MacKay Municipal Managers™
MMM Weekly Monitor

JULY 28, 2026

The Muni Market Just Got More Interesting

KEY TAKEAWAYS

- Valuations Reset, Creating More Attractive Entry Points
- Higher Starting Yields
- Municipal Credit Quality

Relative Performance

Municipals experienced a meaningful repricing last week, with tax-exempt yields moving sharply higher across the curve and underperforming Treasuries. AAA BVAL yields rose 16 bps in 2s, nearly 18 bps in 5s and 10s, and roughly 17 bps in 30s. Treasuries also sold off, but to a much lesser degree, with yields rising 11 bps in 2s, 8 bps in 5s, 6 bps in 10s, and just over 2 bps in 30s.[1]

The result was a significant cheapening in muni-to-Treasury ratios across the curve. The 2-year ratio widened nearly 2 points to 60.03%, while the 5-year ratio increased 2.7 points to 65.59%. The most notable move came in intermediate maturities, where the 10-year ratio widened more than 3 points to 70.84%, one of the largest weekly moves of the year. The 30-year ratio also cheapened meaningfully, rising to 87.71%. [1]

Unlike the Treasury-driven moves we've seen throughout much of 2026, last week's weakness was largely municipal-specific. A heavier new-issue calendar, seasonal supply pressures, and investor digestion following a strong first half of the year weighed on tax-exempt performance, while Treasuries were comparatively insulated.

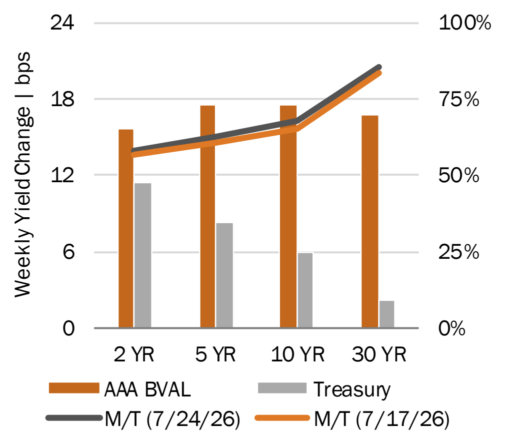
From a relative value standpoint, however, the move is constructive. After months of persistent richening, ratios have reset to levels that we believe once again begin to look attractive for crossover buyers and long-term municipal investors. The 10-year ratio moving back above 70% is particularly noteworthy, as that level has historically drawn incremental demand.

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	-0.97%	0.10%	5.03%
Muni Bond 10-Year	-1.95%	-0.88%	5.92%
Muni Bond 15-Year	-2.71%	-0.44%	5.31%
Muni Long Bond	-2.74%	1.16%	1.95%
Muni Managed Money	-2.23%	-0.16%	3.94%

Data as of July 24, 2026.
Source: Bloomberg

FIGURE 2: MUNIS UNDERPERFORM



Data as of July 24, 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

Markets rarely ring a bell at the bottom, but they do offer better opportunities from time to time. Higher starting yields, compelling tax-equivalent income, and wider spreads have combined to create one of the more attractive municipal entry points we've seen in months. This feels less like a market to wait on and more like a market to thoughtfully put capital to work.

Over the past several weeks, AAA municipal yields have backed up 20 to 40 basis points across the curve, with the largest moves occurring in intermediate maturities. While near-term price volatility has understandably captured investors' attention, history suggests they're asking the wrong question.

The more important question is: What yields can investors seek to lock in today that they couldn't a month ago?

Starting yield has historically been one of the strongest predictors of forward five-year returns in fixed income. While realized returns will rarely equal starting yields exactly, they've historically come surprisingly close over longer investment horizons. The opportunity becomes even more compelling when viewed through a relative value lens.

Today, A-rated municipal revenue bonds are offering tax-equivalent yields approaching 9.5%, while providing roughly 350 basis points of adjusted spread over comparable A-rated corporate bonds[1]. That's an unusually attractive combination of income, credit quality, and tax efficiency—and one we haven't seen consistently for quite some time.

Investors are now being paid more to own municipal credit, while active managers are being presented with a larger opportunity set as spread dispersion and security-level dislocations continue to widen.

Perhaps most importantly, the municipal market has returned to something that feels much more normal. Ten- and twenty-year municipal yields are once again approaching their long-term historical averages. After spending years in an environment where income was scarce and valuations were rich, tax-exempt investors can once again build portfolios around meaningful levels of income rather than hoping for capital appreciation alone.

FIGURE 3: YIELD TO WORST[1] | (IN %)

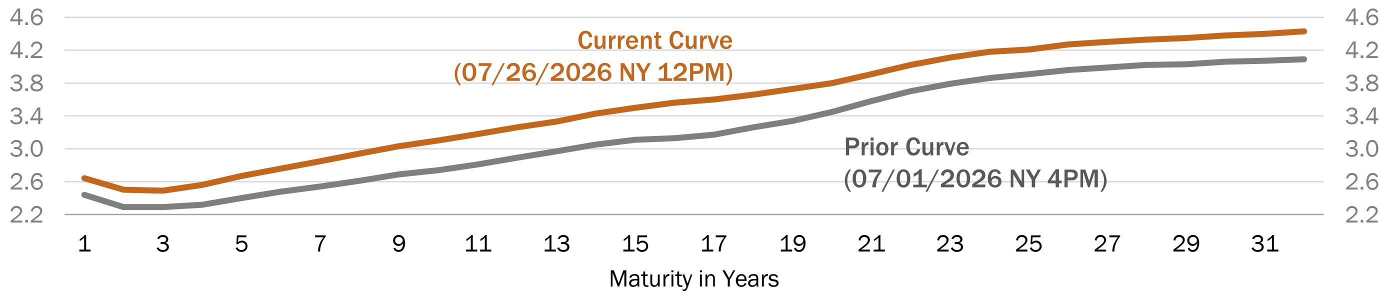
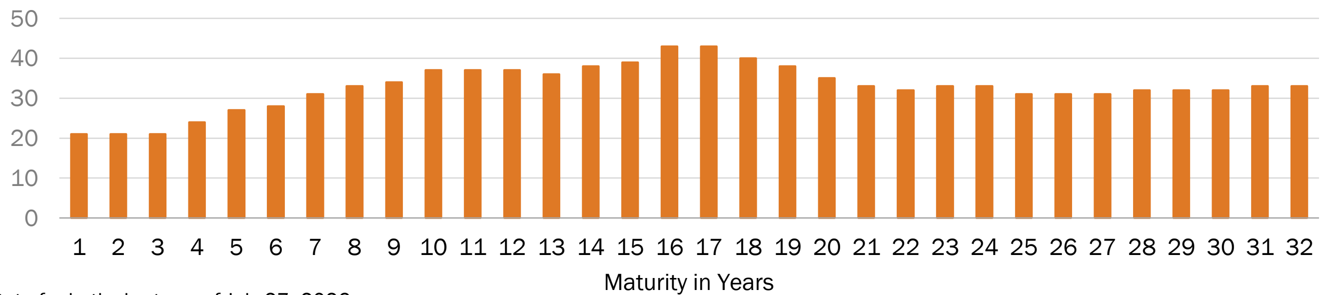


FIGURE 4: YIELD TO WORST CHANGE[1] | (IN BPS)



Data for both charts as of July 27, 2026.
1. Source: Bloomberg
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Questions from the Field

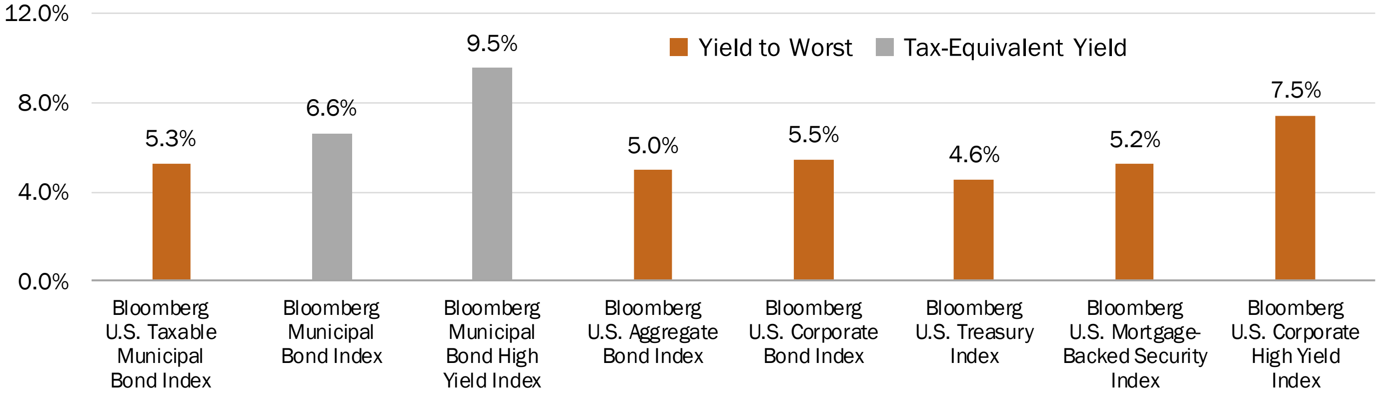
Q With deficits growing and federal support fading, should investors be more concerned about municipal credit quality?

A The short answer is yes—investors should be paying closer attention to credit. But paying attention doesn't mean becoming more defensive.

The municipal market isn't one homogeneous asset class. There will be clear winners and losers as federal support continues to normalize. That's why we've consistently emphasized essential-service revenue bonds over general obligation credits. We think the market is becoming much more issuer-specific than it was a few years ago.

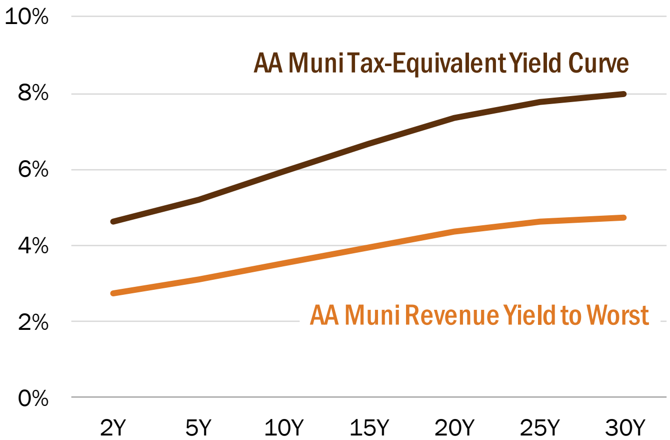
The good news is that municipal credit fundamentals remain broadly healthy. Reserve levels are still elevated by historical standards, pension funding has improved in many states, and defaults remain exceptionally low by comparison with other fixed income sectors.

INDEX YIELDS



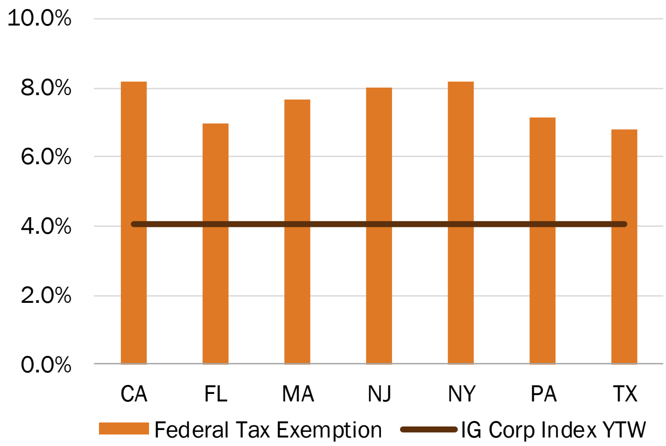
Data as of July 24, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE



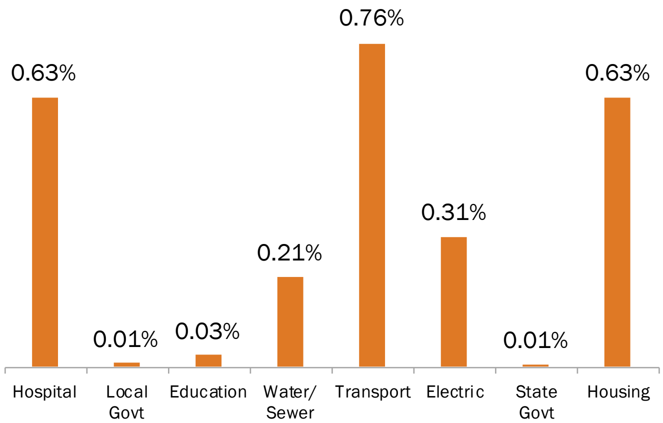
Data as of July 24, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



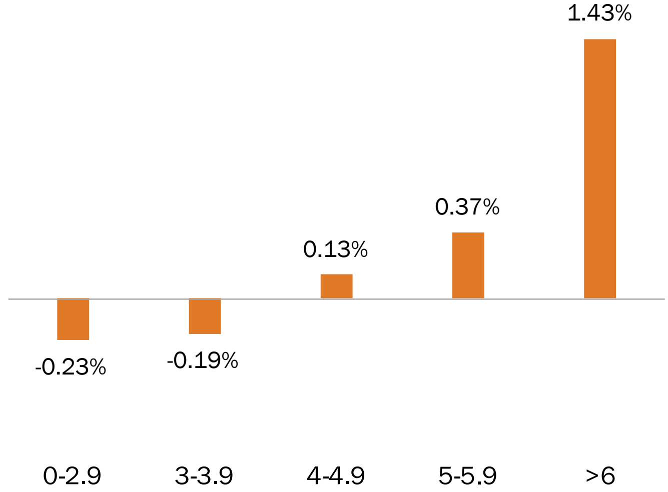
Data as of July 24, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

YTD TOTAL RETURNS BY SECTOR



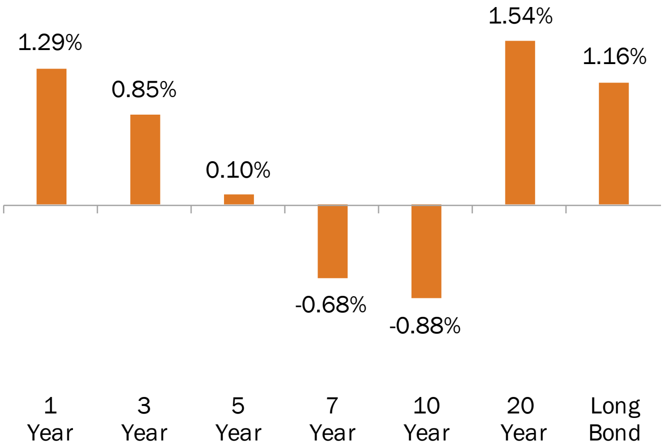
Data as of July 24, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



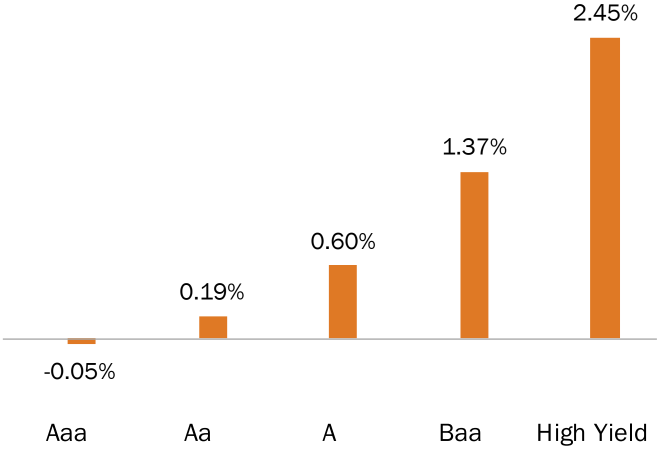
Data as of July 24, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



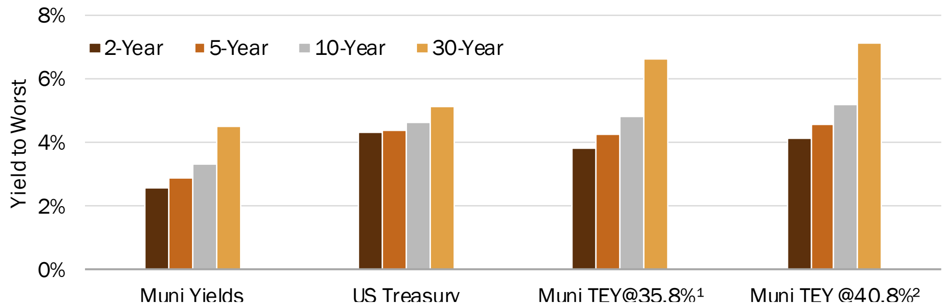
Data as of July 24, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of July 24, 2026
Source: Bloomberg

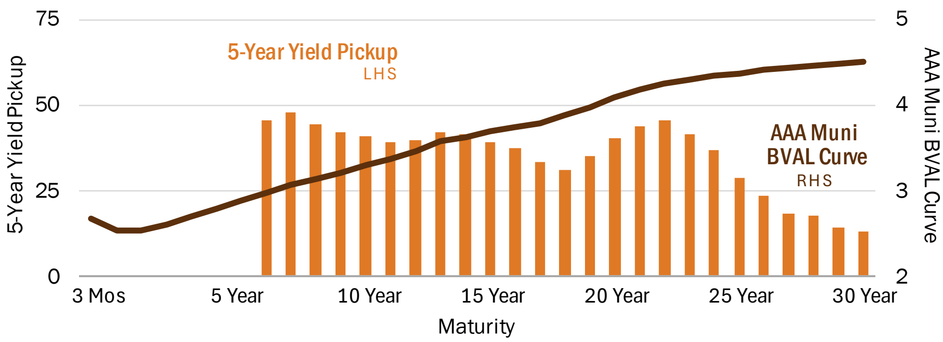
TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX



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 24, 2026.
Source: Bloomberg

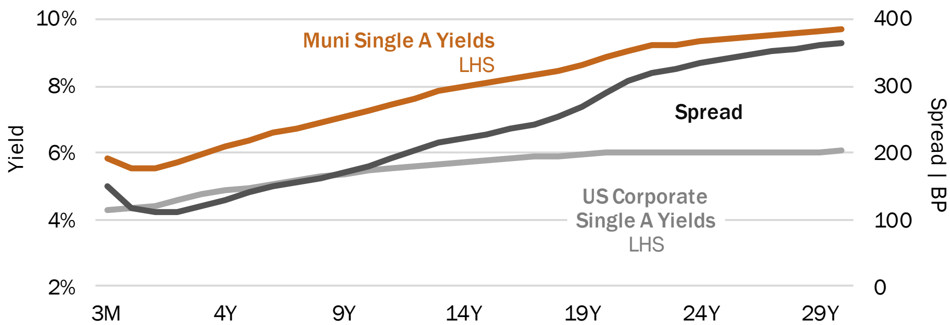
YIELD CURVE STEEPNESS



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

Data as of July 24, 2026.
Source: Bloomberg

MUNI EXCEEDS CORPORATE SPREADS



Tax equivalent munis continue to exceed corporate spread/yields

Data as of July 24, 2026.
Muni Single A Yields: Bloomberg Municipal Bond Index; US Corporate Single A Yields: Bloomberg Corporate Bond Index
Source: Bloomberg

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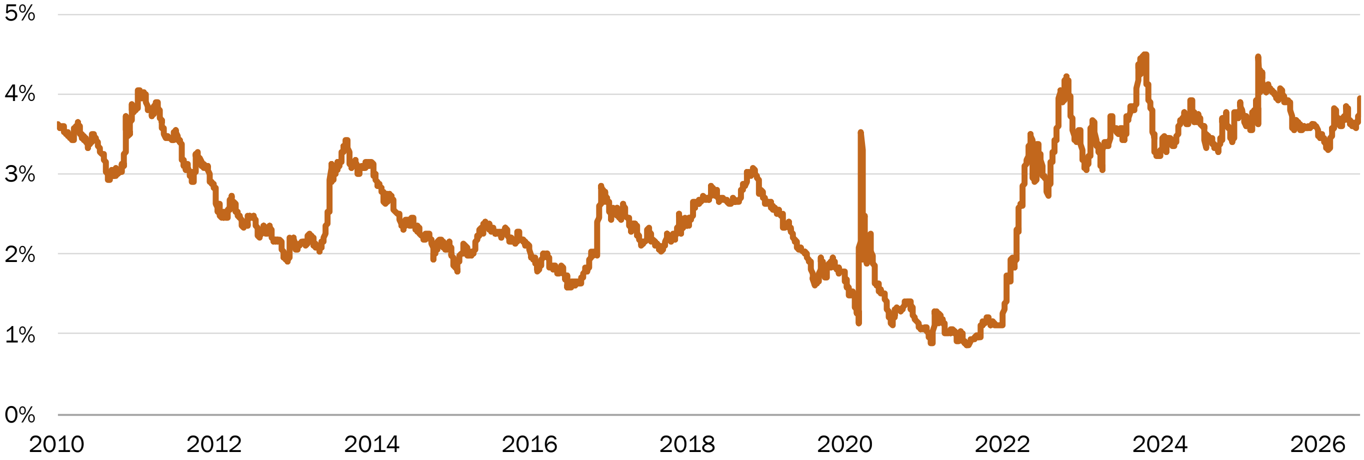
BLOOMBERG MUNICIPAL YIELD-TO-WORST



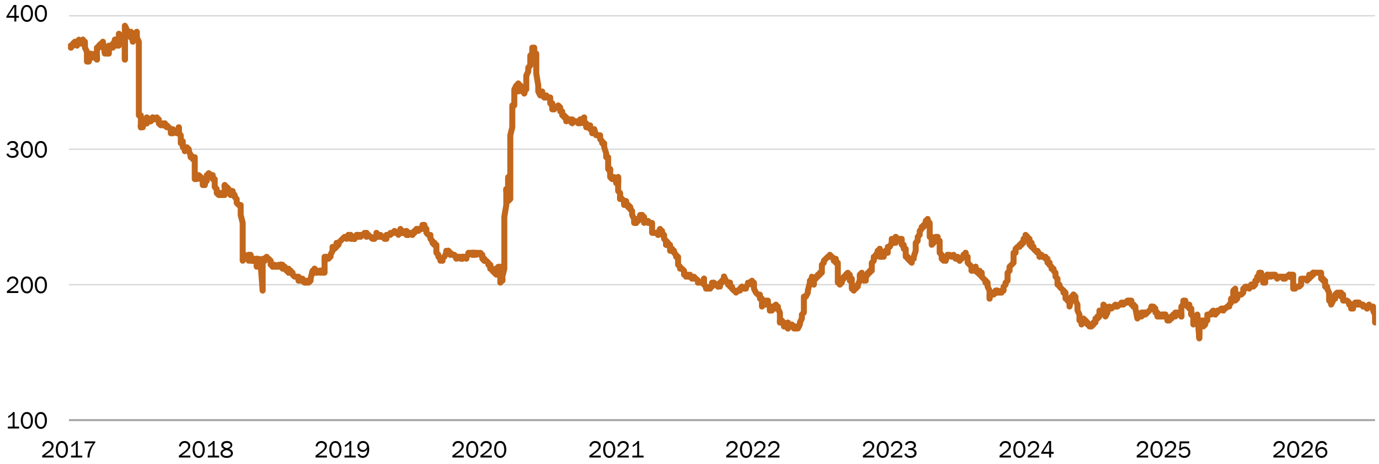
Data as of July 24, 2026
"Post GFC Average" measures the period from 1/1/2010 – 7/24/2026
Source: Bloomberg

MUNI YIELDS

Tenor	7/24/2026	7/17/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.60%	2.43%	0.17%
5 YEAR	2.90%	2.69%	0.21%
10 YEAR	3.31%	3.09%	0.23%
30 YEAR	4.53%	4.33%	0.19%
US TREASURY RATE YIELDS			
2 YEAR	4.33%	4.18%	0.15%
5 YEAR	4.43%	4.28%	0.15%
10 YEAR	4.69%	4.55%	0.14%
30 YEAR	5.16%	5.06%	0.10%
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

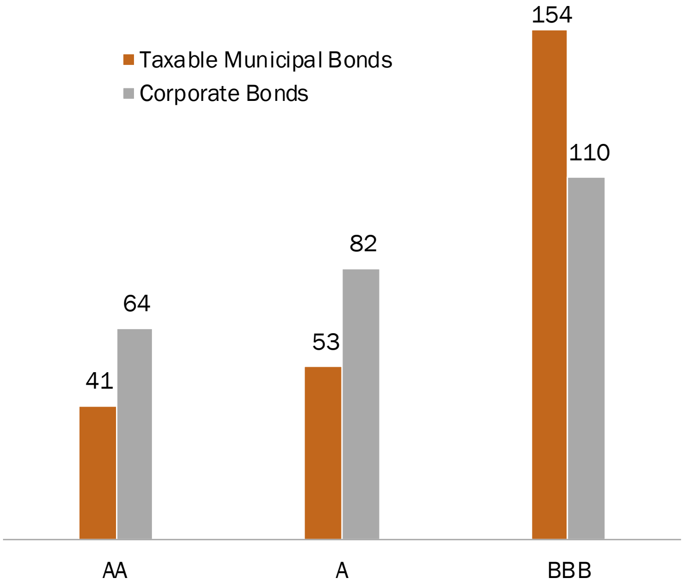
Data as of July 24, 2026
1. 2s10s – is spread between 10yr and 2yr yield; 10s30s – refers to spread between 30yr and 10yr yield; 2s30s – refers to spread between 30yr and 2yr yield
Source: Bloomberg

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of July 24, 2026
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of July 24, 2026
Source: Bloomberg

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SOURCE INFORMATION (CONT'D)

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.