

Muni Buyers Take Second Bite at Yield Apple

KEY TAKEAWAYS

- Municipals Outperform on the Week
- A Second Bite at the Tax-Exempt Apple
- Munis With Cross-Over Appeal

Relative Performance

Rates moved sharply higher last week, with municipals leading the selloff across the curve. AAA BVAL yields rose 13 bps in 2s, 11 bps in 5s, and roughly 9 bps in 10s, with the long end up about 5–6 bps. Treasuries also sold off, but to a lesser degree, with yields rising 11 bps in 2s, 9 bps in 5s, and roughly 5–6 bps in 10s, with a more modest move in 30s.

Because municipals moved more, the relative picture shifted meaningfully. Muni-to-Treasury ratios cheapened across the curve, with the 2-year ratio widening 1.7 points to 62.51%, while the 5-year ratio rose just over a point to 62.85%. The 10-year ratio increased to 67.42%, and the 30-year ratio was largely unchanged at 87.66%¹.

This marks another reversal from the prior week, highlighting just how quickly relative value is moving in the current environment. After a period where Treasuries were driving the tape and municipals were holding in better, this week saw municipals catch up more aggressively to the broader rate selloff.

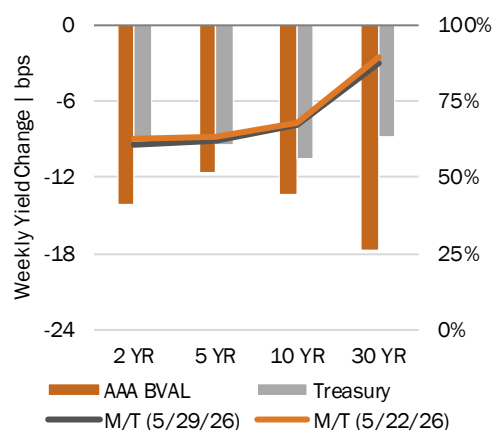
The takeaway remains consistent—volatility is driving two-way moves in ratios, and we believe those moves are creating opportunity sets rather than signaling any structural weakness. The cheapening in the front and intermediate portions of the curve begins to reintroduce value, particularly for investors focused on income and total return.

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	0.20%	0.63%	5.03%
Muni Bond 10-Year	0.24%	0.45%	5.92%
Muni Bond 15-Year	0.30%	1.41%	5.31%
Muni Long Bond	0.59%	2.20%	1.95%
Muni Managed Money	0.31%	1.07%	3.94%

Data as of May 29, 2026.
Source: Bloomberg

FIGURE 2: MUNIS OUTPERFORM



Data as of May 29, 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

One of the more interesting developments in the municipal market right now is that, in our view, investors are effectively getting a second bite at the tax-exempt apple.

Earlier this year, municipals delivered strong absolute returns as rates moved lower and technicals remained supportive.¹ That phase of the market was largely driven by duration and falling yields. Then came the volatility. Geopolitical concerns, Treasury market dislocations, tariff headlines, and broader macro uncertainty pushed yields meaningfully higher and created a reset across fixed income.

For many investors, that reset reopened an opportunity that had largely disappeared after the rally from July 2025, onward.

Nowhere is that more evident than in high yield municipals.

High yield munis remain one of the most overlooked segments of fixed income despite offering a combination that is increasingly difficult to find elsewhere: elevated tax-exempt income, historically lower default rates than high yield corporates, and a market structure that continues to reward active management. More specifically, investors in higher tax brackets can often achieve tax-equivalent yields that exceed traditional high yield corporate bonds, while historically experiencing lower default rates and higher recovery rates.

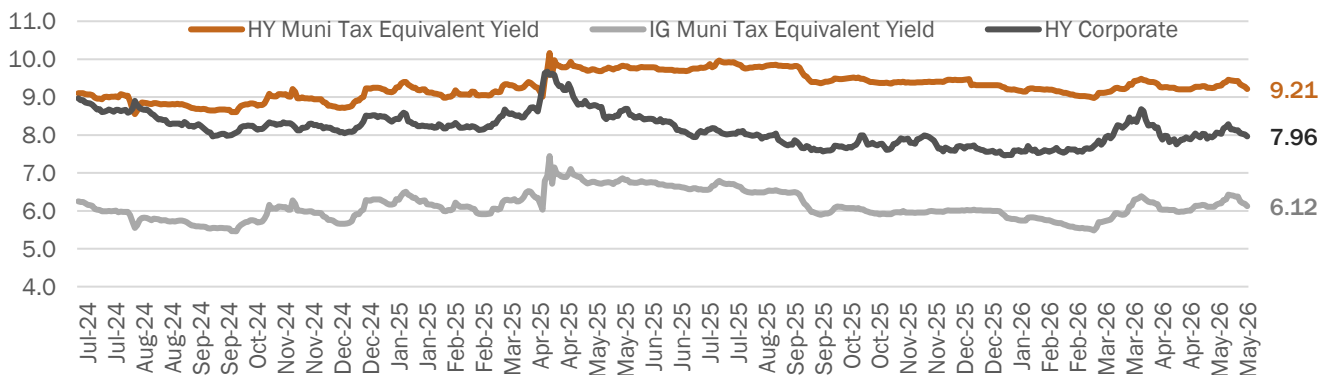
What makes the opportunity particularly compelling today is that the recent backup in rates has effectively reset entry points. Investors who felt like they missed the move earlier in the year are once again looking at a market with attractive absolute yields and improved relative value.

From a performance standpoint, that has already started to show up in the data. High yield municipals have been among the strongest-performing segments of the market this year, alongside BBB-rated credits and the 17–22 year portion of the curve. Investors are once again being compensated for selective credit risk¹, but without necessarily needing to move into the corporate high yield market to find income.

The other piece that often gets overlooked is just how fragmented the high yield municipal market remains. Unlike corporate high yield, where most issuers are heavily trafficked and broadly researched, the muni market is filled with smaller issuers, project financings, charter schools, senior living facilities, hospitals, and other niche sectors. Roughly 70% of the high yield muni market is unrated, which creates inefficiencies and potential opportunities for managers with deep credit resources and sector expertise.

That distinction matters because this isn't simply a beta trade. We believe the opportunity is increasingly about security selection, credit work, and finding areas where spreads overcompensate investors for perceived risk.

FIGURE 3: HY TAX-EQUIVALENT YIELD | (%)



Data as of May 29, 2026.
Source: Bloomberg

1. Source: Bloomberg

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Questions from the Field

Q Are municipals still a fixed income allocation, or should investors be thinking about them as an alternative to equities?

A The answer is increasingly both.

Historically, municipals occupied a fairly straightforward role in portfolios: generate tax-exempt income, preserve capital, and provide diversification against equities. That framework still holds, but today's market presents a more interesting opportunity.

When we look across asset classes, the relative value argument for municipals has strengthened considerably. Tax-equivalent yields for many high-income investors are approaching levels that compete directly with expected returns from other asset classes. At the same time, equity valuations remain elevated, earnings yields have compressed, and volatility has become more frequent.

That doesn't mean investors should replace stocks with municipal bonds. It does mean the hurdle rate for taking additional equity risk has risen.

A useful way to think about it is through the lens of compensation. Investors should always ask: **"What am I being paid for the risk I'm taking?"**

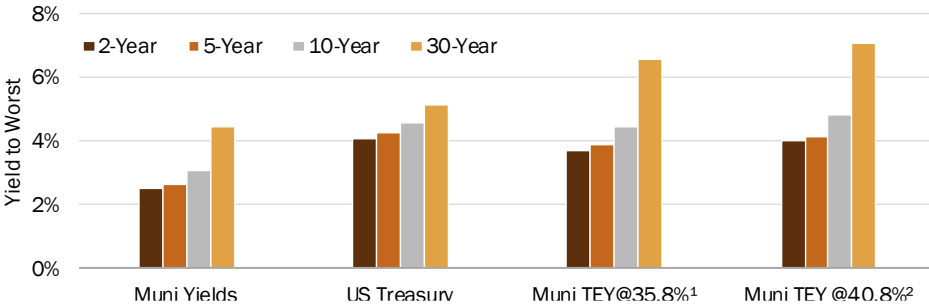
Today, municipals offer:

- Attractive after-tax income
- Improved starting yields relative to recent history
- Lower volatility than equities
- Potential opportunities for price appreciation if rates decline
- Strong diversification benefits within broader portfolios

For many investors, particularly those in higher tax brackets, municipals are no longer simply the conservative corner of the portfolio. They're competing for capital on a relative value basis, with the conversation shifting from "How much fixed income do I need?" to "Where am I getting the best risk-adjusted, after-tax return for each dollar invested?"



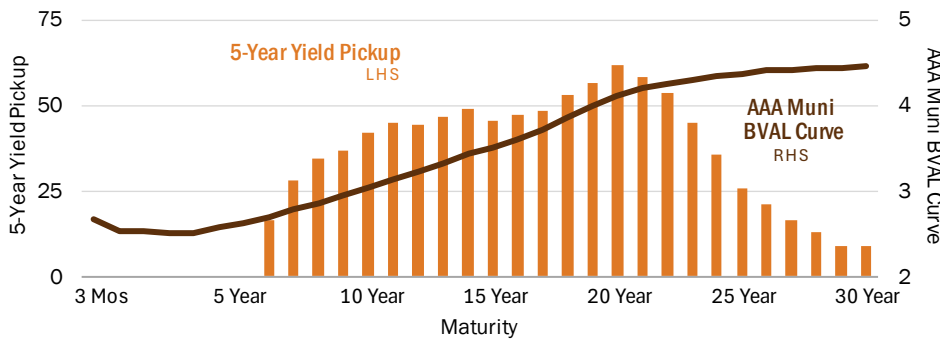
TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX



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 May 29, 2026.
 Source: Bloomberg

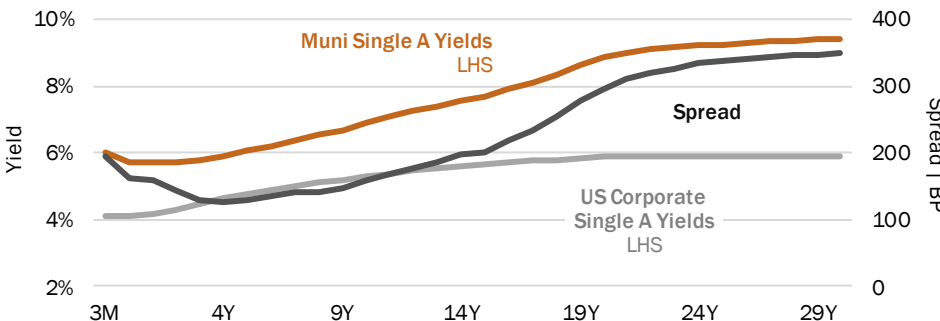
YIELD CURVE STEEPNESS



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

Data as of May 29, 2026.
 Source: Bloomberg

MUNI EXCEEDS CORPORATE SPREADS



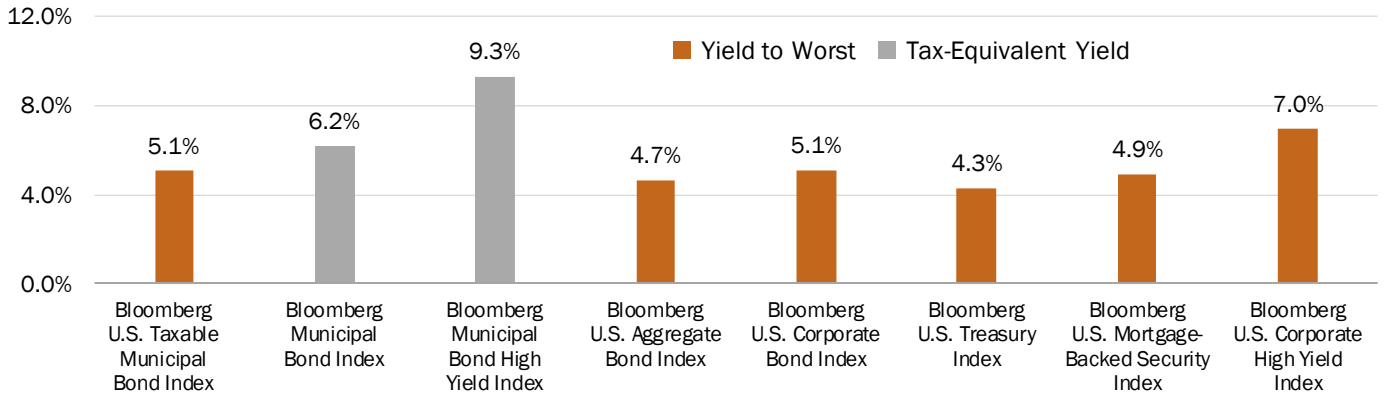
Tax equivalent munis continue to exceed corporate spread/yields

Data as of May 29, 2026.
 Muni Single A Yields: Bloomberg Municipal Bond Index; US Corporate Single A Yields: Bloomberg Corporate Bond Index
 Source: Bloomberg

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INDEX YIELDS

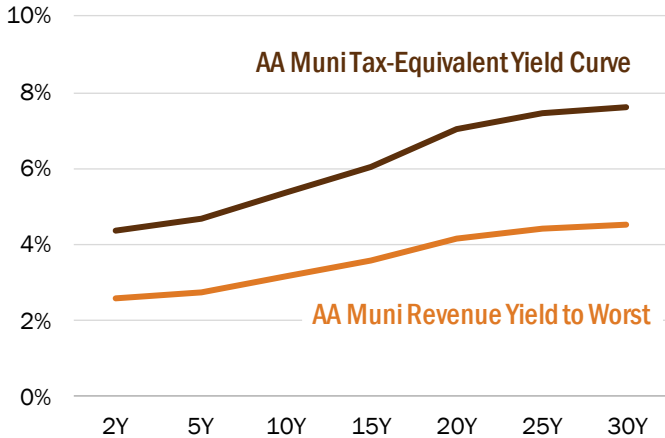


Data as of May 29, 2026

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

Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE

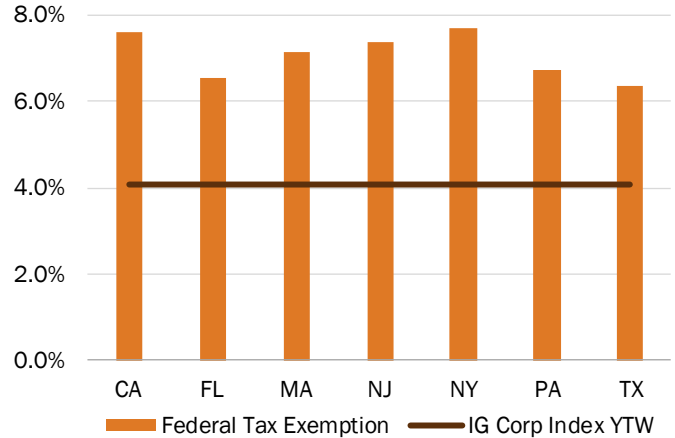


Data as of May 29, 2026

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

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



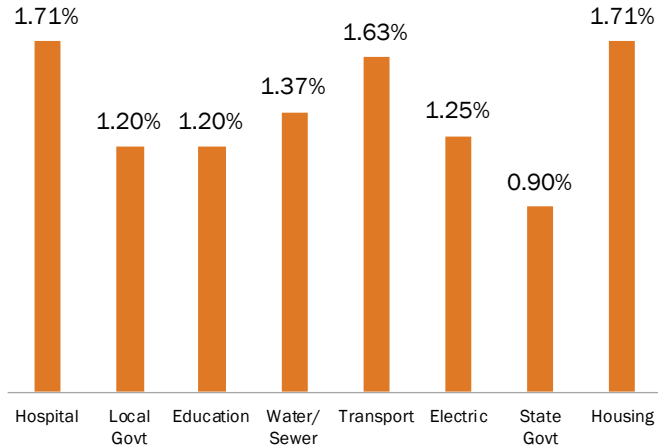
Data as of May 29, 2026

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

Source: Bloomberg

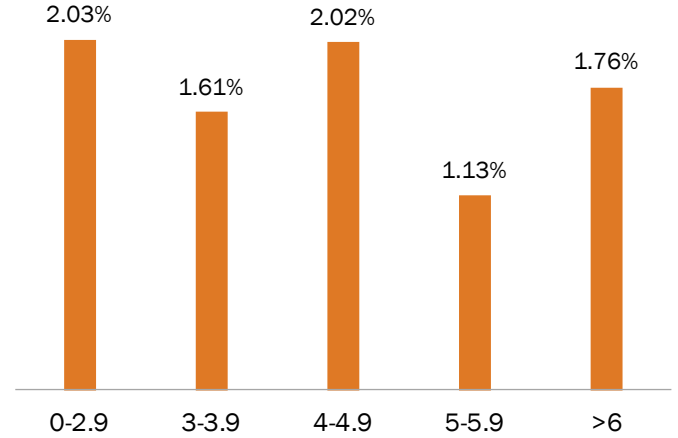


YTD TOTAL RETURNS BY SECTOR



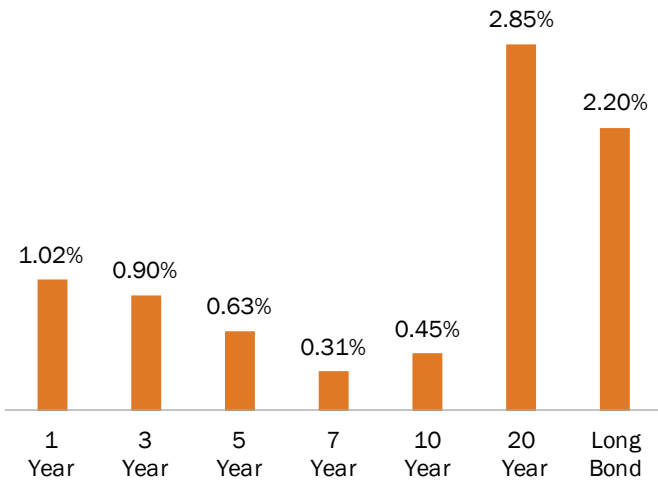
Data as of May 29, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



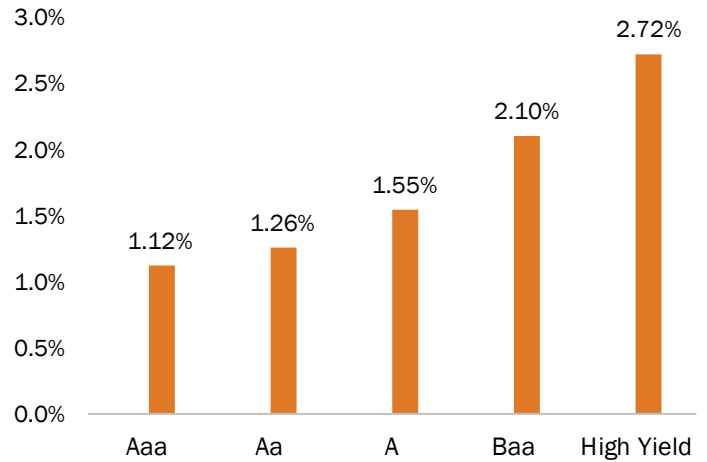
Data as of May 29, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of May 29, 2026
Source: Bloomberg

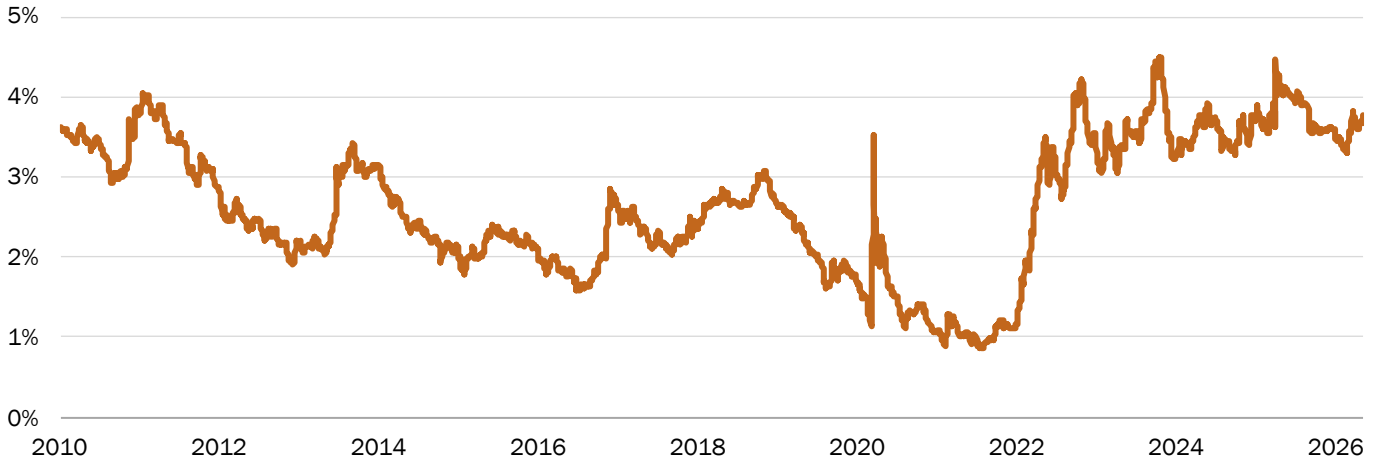
YTD TOTAL RETURNS BY RATING CATEGORY



Data as of May 29, 2026
Source: Bloomberg



BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of May 29, 2026
 “Post GFC Average” measures the period from 1/1/2010 – 5/1/2026
 Source: Bloomberg

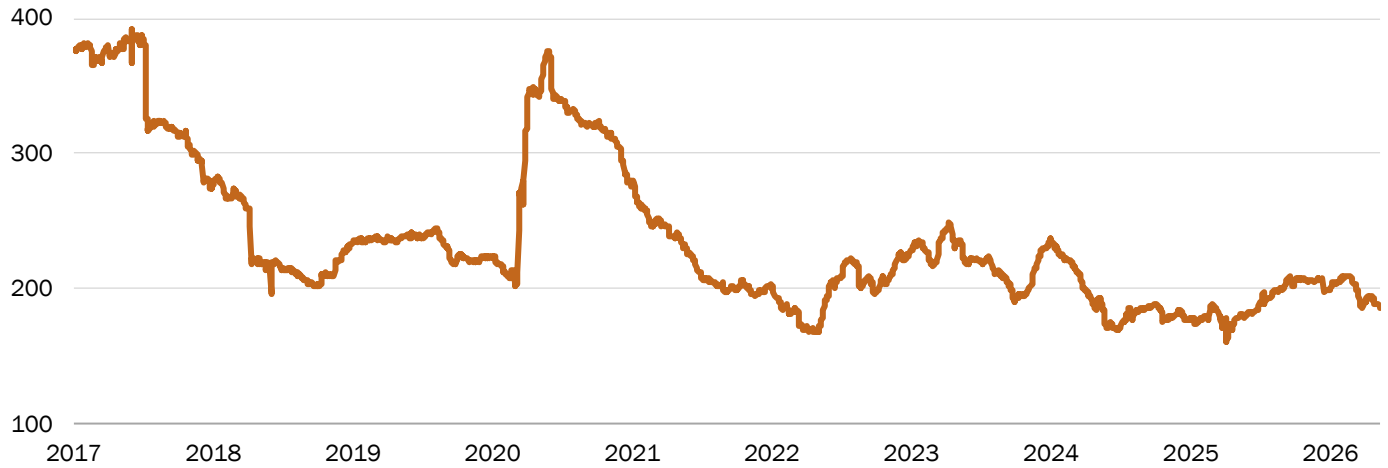
MUNI YIELDS

Tenor	5/29/2026	5/22/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.44%	2.58%	-0.14%
5 YEAR	2.57%	2.69%	-0.12%
10 YEAR	2.98%	3.11%	-0.13%
30 YEAR	4.35%	4.53%	-0.18%
US TREASURY RATE YIELDS			
2 YEAR	3.98%	4.13%	-0.15%
5 YEAR	4.13%	4.27%	-0.14%
10 YEAR	4.45%	4.56%	-0.11%
30 YEAR	4.99%	5.07%	-0.08%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 50 bps	+ 53 bps	+ 103 bps
AAA MUNI CURVE SLOPE	+ 53 bps	+ 142 bps	+ 194 bps

Data as of May 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

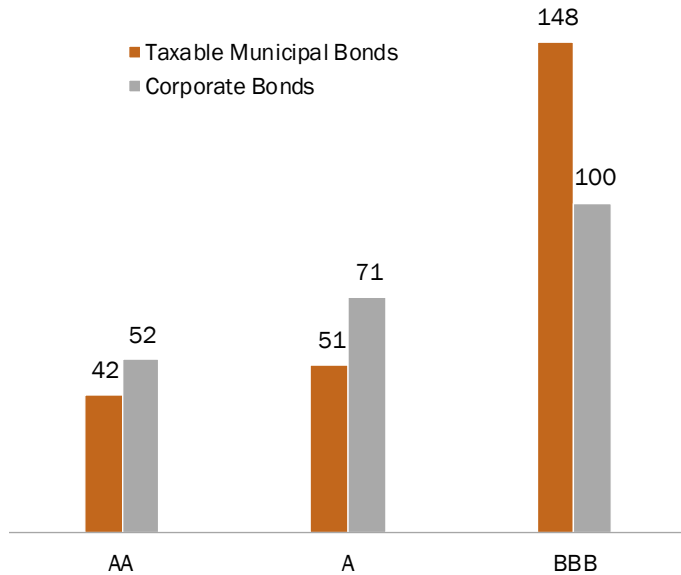


BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of May 29, 2026
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of May 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.

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.