

## Threat of Rate Hikes Phases Munis Little

### KEY TAKEAWAYS

- Municipals weather fed meeting
- Relative value is back
- Investor mistakes

### Relative Performance

Municipals posted another strong week of relative performance, rallying across the curve while Treasuries experienced a significant bear steepening driven by front-end weakness. AAA BVAL yields declined **5 bps in 2s, 4 bps in 5s, 6.5 bps in 10s, and nearly 7 bps in 30s**. Treasuries, by contrast, sold off sharply at the front end, with yields rising **14 bps in 2s and 7 bps in 5s**, while 10-year yields were largely unchanged and the long end rallied modestly.

The result was meaningful ratio richening across the curve. The **2-year muni-to-Treasury ratio declined nearly 3 points to 56.59%**, representing one of the largest weekly moves of the year. The **5-year ratio improved 1.6 points to 60.17%**, while the **10-year ratio richened 1.3 points to 65.25%**. The **30-year ratio declined modestly to 86.12%**.

The move highlights an important theme that has emerged throughout 2026: municipals are increasingly trading on their own technicals rather than simply following Treasury direction. While Treasury markets continue to react to shifting inflation expectations, Fed rhetoric, and geopolitical developments, municipals are benefiting from a combination of strong seasonal reinvestment demand, manageable supply, and attractive after-tax income.

The front end was particularly notable. Despite Treasury yields moving materially higher, short municipals rallied, underscoring just how powerful the summer technical backdrop has become. With July and August reinvestment flows approaching, investors continue to put cash to work even as broader rate markets remain volatile.

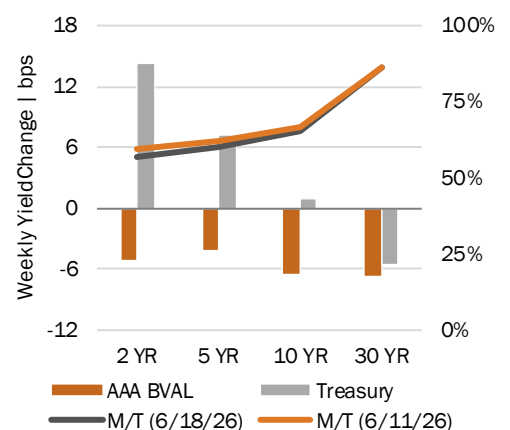
FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	0.34%	0.97%	5.03%
Muni Bond 10-Year	0.50%	0.94%	5.92%
Muni Bond 15-Year	0.67%	2.09%	5.31%
Muni Long Bond	1.07%	3.30%	1.95%
Muni Managed Money	0.68%	1.76%	3.94%

Data as of June 18, 2026.

Source: Bloomberg

FIGURE 2: MUNIS OUTPERFORM



Data as of June 18, 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**

One of the defining themes of 2026 has been the evolution of municipals from an absolute return story into a relative value story.

Earlier in the year, municipals benefited from falling yields, strong technicals, and attractive starting income. Today, the opportunity set looks different.

Municipals continue to outperform most major taxable fixed income sectors on a total return year-to-date basis, reinforcing the asset class's value proposition from both an absolute and after-tax perspective. (See Figure 3) But beneath the surface, not all credit risk is being priced equally.

While high yield municipals have been among the strongest-performing sectors within the asset class this year, the incremental spread pickup from BBB-rated municipals into traditional high yield remains below long-term averages. In other words, investors are receiving less

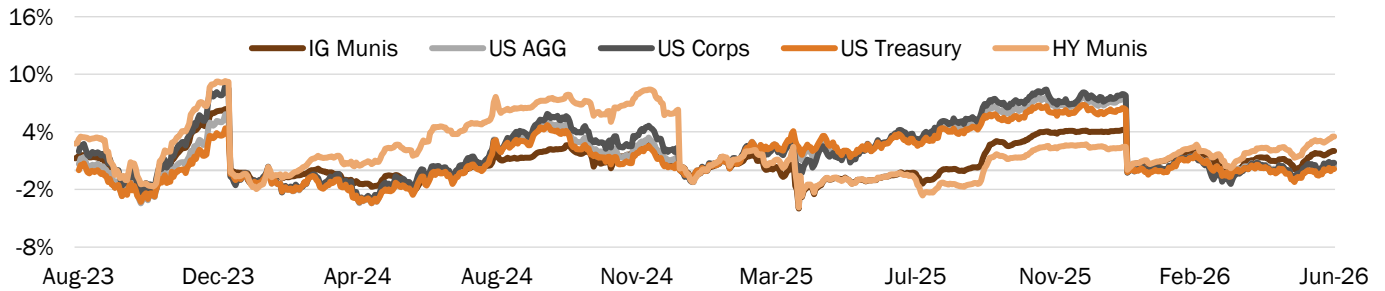
compensation than usual for taking that final step into below-investment-grade credit.

By contrast, the yield and spread pickup available in the BBB portion of the market remains much closer to historical norms. That creates an attractive middle ground where investors can capture meaningful incremental income while remaining within the investment-grade universe.

This is an important distinction. Strong performance does not always translate into strong value. Chasing the best-performing segment of the market can often leave investors with less compensation for the risks they're assuming.

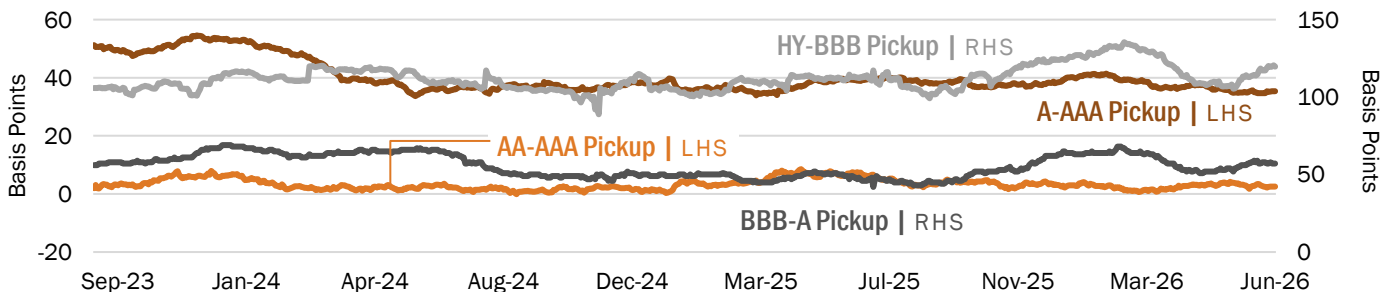
We continue to believe the sweet spot in municipal credit remains in the BBB segment of the market, where spread relationships remain compelling and risk compensation appears more balanced.

**FIGURE 3: COMPARATIVE RETURNS**



Data as of June 19, 2026.  
Source: Bloomberg

**FIGURE 4: YIELD PICKUP BETWEEN CREDIT RUNGS | BASIS POINTS**



Data as of June 22, 2026.  
Source: Bloomberg

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## Questions from the Field

**Q** If municipals have already had a strong year, are we late to the trade?

**A** That's a question we've been getting a lot lately.

If the trade was simply "buy munis because rates are going to fall," then yes, some of that opportunity is behind us. Municipals have had a strong year and have outperformed most taxable fixed income sectors.

But that's not really how we're looking at the market today.

The conversation has shifted from absolute returns to relative value. The question isn't whether munis are as cheap as they were in January. The question is whether they're still attractive relative to other areas of traditional fixed income.

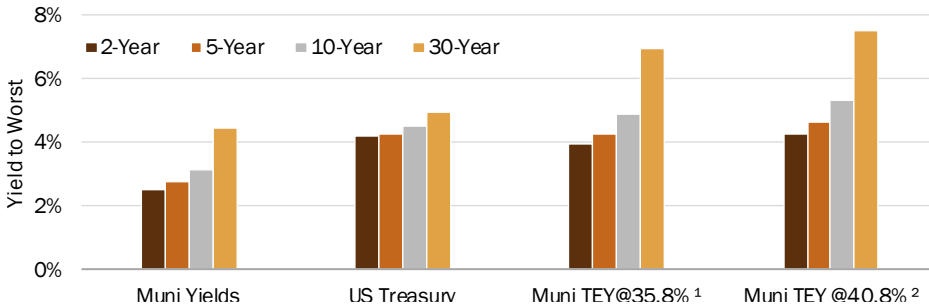
We think they are.

Tax-equivalent yields remain compelling. Municipal credit fundamentals remain healthy. And there are still pockets of the market—particularly in BBB-rated credits and parts of the longer end of the curve—where investors are being paid reasonably well for the risks they're taking.

Six months ago, municipals were attractive because they were cheap. Today, municipals are attractive because many alternatives look too rich.

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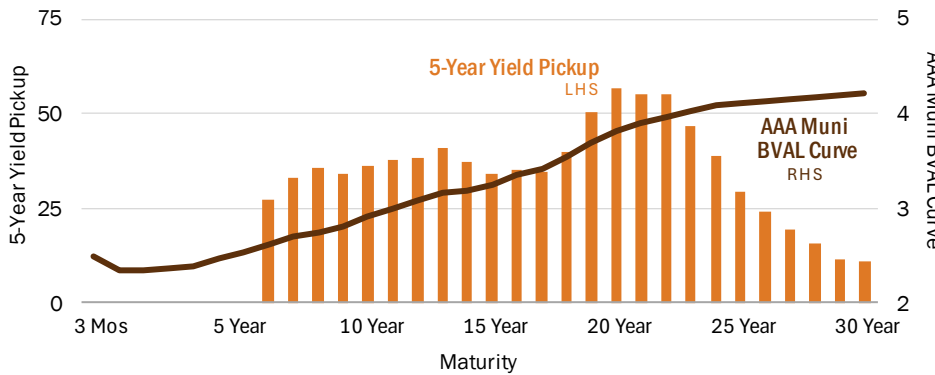
TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX



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 June 19, 2026.  
 Source: Bloomberg

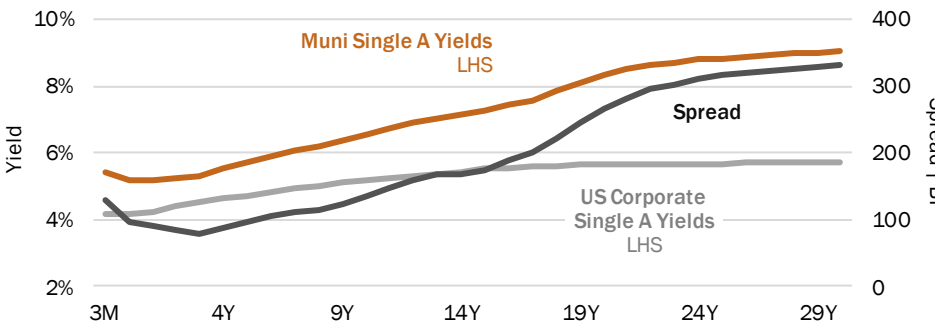
YIELD CURVE STEEPNESS



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

Data as of June 19, 2026.  
 Source: Bloomberg

MUNI EXCEEDS CORPORATE SPREADS



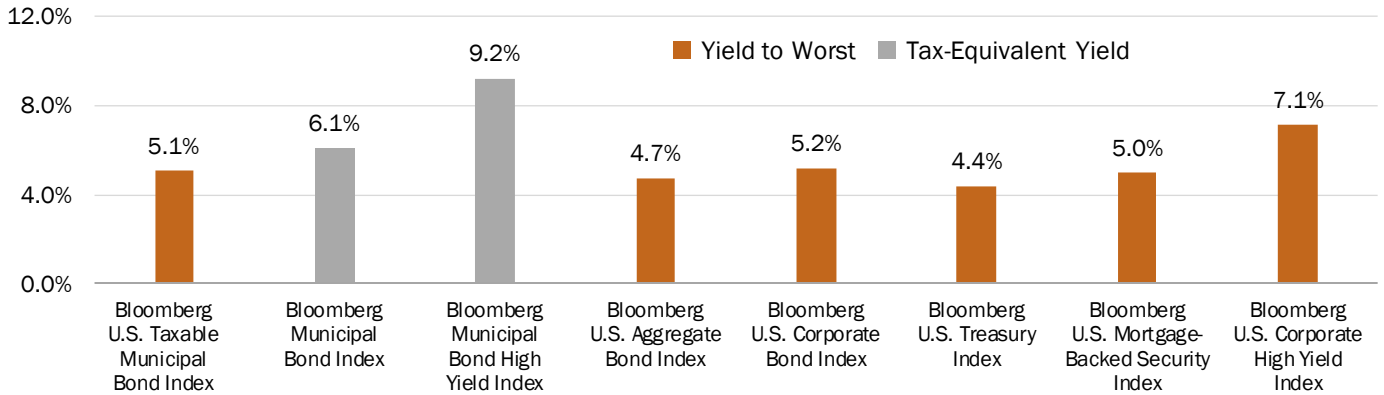
Tax equivalent munis continue to exceed corporate spread/yields

Data as of June 19, 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

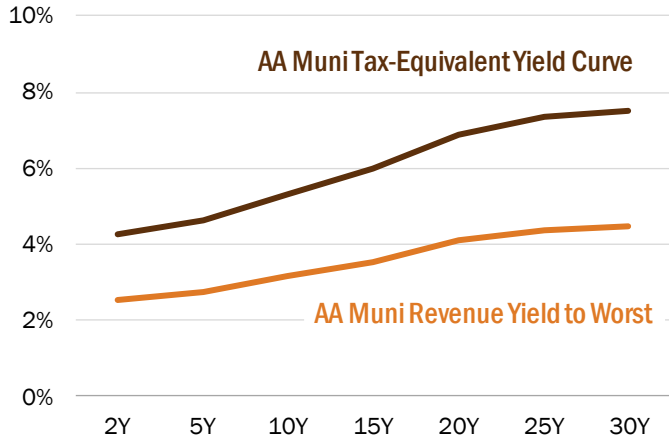


Data as of June 19, 2026

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

Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE

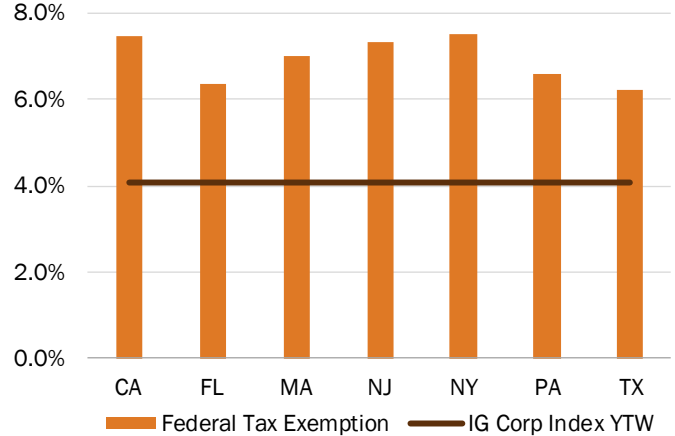


Data as of June 19, 2026

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

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



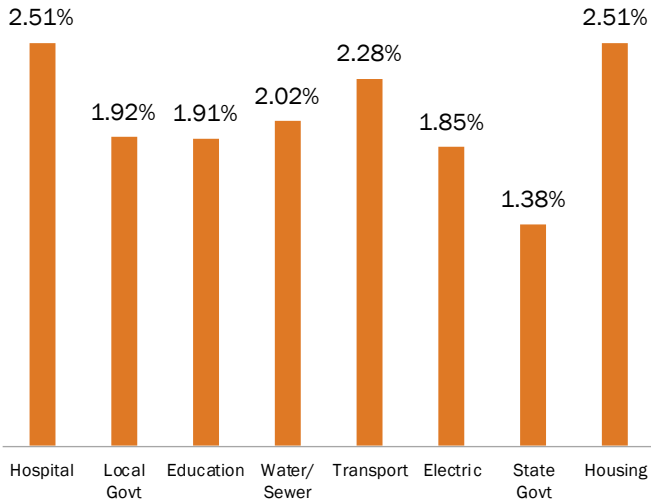
Data as of June 19, 2026

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

Source: Bloomberg

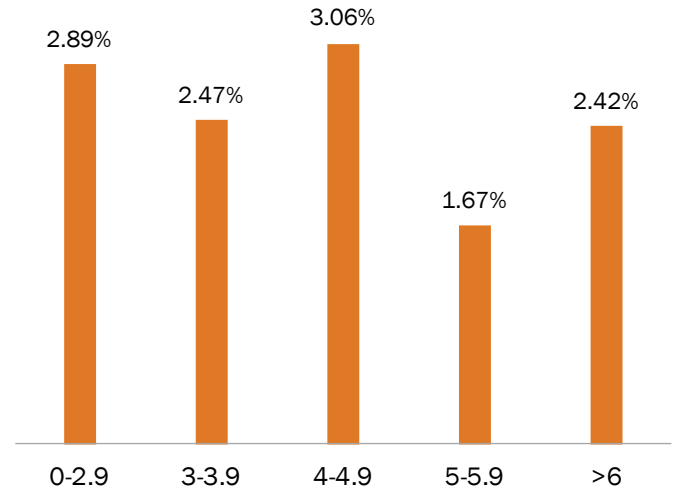


YTD TOTAL RETURNS BY SECTOR



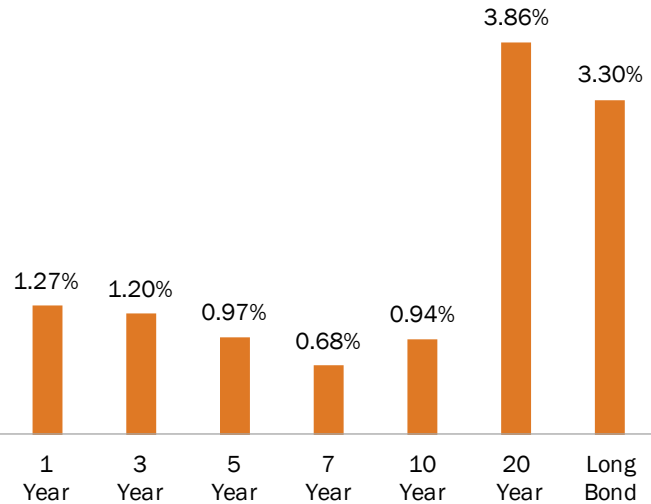
Data as of June 19, 2026  
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



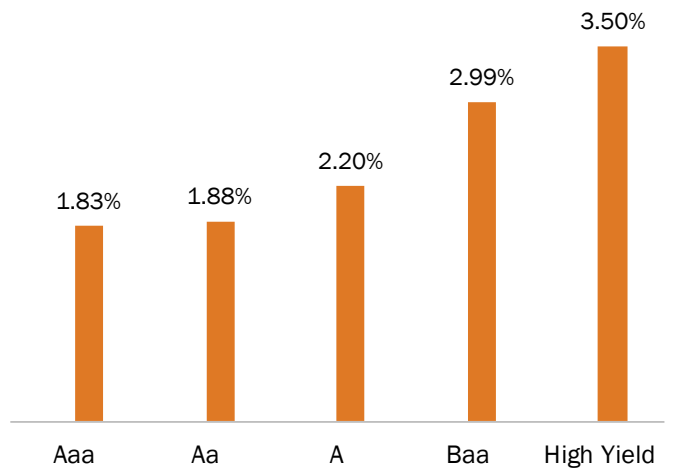
Data as of June 19, 2026  
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of June 19, 2026  
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of June 19, 2026  
Source: Bloomberg



**BLOOMBERG MUNICIPAL YIELD-TO-WORST**



Data as of June 19, 2026

“Post GFC Average” measures the period from 1/1/2010 – 5/1/2026

Source: Bloomberg

**MUNI YIELDS**

Tenor	6/19/2026	6/12/2026	Change (+/-)
<b>BLOOMBERG AAA MUNI KEY RATE YIELDS</b>			
2 YEAR	2.36%	2.41%	-0.05%
5 YEAR	2.54%	2.58%	-0.04%
10 YEAR	2.91%	2.96%	-0.06%
30 YEAR	4.22%	4.28%	-0.06%
<b>US TREASURY RATE YIELDS</b>			
2 YEAR	4.19%	4.09%	0.10%
5 YEAR	4.23%	4.21%	0.02%
10 YEAR	4.46%	4.48%	-0.02%
30 YEAR	4.90%	4.97%	-0.07%
<b>US TREASURY &amp; AAA MUNI CURVE SLOPES<sup>1</sup></b>			
	<b>2s10s</b>	<b>10s30s</b>	<b>2s30s</b>
US TREASURY CURVE SLOPE	+ 27 bps	+ 44 bps	+ 71 bps
AAA MUNI CURVE SLOPE	+ 54 bps	+ 131 bps	+ 186 bps

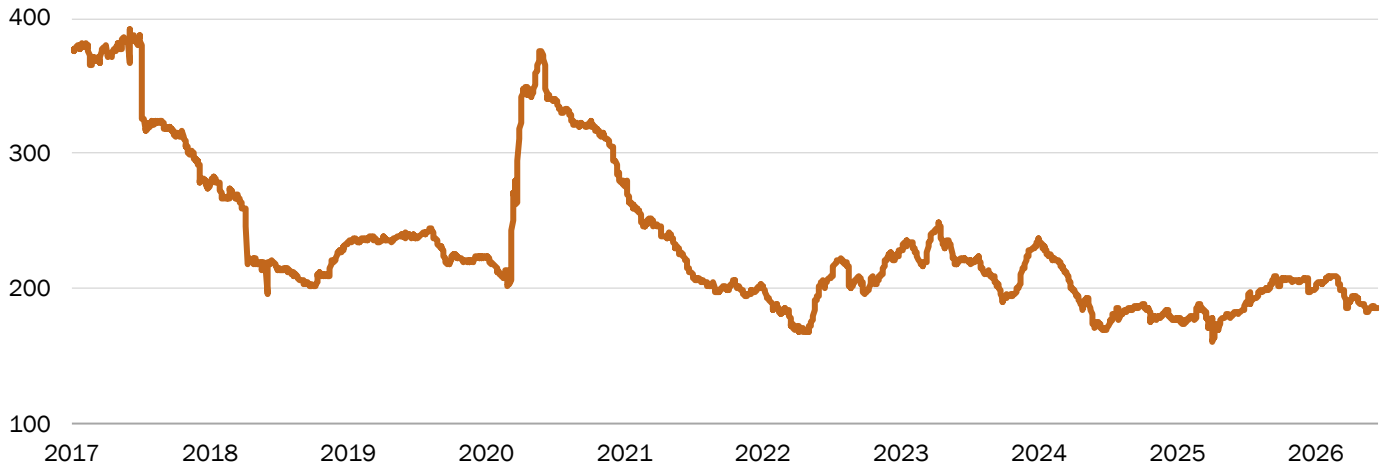
Data as of June 19, 2026

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

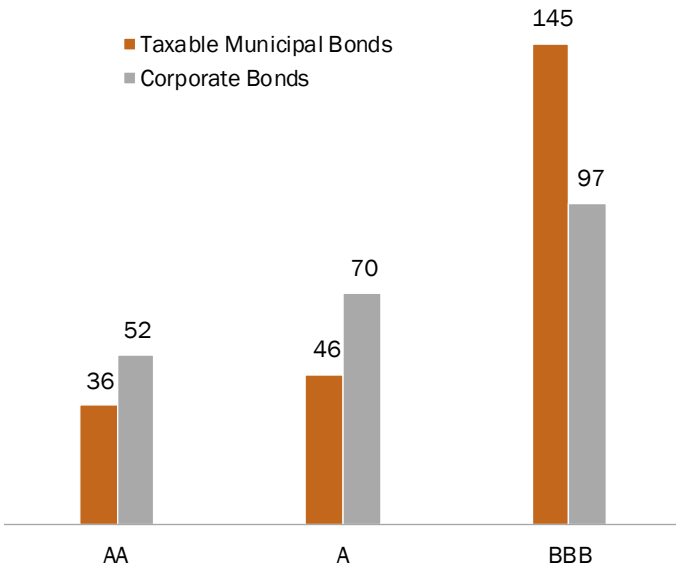


**BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL**



Data as of June 19, 2026  
Source: Bloomberg

**TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS**



Data as of June 19, 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.