered very little income advantage for extending duration. Today, that's beginning to change.

The table below highlights the evolution of the AAA municipal curve relative to the 30-year maturity. Compared with year-end, the curve has steepened meaningfully from 5 years through 15 years, while ratios remain broadly consistent with longer-term averages. Most notably, the 10-year/30-year ratio has increased from roughly 66% at the start of the year to over 74% today, essentially returning to its five-year average.

This is important, because investors are once again being compensated for moving further out the curve.

Earlier in the year, one of our highest-conviction themes was favoring the 12–22 year portion of the curve. Our thesis wasn't based on a rate call, it was based on structure. We believed investors would be rewarded through a combination of carry, roll-down, and a less crowded part of the market. That thesis has largely played out, but the opportunity hasn't disappeared., and if anything, the recent backup in yields has reinforced it.

Today's curve offers a much healthier balance between income and duration than we've seen in several years. Investors no longer have to stretch all the way into the longest maturities to pick up meaningful incremental yield, nor are they forced to crowd into the front end where passive mandates and SMA demand continue to dominate.

FIGURE 3: AAA MUNICIPAL CURVE RELATIVE TO THE 30-YEAR MATURITY | (IN %)

	Recent 8/3/2026	Last Week 7/27/2026	Last Year-End 12/31/2025	5 Year Average	Recent vs. 5 Year Average
2 Yr / 30 Yr	57.75	57.82	58.67	65.60	-7.86
5 Yr / 30 Yr	64.66	64.44	57.34	65.82	-1.16
10 Yr / 30 Yr	73.87	73.63	65.61	73.21	0.66
15 Yr / 30 Yr	81.75	81.34	78.87	84.07	-2.32
20 Yr / 30 Yr	90.89	90.75	94.18	92.85	-1.96

Source: Bloomberg

Questions from the Field

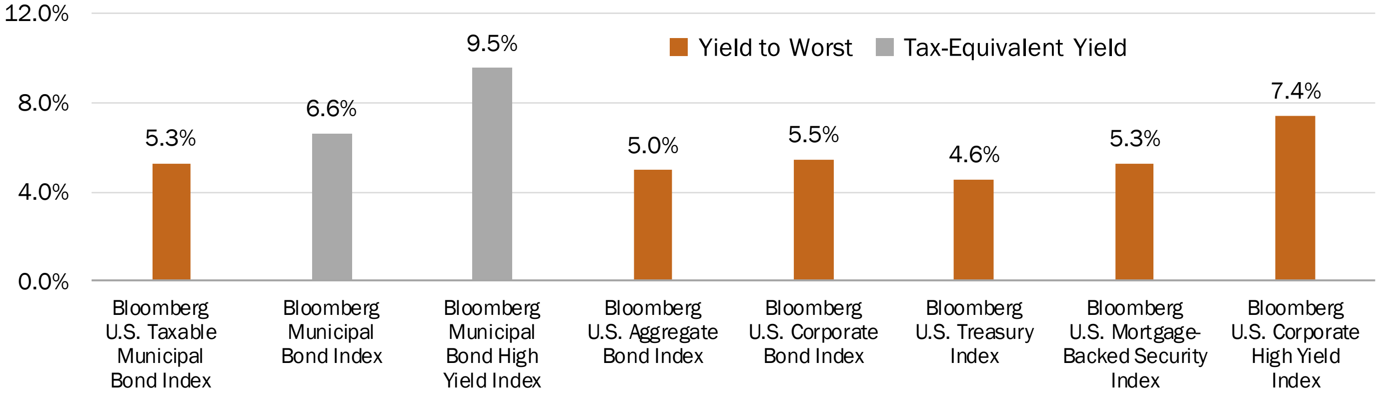
Q If the Fed ends up raising rates later this year, should municipal investors be concerned?

A Concerned? No. Prepared? Absolutely. The first thing we would point out is that markets typically price expectations well before the Fed acts. We've seen that repeatedly over the last several years. By the time the Fed actually moves, a meaningful portion of that adjustment has often already occurred in the Treasury market.

More importantly, not every part of the municipal curve responds the same way to Fed policy. The Fed has the greatest influence on overnight rates and the front end of the curve. Longer maturities are driven much more by inflation expectations, economic growth, fiscal policy and investor demand.

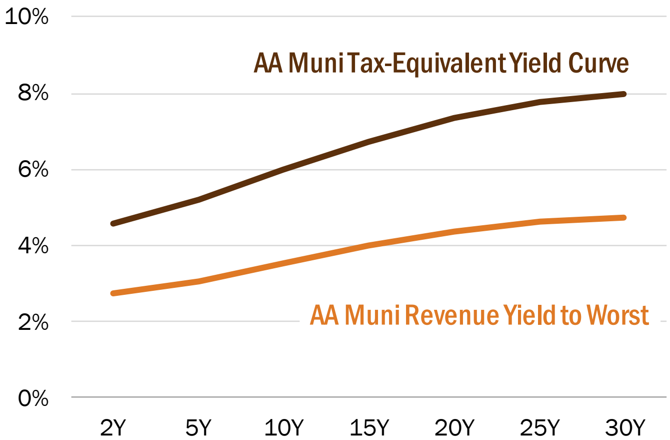
That's one of the reasons we've continued to emphasize the intermediate and longer portions of the municipal curve. Investors today are being compensated with higher starting yields, attractive carry and favorable roll-down. Those characteristics don't disappear simply because the Fed moves 25 basis points. In fact, higher starting yields have historically been one of the best predictors of forward returns in fixed income. While no one enjoys near-term price volatility, today's yield environment provides a much larger income cushion than investors had during prior rate cycles.

INDEX YIELDS



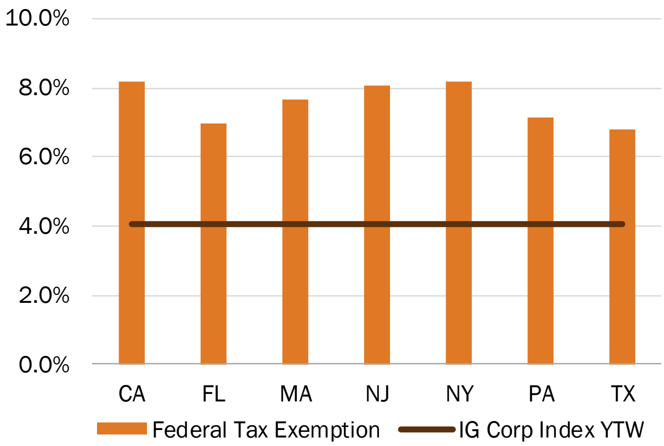
Data as of July 24, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE



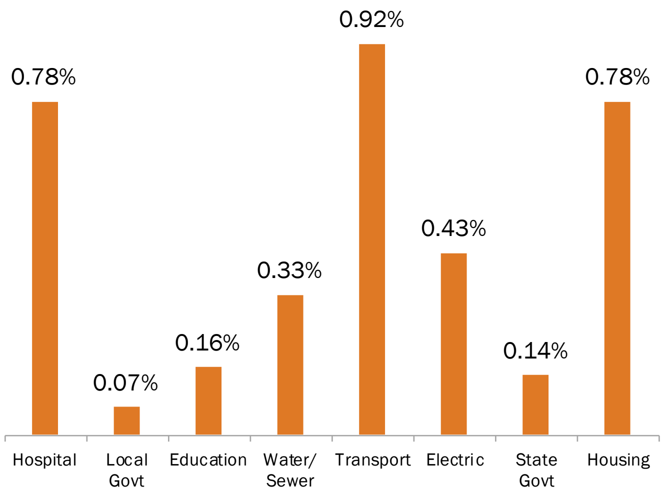
Data as of July 31, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



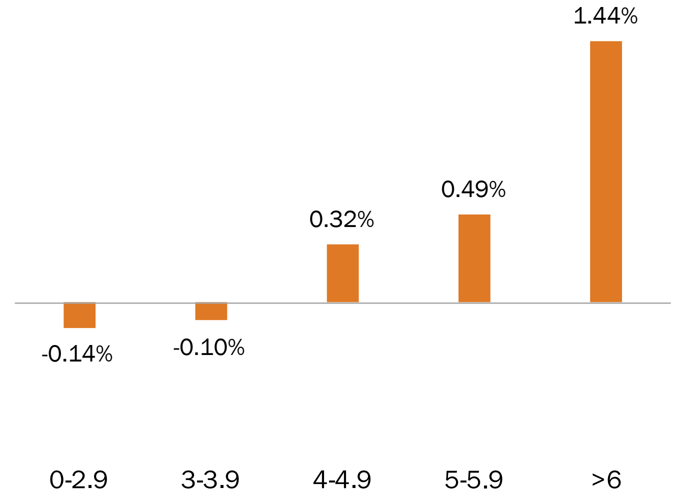
Data as of July 31, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

YTD TOTAL RETURNS BY SECTOR



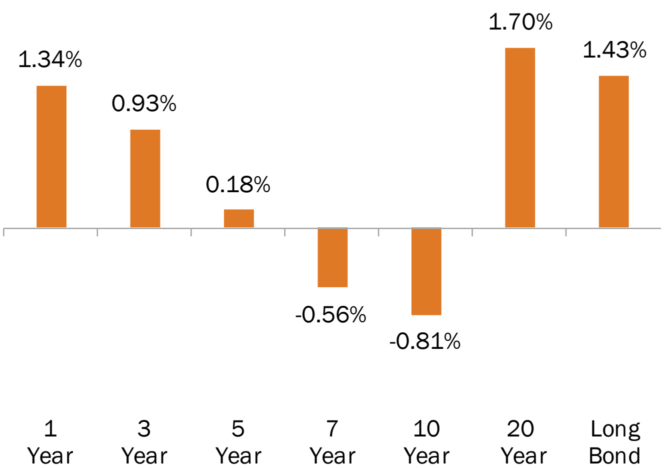
Data as of July 31, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



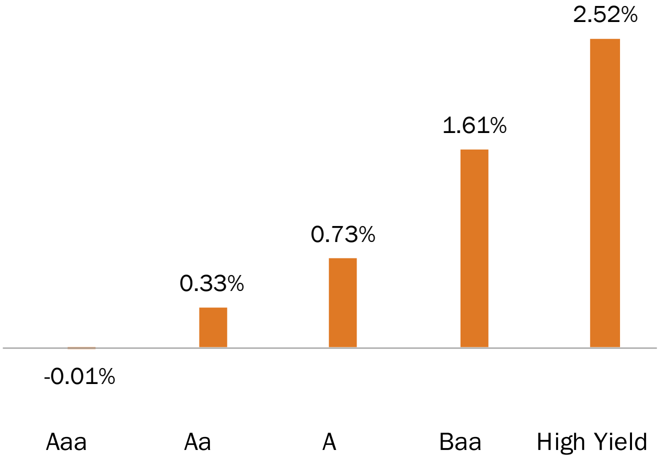
Data as of July 31, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



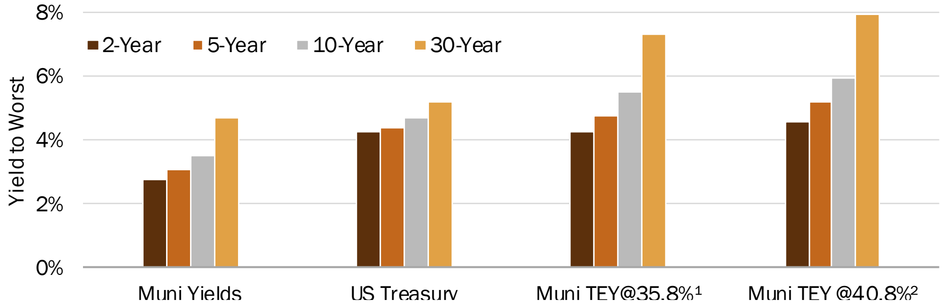
Data as of July 31, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of July 31, 2026
Source: Bloomberg

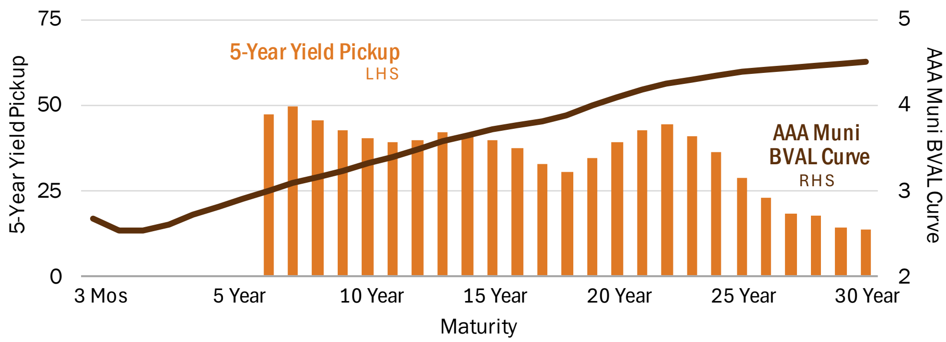
TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX



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 July 31, 2026.
Source: Bloomberg

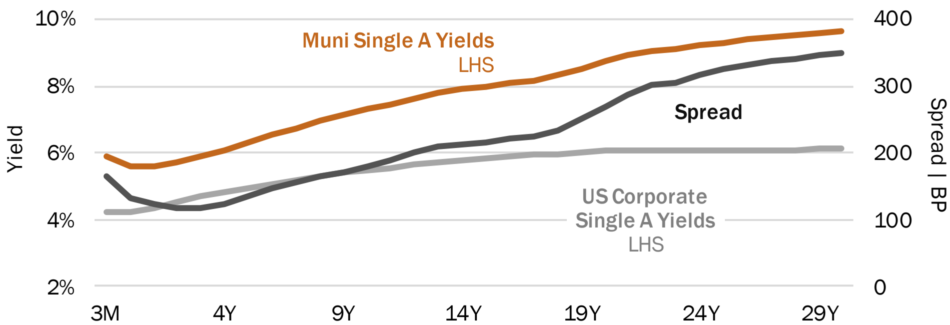
YIELD CURVE STEEPNESS



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

Data as of July 31, 2026.
Source: Bloomberg

MUNI EXCEEDS CORPORATE SPREADS



Tax equivalent munis continue to exceed corporate spread/yields

Data as of July 31, 2026.
Muni Single A Yields: Bloomberg Municipal Bond Index; US Corporate Single A Yields: Bloomberg Corporate Bond Index
Source: Bloomberg

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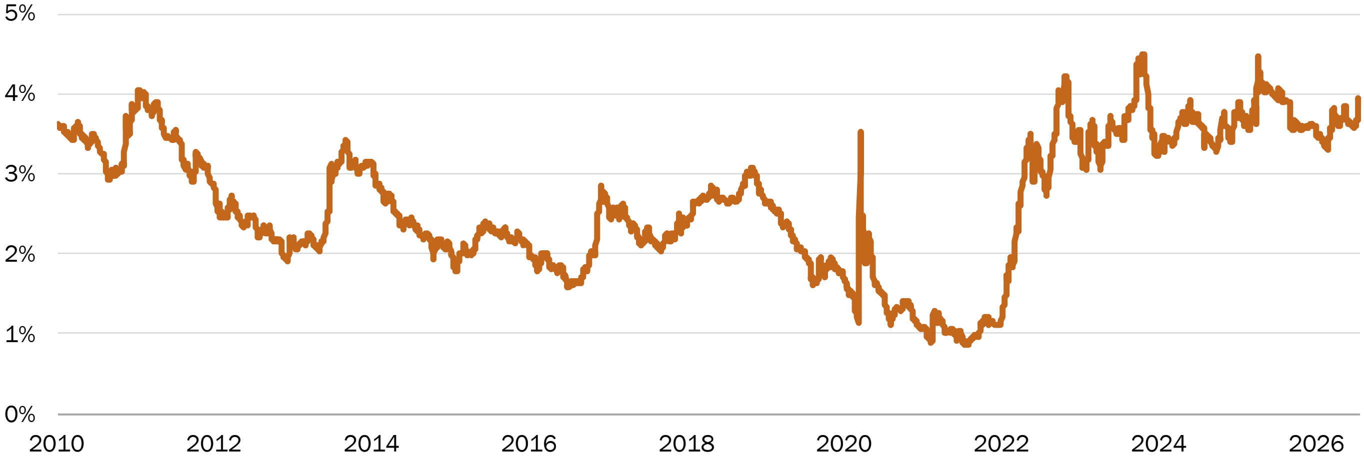
BLOOMBERG MUNICIPAL YIELD-TO-WORST



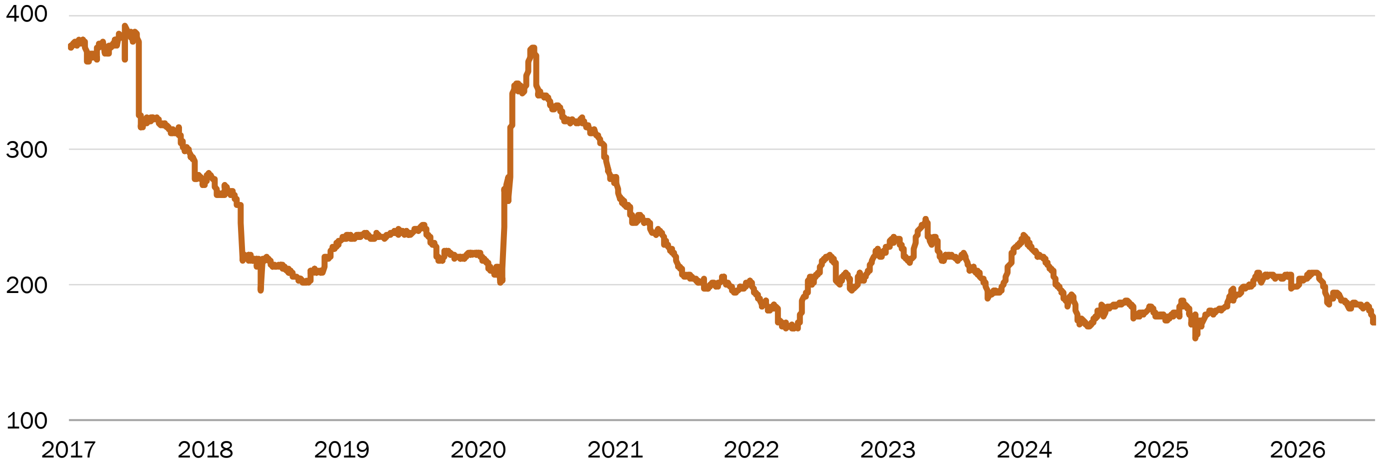
Data as of July 31, 2026
"Post GFC Average" measures the period from 1/1/2010 – 7/31/2026
Source: Bloomberg

MUNI YIELDS

Tenor	7/31/2026	7/24/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.60%	2.60%	0.00%
5 YEAR	2.92%	2.90%	0.02%
10 YEAR	3.32%	3.31%	0.01%
30 YEAR	4.51%	4.53%	-0.01%
US TREASURY RATE YIELDS			
2 YEAR	4.28%	4.33%	-0.05%
5 YEAR	4.45%	4.43%	0.02%
10 YEAR	4.75%	4.69%	0.06%
30 YEAR	5.27%	5.16%	0.11%
US TREASURY & AAA MUNI CURVE SLOPES[1]			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 36 bps	+ 47 bps	+ 83 bps
AAA MUNI CURVE SLOPE	+ 71 bps	+ 121 bps	+ 192 bps

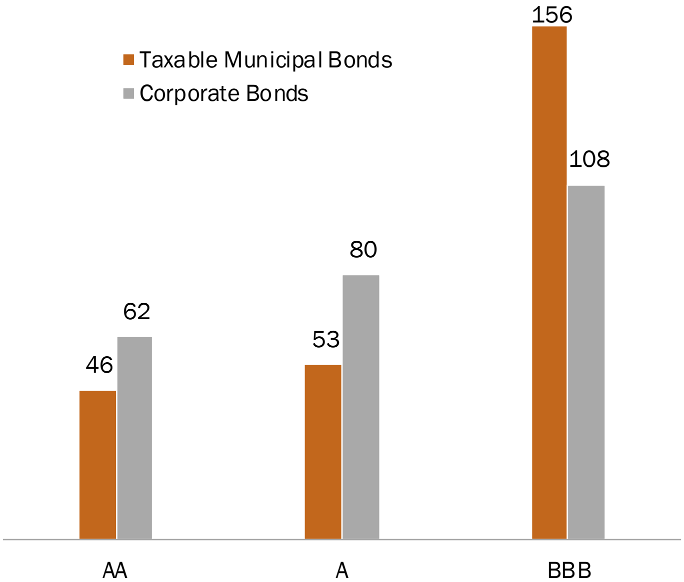
Data as of July 31, 2026
1. 2s10s – is spread between 10yr and 2yr yield; 10s30s – refers to spread between 30yr and 10yr yield; 2s30s – refers to spread between 30yr and 2yr yield
Source: Bloomberg

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of July 31, 2026
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of July 31, 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.