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Warshing Out of Cash: Positioning Munis for the Next Curve Regime

- Municipals pull further ahead from winter norms
- Positioning munis for the next Fed era
- Munis as a safe(r) haven

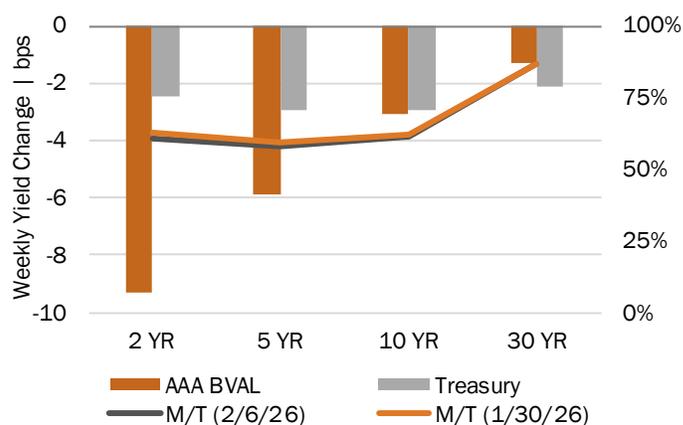
Relative Performance

Municipals delivered another strong week, outperforming Treasuries across most of the curve as tax-exempt yields declined meaningfully amid a broader rates rally. AAA BVAL yields fell sharply at the front end, declining roughly 9 bps in 2s and nearly 6 bps in 5s, while intermediate and long yields were down 3 bps in 10s and just over 1 bp in 30s. Treasury yields also moved lower but to a lesser degree, falling roughly 2–3 bps across most maturities, resulting in clear relative outperformance for municipals. (See Figure 1)

The rally drove notable ratio richening, particularly in the front and intermediate portions of the curve. The 2-year muni-to-Treasury ratio declined more than two points week-over-week to 60.74%, while the 5-year ratio fell just over one point to 58.10%. The 10-year ratio also moved modestly richer, declining roughly 0.3 points to 61.64%. The long end was largely unchanged, with the 30-year ratio edging slightly higher to 86.53%. Despite the week's gains, ratios remain well inside longer-term averages.

From a performance standpoint, municipals continue to build on a solid start to 2026, with the Bloomberg Municipal Bond Index up approximately 30 bps month-to-date. For context, February has historically been a very modest return month for the asset class, with a 20-year average gain of just 2 bps, underscoring the strength of the recent performance. Returns have been supported by a constructive technical backdrop, including steady reinvestment demand, declining yields, and favorable relative value versus taxable alternatives.

FIGURE 1: MUNIS OUTPERFORM



Data as of February 6, 2026. Spot Muni, Spot AA rates
Source: Bloomberg

Looking ahead, attention turns back to supply dynamics. Municipal issuance is set to pick up meaningfully next week, with new issue volume approaching \$13 billion. Even with the heavier calendar, year-to-date issuance totals roughly \$45 billion¹, representing a 3.9% decline versus the same period in 2025. We believe the combination of lower year-over-year supply and ongoing reinvestment demand should help the market absorb the upcoming calendar without materially disrupting technicals.

¹ Bloomberg



Market Technicals

FED FRAMEWORK, CURVE SHAPE, AND WHY CASH IS GETTING RISKIER

Kevin Warsh’s policy outlook is best understood as a blend of tactical dovishness and structural restraint. He appears comfortable easing policy when conditions warrant, but far less comfortable with a Federal Reserve that leans heavily on balance-sheet expansion to manage economic outcomes. That distinction matters for fixed income broadly—and for municipals in particular.

Warsh’s views have also evolved over time. Earlier in his career, including during his tenure at the Fed, he leaned more traditionally hawkish. More recently, his framework has emphasized delivering accommodation through rate cuts rather than balance-sheet support. In practice, that means stepping back from the long end of the market while preserving flexibility to ease policy without overstimulating inflation—even if longer-term yields are allowed to drift higher.

WHAT THIS MEANS FOR THE CURVE

That framework naturally supports a steeper yield curve. While the municipal curve is no longer extremely flat, it remains somewhat compressed relative to longer-term averages. Currently, the 2s/10s curve sits around 46 bps, while the 2s/30s slope near 203 bps is closer to historical norms,² though still slightly below them. Importantly, most of the steepness remains concentrated in the long end, leaving the belly relatively underdeveloped.

With muni ratios already attractive in less crowded parts of the curve—and a Fed chair philosophically inclined to reduce

balance-sheet intervention—the setup favors further steepening. From an active management perspective, this is constructive: additional slope enhances roll-down and allows carry to play a more meaningful role in total return outcomes. (See Figure 2)

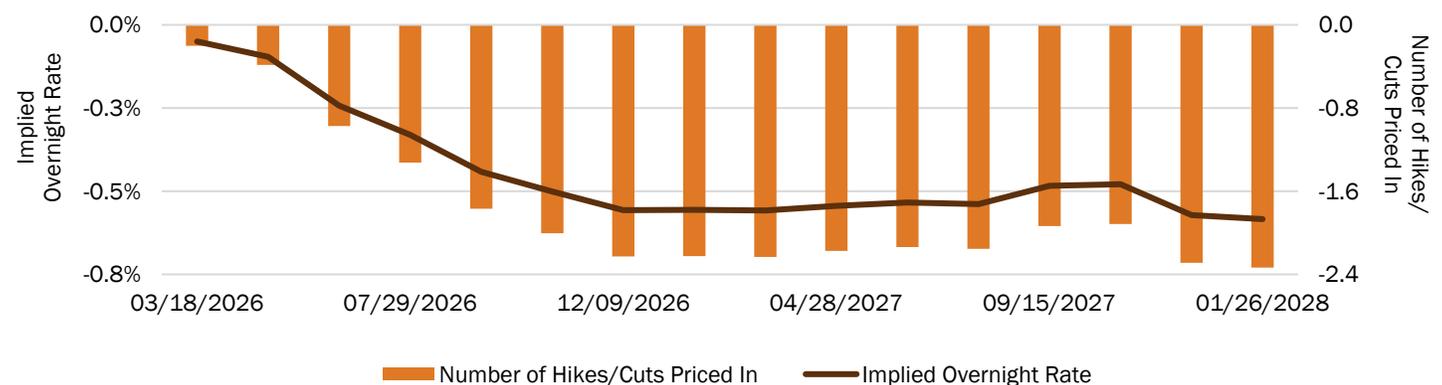
THE FRONT END IS WHERE THE OPPORTUNITY IS

The most immediate repositioning opportunity, however, sits at the front end. Money market rates have been trending lower, highlighting the vulnerability of cash-heavy allocations as policy easing approaches. By comparison, the [New York Life Short Term Muni Fund \(MSTIX\)](#) offers a tax-exempt yield of 2.78% (30-day SEC yield as of December 31, 2025), or approximately 4.69% on a taxable-equivalent basis³, with just 2 years of duration.

Click on the Fund Name, which includes the prospectus, investment objectives, performance, 30-Day SEC Yield, risk, and other essential information. Returns represent past performance, which is no guarantee of future results. Current performance may be lower or higher. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Visit www.newyorklifeinvestments.com for the most recent month-end performance.

As easing draws closer, reinvestment risk rises and the income advantage of money markets erodes quickly. Cash may feel safe, but its return profile is increasingly dependent on Fed policy staying restrictive—which is exactly what the market is no longer pricing.

FIGURE 2: FED INTEREST RATE PROJECTIONS



Data as of February 6, 2026
Source: Bloomberg

2. Bloomberg.
3. Taxable equivalent calculation: 2.78 / 40.8 (37 Federal + 3.8 NII).

POSITIONING TAKEAWAY

This environment positions MSTIX as a compelling way to help reposition portfolios away from direct Fed dependence—namely cash and T-bills. By extending modestly out the curve, MSTIX seeks to lock in more durable income, reduce exposure to falling cash yields, and participate in improving roll-down dynamics as the curve steepens.

CALL TO ACTION

The market is pricing rate cuts, but it is not fully pricing a Fed framework that shifts support away from the balance sheet and back to the curve. For municipal investors, that makes curve positioning—and moving proactively out of cash—the critical decision.

Questions from the Field

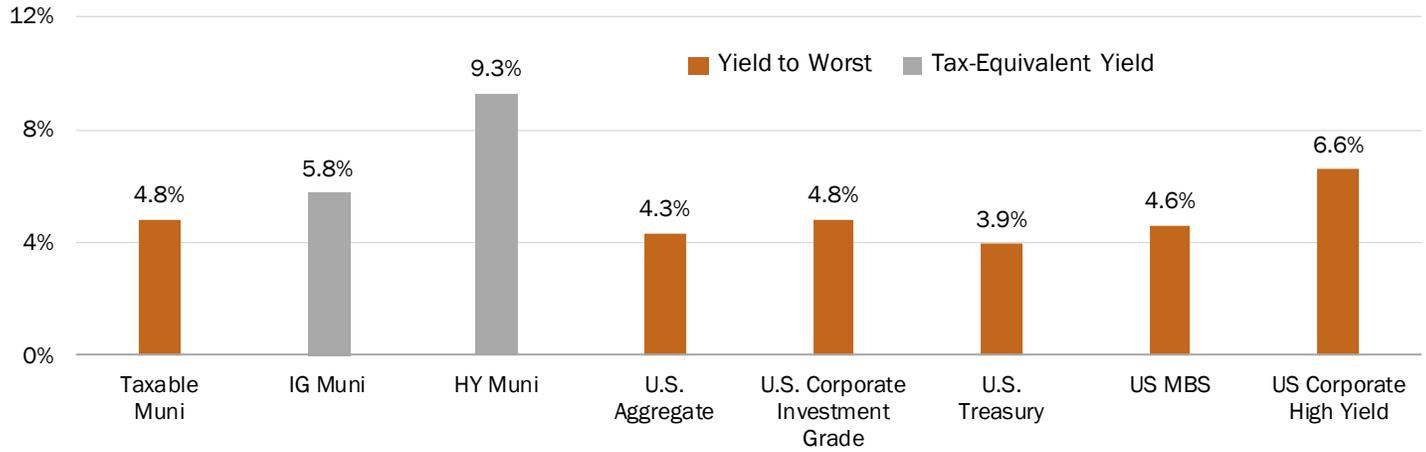
Q With equity markets turning more volatile, how should investors be thinking about municipals, if at all?

A Equity volatility tends to shift investor priorities away from growth and toward income stability, capital preservation, and diversification—areas where municipals have historically added value. While munis are not immune to risk-off periods, their price behavior has generally been far less volatile than equities, particularly within higher-quality segments of the market. Importantly, municipal drawdowns during equity-driven selloffs have often been shorter and more technically driven, rather than fundamentally driven.

In the current environment, where equity volatility is occurring alongside shifting Fed expectations and slowing growth signals, municipals continue to serve as a stabilizing allocation. Tax-exempt income remains durable, credit fundamentals remain sound, and demand for high-quality income tends to increase when risk assets become less predictable. Rather than amplifying portfolio risk, municipals are functioning as a defensive ballast—providing income, diversification, and relative resilience when broader markets are under stress.

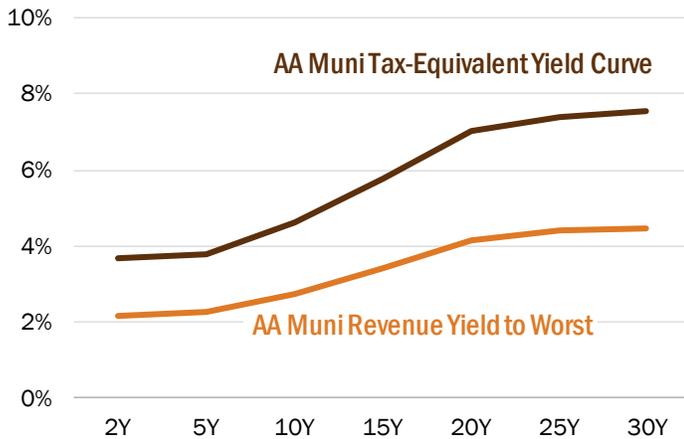


INDEX YIELDS



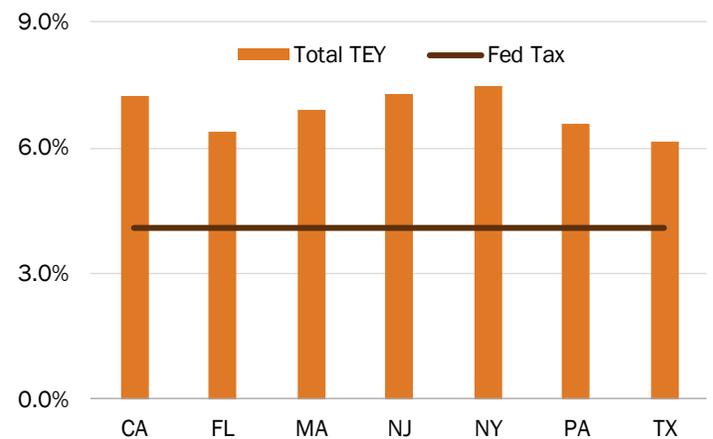
Data as of February 6, 2026.
 1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
 Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE



Data as of February 6, 2026.
 Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
 Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW¹

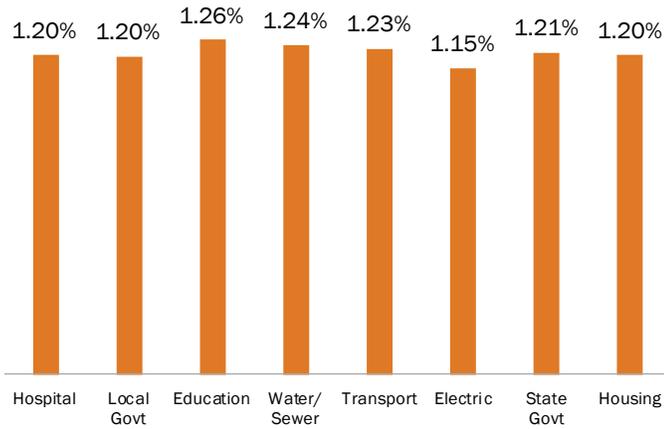


Data as of February 6, 2026.
 Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
 Source: Bloomberg

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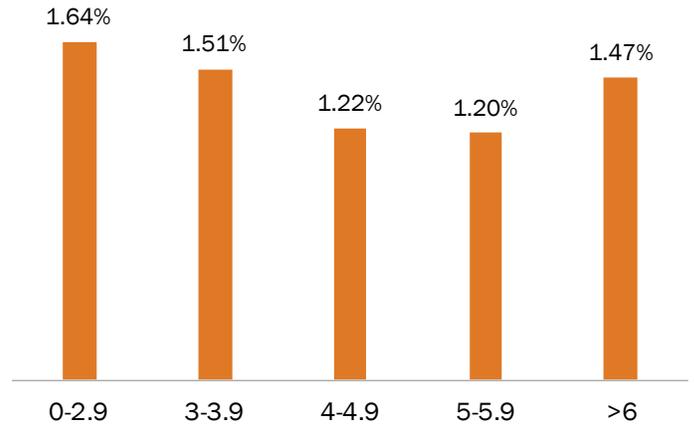


YTD TOTAL RETURNS BY SECTOR



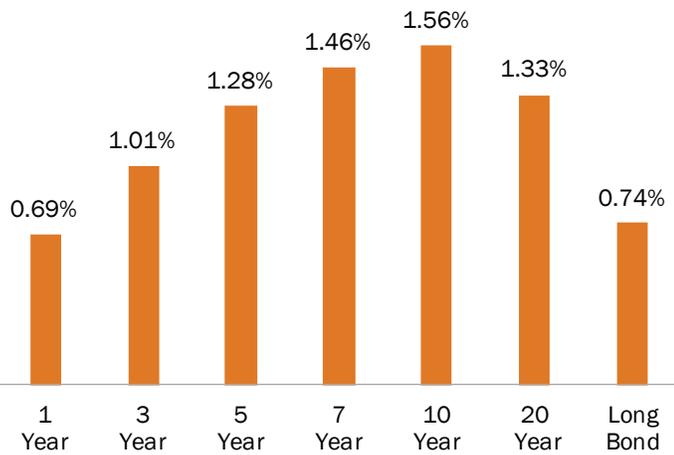
Data as of February 6, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



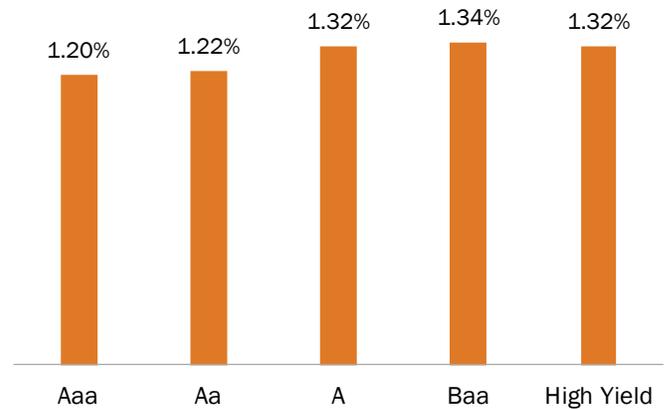
Data as of February 6, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of February 6, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of February 6, 2026.
Source: Bloomberg



BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of February 6, 2026.

"Post GFC Average" measures the period from 1/1/2010 - 2/6/2026

Source: Bloomberg

MUNI YIELDS

Tenor	2/6/2026	1/30/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.12%	2.22%	-0.09%
5 YEAR	2.18%	2.24%	-0.06%
10 YEAR	2.59%	2.62%	-0.03%
30 YEAR	4.20%	4.21%	-0.01%
US TREASURY RATE YIELDS			
2 YEAR	3.50%	3.52%	-0.02%
5 YEAR	3.76%	3.79%	-0.03%
10 YEAR	4.22%	4.26%	-0.04%
30 YEAR	4.85%	4.87%	-0.02%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 72 bps	+ 63 bps	+ 135 bps
AAA MUNI CURVE SLOPE	+ 47 bps	+ 161 bps	+ 208 bps

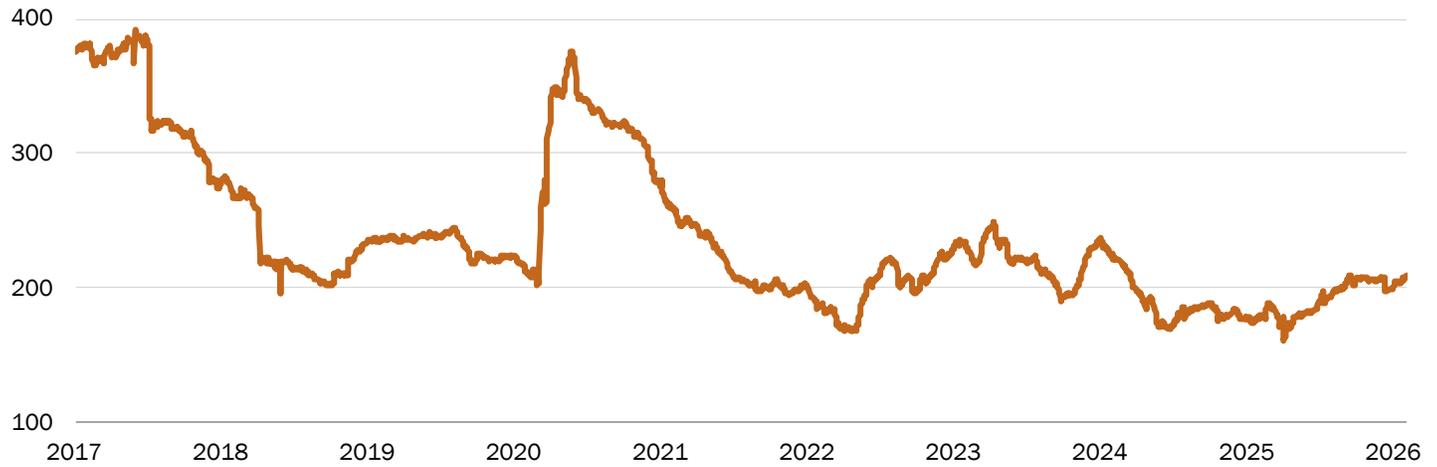
Data as of February 6, 2026.

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

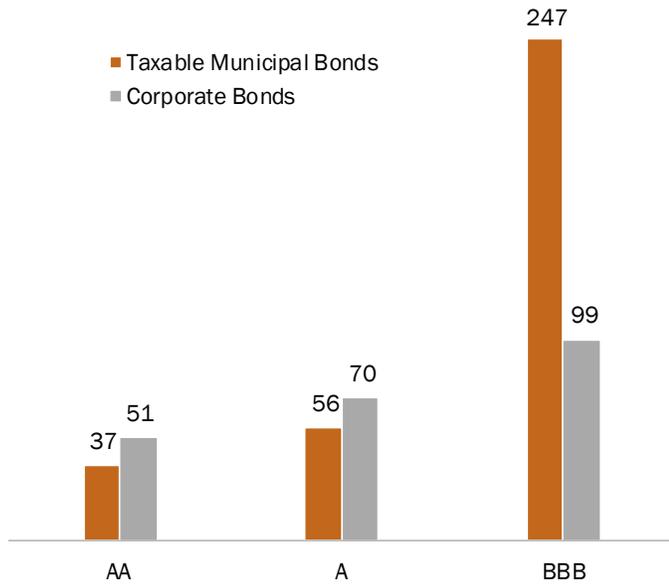


BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



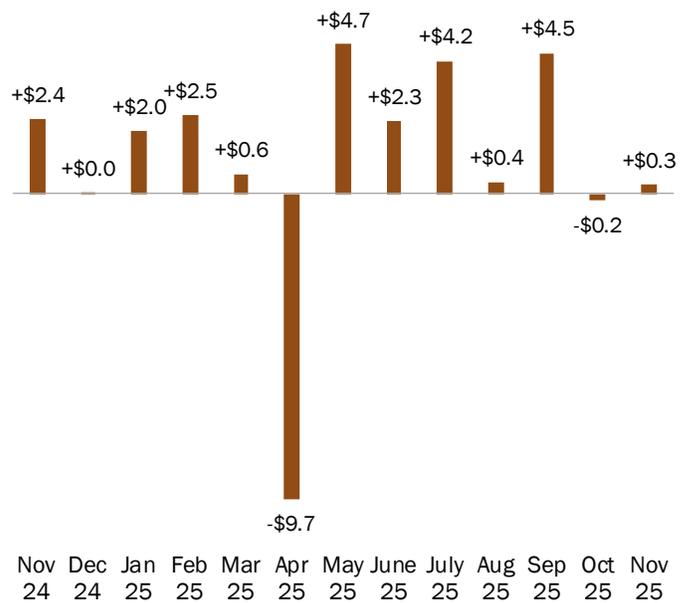
Data as of February 6, 2026.
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of February 6, 2026.
The spread, better known as the option-adjusted spread (OAS) is the measurement of the yield of a fixed income security over that of a risk-free rate of return, which is adjusted to take into account an embedded option.
Source: Bloomberg

LONG TERM FUND FLOWS | USD \$BN



Data as of February 6, 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.

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.

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 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 (LBSTRUU: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 Treasury Total Return Unhedged

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