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Munis Jump Ahead on 2026 Expectations

- Munis back in driver seat
- Munis ride cash wave momentum
- Portfolio construction demands 4-dimensional market view

Relative Performance

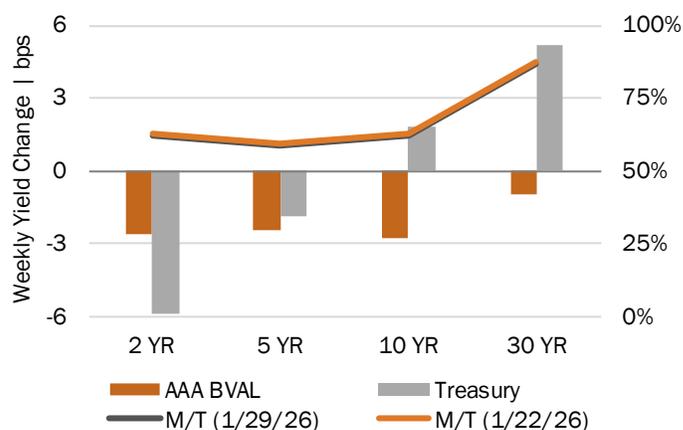
Municipals continued to grind higher last week, delivering steady performance amid a volatile rates backdrop and reinforcing their role, in our view, as a relative safe harbor within fixed income. AAA BVAL yields declined modestly across the curve, falling roughly 2–3 bps in 2s, 5s, and 10s, with the long end down about 1 bp. Treasury yields, meanwhile, were far more uneven—dropping nearly 6 bps in 2s and modestly in 5s, but rising nearly 2 bps in 10s and more than 5 bps in 30s. (See Figure 1)

Against that backdrop, municipals modestly outperformed on a relative basis, with muni-to-Treasury ratios richening across the curve. The 2-year ratio declined about 0.2 points to 62.30%, while the 5-year and 10-year ratios improved by roughly 0.3 and 0.5 points, respectively. The 30-year ratio also moved richer, falling just over half a point to 86.79%. Ratios remain well inside longer-term averages, particularly in the intermediate part of the curve, despite ongoing volatility in taxable rates.

On the municipal supply front, the new issue calendar is still somewhat quiet, with just \$7 billion on tap for the first week of February.¹ We believe, limited volume should help keep technicals supportive after several weeks of heavier issuance and may help limit additional ratio cheapening in the near term.

Bottom line: municipals continue to execute, with the 12–17 year sector—validating both the year-to-date performance story and our broader [2026 positioning framework](#).

FIGURE 1: MUNIS OUTPERFORM



Data as of January 29, 2026. Spot Muni, Spot AA rates
Source: Bloomberg

Technicals

Municipals have started 2026 doing what they often do best in periods of heightened rate volatility: quietly outperforming on a relative and absolute basis.²

Through January 29, the Bloomberg Municipal Bond Index is up roughly 0.9% month-to-date and year-to-date, with the 15-year segment (12–17 years) standing out as one of the strongest-performing areas of the market. That part of the curve is up more than 1.2% year-to-date, benefiting from a favorable combination of carry, roll-down, and duration exposure—an outcome that aligns closely with one of our key

1. Bloomberg.

2. Bloomberg Muni Index vs Bloomberg Corporate and US Treasury Index Returns.



insights for 2026, where we highlighted this maturity range as a potential sweet spot for risk-adjusted returns.

From a seasonal perspective, this strength is far from unusual. Over the past 20 years, the Bloomberg Municipal Bond Index has generated average January returns of approximately 0.76%. With the market already approaching a 1% gain before February begins—and the 15-year sector meaningfully ahead of that pace—municipals have effectively delivered close to a quarter of a full year’s worth of historical average returns in just the first few weeks of the year. Importantly, this performance has not occurred in a vacuum. It has been supported by favorable technicals, steady reinvestment demand, and still-attractive tax-exempt yields.

Reinvestment flows remain a critical part of the story. Cash returning to the municipal market is heavily front-loaded early in the year, with January and February among the strongest months for principal and interest payments.³ Historically, these flows provide a consistent bid for the market and help reinforce seasonal strength in the first quarter. While reinvestment demand alone does not dictate performance, it tends to amplify periods where technicals and seasonality are already working in investors’ favor—conditions that are clearly present today.

The better performance of the 15-year portion of the curve is also notable in the current rate environment. With volatility still elevated and uncertainty around the path of policy rates lingering, investors have continued to favor areas of the curve that offer meaningful income and roll-down without taking on the full volatility of the long end. The strong relative performance of the 15-year index underscores this dynamic and reinforces our view that this segment remains well positioned to deliver attractive risk-adjusted returns as the year unfolds.

Taken together, the early-year performance in municipals reflects a familiar and constructive setup: positive seasonality, supportive reinvestment flows, and curve positioning that rewards balance over excess risk. While it is always tempting to view strong January returns as “pulling forward” performance, history suggests that early-year strength in municipals is often a feature, not a flaw—particularly when supported by technicals and fundamentals. As we move further into the first quarter, these dynamics remain worth keeping front of mind as investors look to position portfolios for both income and stability in an uncertain rate environment.

FIGURE 3: MUNIS FEELING SEASONAL LOVE

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
10 YR AVG	0.39	-0.22	-0.32	-0.40	0.83	0.43	0.82	-0.01	-0.66	-0.37	1.24	0.57
2026	0.90											
2025	0.50	0.99	-1.69	-0.81	0.06	0.62	-0.20	0.87	2.32	1.24	0.23	0.09
2024	-0.51	0.13	0.00	-1.24	-0.29	1.53	0.91	0.79	0.99	-1.46	1.73	-1.46
2023	2.87	-2.26	2.22	-0.23	-0.87	1.00	0.40	-1.44	-2.93	-0.85	6.35	2.32
2022	-2.74	-0.36	-3.24	-2.77	1.49	-1.64	2.64	-2.19	-3.84	-0.83	4.68	0.29
2021	0.64	-1.59	0.62	0.84	0.30	0.27	0.83	-0.37	-0.72	-0.29	0.85	0.16
2020	1.80	1.29	-3.63	-1.26	3.18	0.82	1.68	-0.47	0.02	-0.30	1.51	0.61
2019	0.76	0.54	1.58	0.38	1.38	0.37	0.81	1.58	-0.80	0.18	0.25	0.31
2018	-1.18	-0.30	0.37	-0.36	1.15	0.09	0.24	0.26	-0.65	-0.62	1.11	1.20
2017	0.66	0.69	0.22	0.73	1.59	-0.36	0.81	0.76	-0.51	0.24	-0.54	1.05
2016	1.19	0.16	0.32	0.74	0.27	1.59	0.06	0.13	-0.50	-1.05	-3.73	1.17

-3.84  6.35

Data as of January 29, 2026. Bloomberg Municipal Bond Total Return Index
Source: Bloomberg

3. Bloomberg.

Questions from the Field

Q How should advisors think about municipals relative to other fixed income sectors in this environment?

A Municipals have historically held up well during periods of rate volatility,⁴ and that's been true again to start 2026. Beyond the tax advantage, municipals offer a degree of stability that can be particularly valuable when other fixed income sectors are more sensitive to both rate and credit moves. In that sense, municipals aren't just an income allocation—they function as a volatility dampener within the broader portfolio, helping smooth outcomes when uncertainty rises.

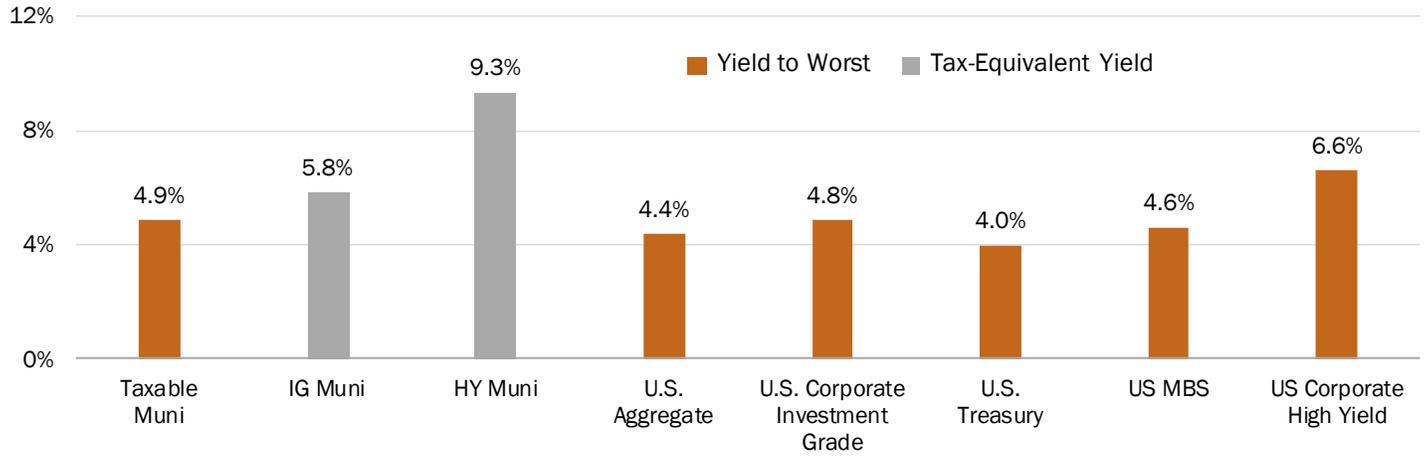
From a positioning standpoint, this is a good environment for advisors to be intentional about where municipals sit within client portfolios. Rather than viewing them solely as a yield substitute, we believe municipals can play a more strategic role as a core fixed income allocation—particularly in intermediate to longer maturities that balance income, roll-down, and interest rate risk. For taxable investors evaluating incremental risk elsewhere in fixed income, municipals continue to offer a compelling combination of after-tax income and portfolio stability.

The takeaway for advisors is not necessarily to chase returns, but to reassess whether client allocations fully reflect the role municipals can play today. In periods like this, maintaining—or selectively increasing—exposure to municipals can help anchor portfolios, allowing investors to stay invested and focused on long-term objectives even as rates and markets remain unsettled.

4. Bloomberg.



INDEX YIELDS

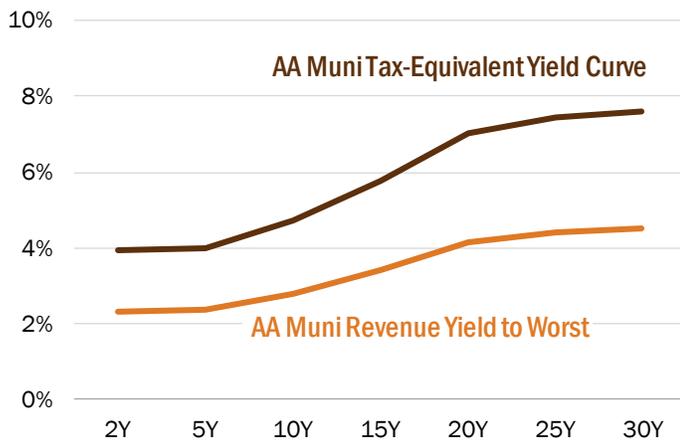


Data as of January 29, 2026.

1. Tax Equivalent Yield is using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE

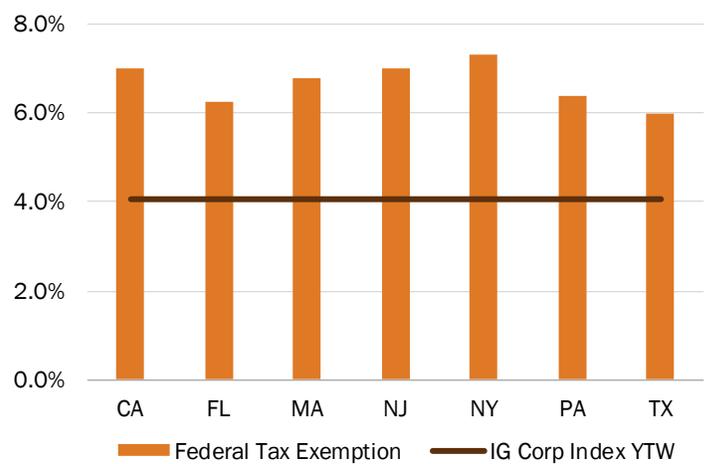


Data as of January 29, 2026.

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

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



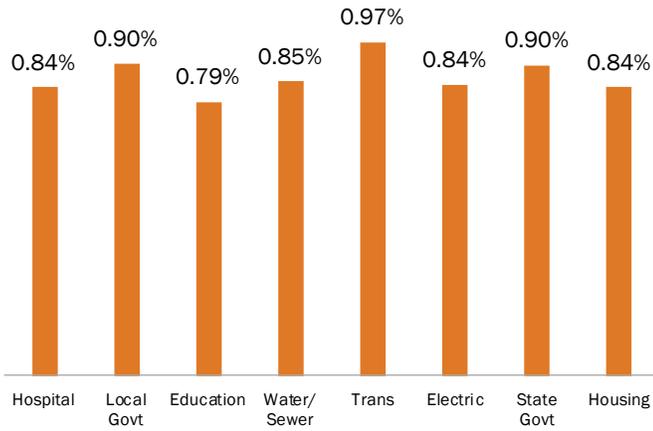
Data as of January 29, 2026.

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

Source: Bloomberg

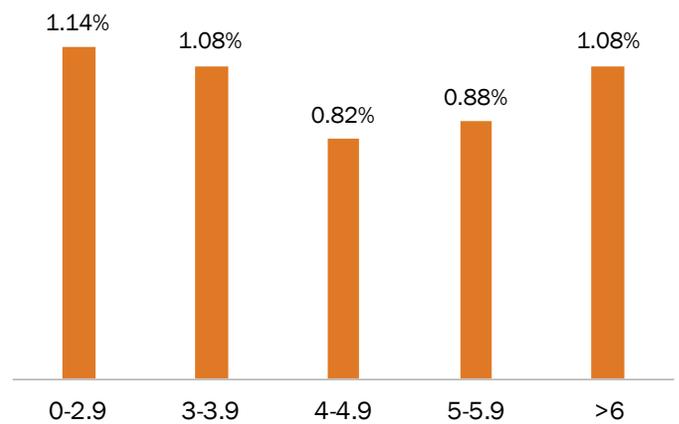


YTD TOTAL RETURNS BY SECTOR



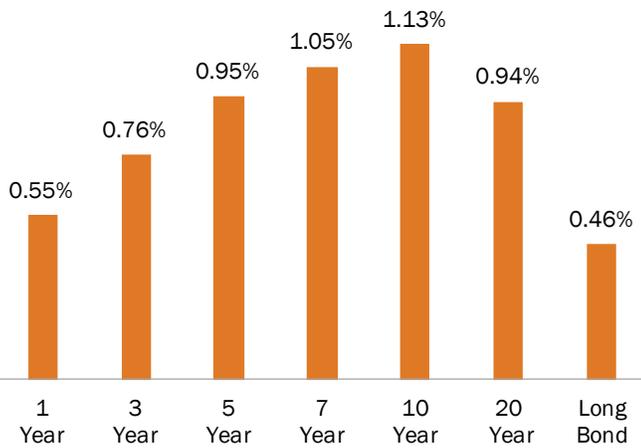
Data as of January 29, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



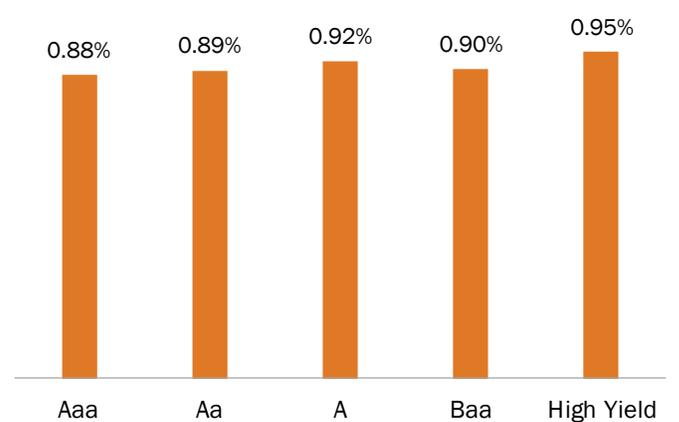
Data as of January 29, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of January 29, 2026.
Source: Bloomberg

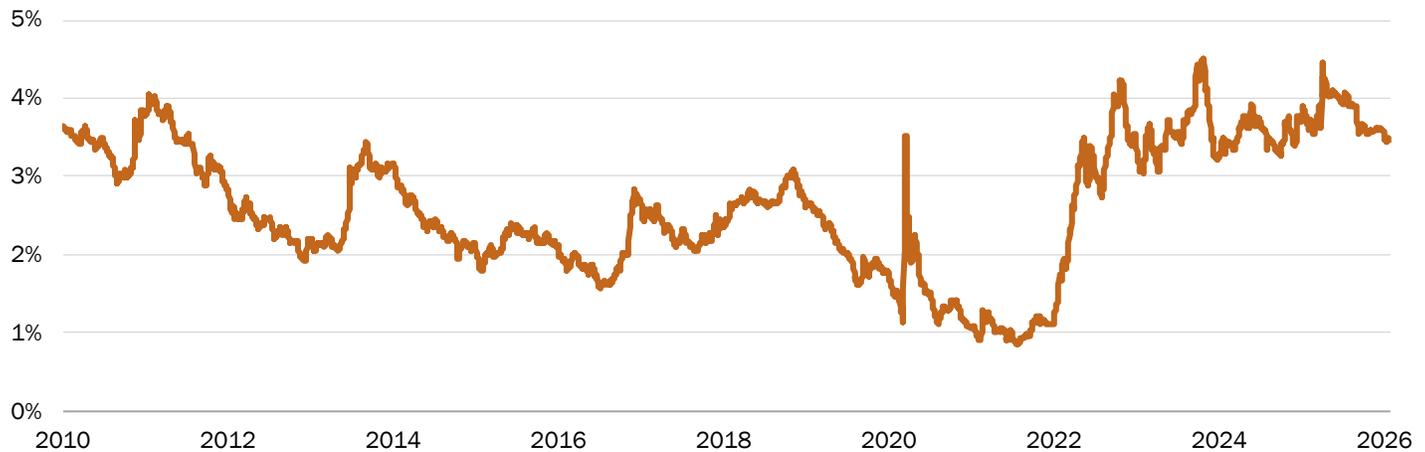
YTD TOTAL RETURNS BY RATING CATEGORY



Data as of January 29, 2026.
Source: Bloomberg



BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of January 29, 2026.
 "Post GFC Average" measures the period from 1/1/2010 - 1/29/2026
 Source: Bloomberg

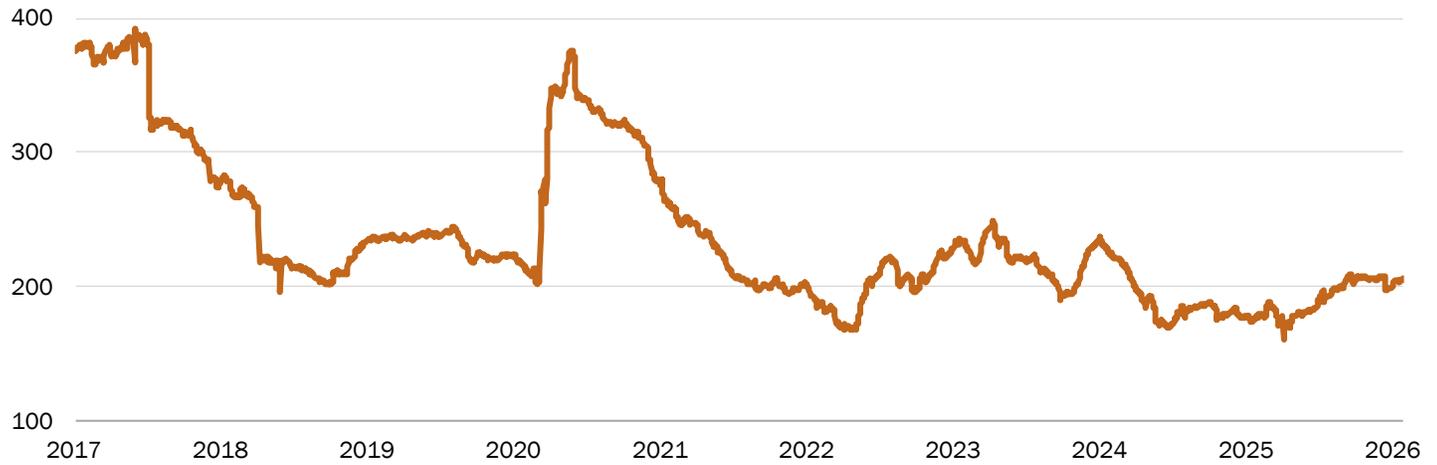
MUNI YIELDS

Tenor	1/29/2026	1/22/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.22%	2.26%	-0.04%
5 YEAR	2.24%	2.27%	-0.03%
10 YEAR	2.63%	2.66%	-0.03%
30 YEAR	4.21%	4.23%	-0.01%
US TREASURY RATE YIELDS			
2 YEAR	3.53%	3.61%	-0.08%
5 YEAR	3.80%	3.85%	-0.05%
10 YEAR	4.24%	4.26%	-0.02%
30 YEAR	4.85%	4.84%	0.01%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 71 bps	+ 61 bps	+ 132 bps
AAA MUNI CURVE SLOPE	+ 41 bps	+ 159 bps	+ 200 bps

Data as of January 29, 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

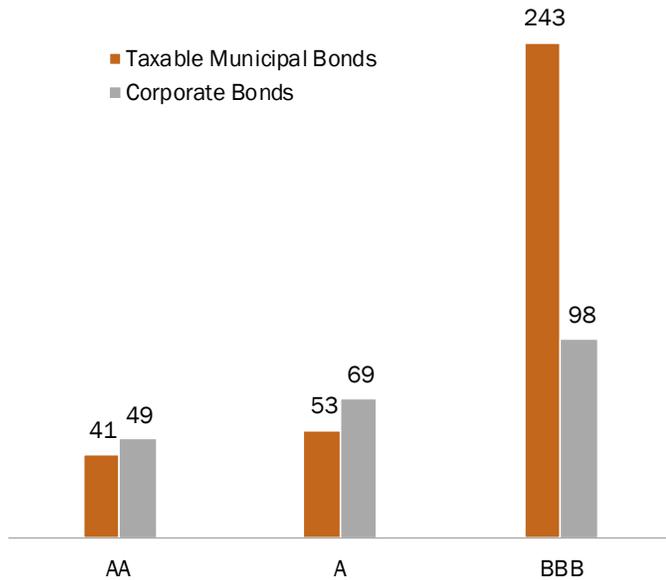


BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



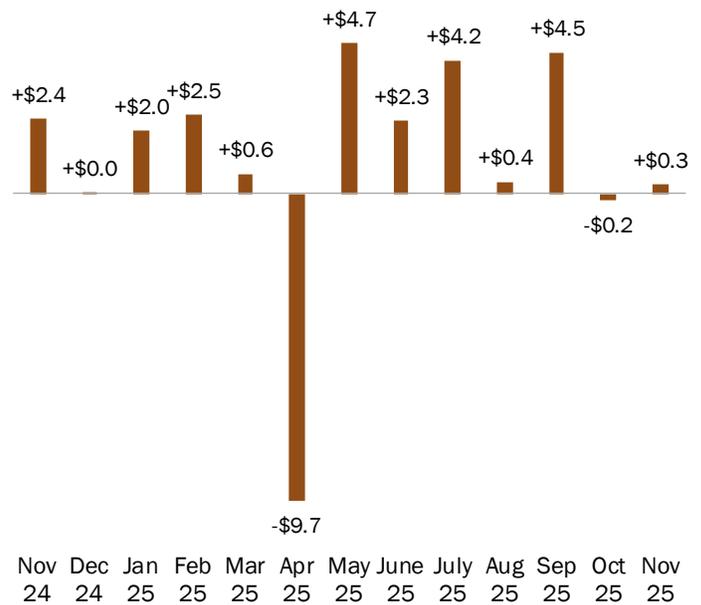
Data as of January 29, 2026.
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of January 29, 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.

LONG TERM FUND FLOWS | USD \$BN



Data as of January 29, 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 (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 TREASURY TOTAL RETURN UNHEDGED

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