

## Taking Assessment Mid-Year

### KEY TAKEAWAYS

- Municipals Value Comes Back into Focus
- First Half by the Numbers
- How should investors think about quality?

### Relative Performance

Treasuries rallied sharply last week as investors sought safety amid moderating economic data and shifting expectations that the Fed may be approaching the end of its tightening cycle. Municipal performance was more mixed. AAA BVAL yields declined 2 bps in 2s and nearly 6 bps in 30s, while intermediate maturities were little changed to modestly higher, with 5-year yields rising 2 bps and 10-year yields up less than 1 bp. Treasuries, by contrast, rallied across the curve, with yields falling 9–10 bps through 10 years and roughly 3 bps in 30s.

The divergence led to modest relative underperformance for municipals across much of the curve. The 2-year muni-to-Treasury ratio widened 0.7 points to 57.18%, while the 5-year ratio cheapened nearly 2 points to 61.94%. The 10-year ratio moved 1.3 points higher to 66.51%, reversing part of last week's richening. The long end was the exception, with the 30-year ratio declining to 85.44% as long municipals outperformed.

The week's performance once again illustrates that municipals continue to trade more on technicals than macro headlines. While Treasuries reacted aggressively to shifting rate expectations, municipal investors remained focused on seasonal reinvestment flows and a manageable new-issue calendar. The result was a market that held in well at the long end while lagging the Treasury rally in intermediate maturities.

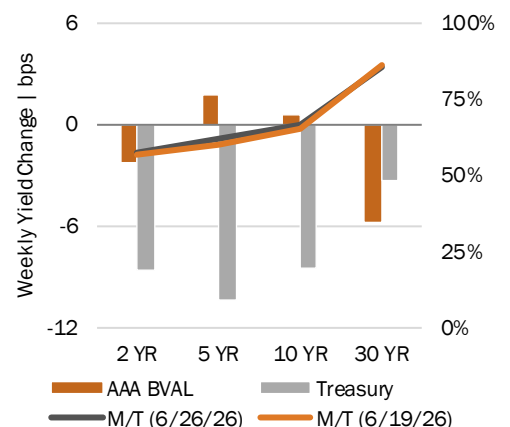
From a relative value perspective, the move is constructive. The modest cheapening in the 5–10 year portion of the curve begins to restore some of the value that had been compressed over the past several weeks and provides another opportunity for investors looking to add tax-exempt exposure.

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	0.35%	0.98%	5.03%
Muni Bond 10-Year	0.52%	0.97%	5.92%
Muni Bond 15-Year	0.73%	2.15%	5.31%
Muni Long Bond	1.50%	3.74%	1.95%
Muni Managed Money	0.83%	1.91%	3.94%

Data as of June 26, 2026.  
Source: Bloomberg

FIGURE 2: MUNIS UNDERPERFORM



Data as of June 26, 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**

As we close the books on the first half of 2026, one theme has become increasingly clear: municipals have evolved from an absolute return story into a relative value story.

The first quarter was driven by falling yields and strong technicals, allowing municipals to get off to one of their strongest starts in years. The second quarter looked very different. Inflation concerns, geopolitical uncertainty, and shifting Fed expectations created meaningful volatility across fixed income, forcing investors to become much more selective.

Despite that backdrop, municipals continued to hold their own.

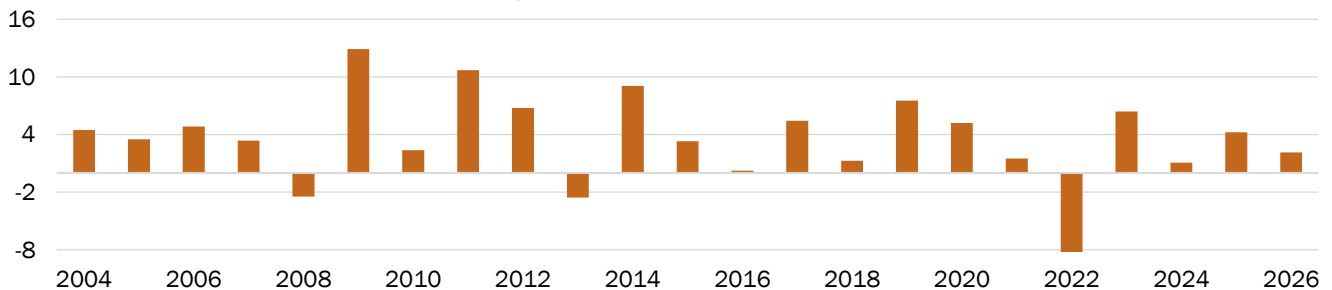
Through June 26, the Bloomberg Municipal Bond Index has returned roughly **2.0% year-to-date**, outperforming nearly every major taxable investment-grade benchmark. By comparison, the Bloomberg U.S. Treasury Index is up approximately **0.65%**, the U.S. Aggregate has returned **0.98%**, the U.S. Corporate Index **1.19%**, and even the broad U.S. Universal Index sits just above 1.0%. In our upcoming weekly we will look under the hood more on 1st half municipal performance and how it ties into our 2026 top 5 Insights, but for this week we will keep the conversation more high level.

Perhaps the biggest lesson from the first half isn't that municipals rallied—it's why they outperformed.

Higher starting yields, strong seasonal technicals, resilient credit fundamentals, and compelling tax-equivalent income allowed municipals to outperform even as Treasury markets were repeatedly whipsawed by macro headlines. Investors who remained focused on after-tax income rather than trying to time every move in the Fed or Treasury market were rewarded.

As we enter the second half of the year, we think the opportunity becomes even more interesting. The broad beta trade has largely played out. Going forward, excess returns are likely to come from relative value—both versus taxable fixed income and within the municipal market itself through thoughtful curve and credit positioning.

**FIGURE 4: MUNI YEAR TO DATE RETURNS | (IN BP)**



Data as of June 26, 2026.

Source: Bloomberg U.S. Municipal Bond Index Total Return

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### Questions from the Field

**Q** How should investors think about "quality" in today's municipal market? Is it simply buying the highest-rated bonds?

**A** Not necessarily. Quality and credit rating aren't always the same thing.

It's easy to default to AAA bonds when markets become volatile, but today's municipal market isn't paying investors very much to make that move. The spread between AAA and AA municipals is essentially negligible, while investors are still being compensated to selectively move into A and BBB-rated credits.

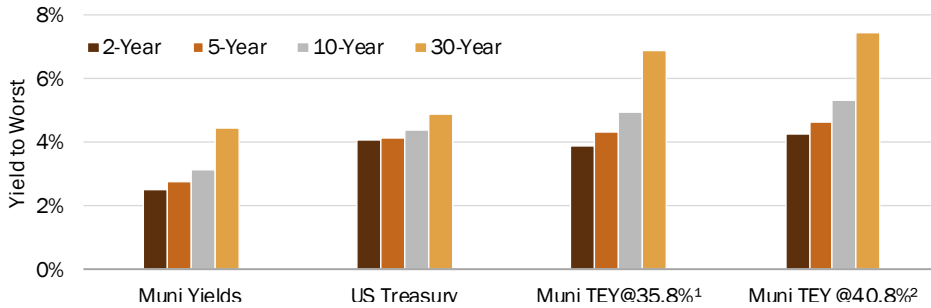
That's where active management becomes important. Rather than asking, "What's the highest-rated bond I can buy?" we think the better question is, "Where am I being adequately compensated for the risk I'm taking?"

Today, we believe that answer remains in high-quality spread product—particularly BBB-rated municipals—where investors can pick up meaningful incremental income while remaining within the investment-grade universe.

The goal isn't to maximize credit risk. It's to maximize risk-adjusted after-tax income.

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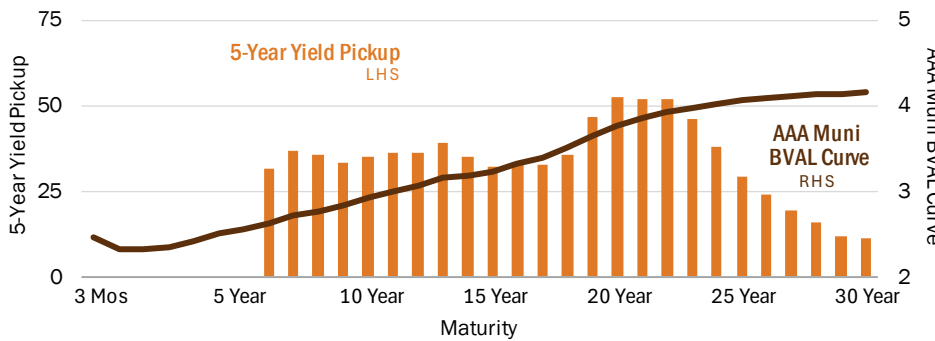
TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX



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 26, 2026.  
 Source: Bloomberg

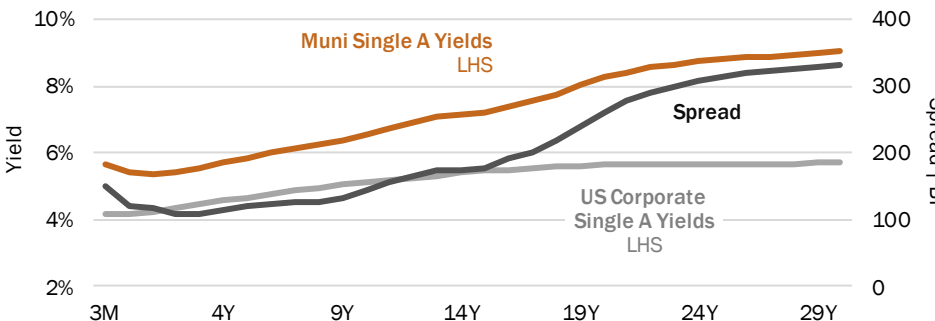
YIELD CURVE STEEPNESS



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

Data as of June 26, 2026.  
 Source: Bloomberg

MUNI EXCEEDS CORPORATE SPREADS



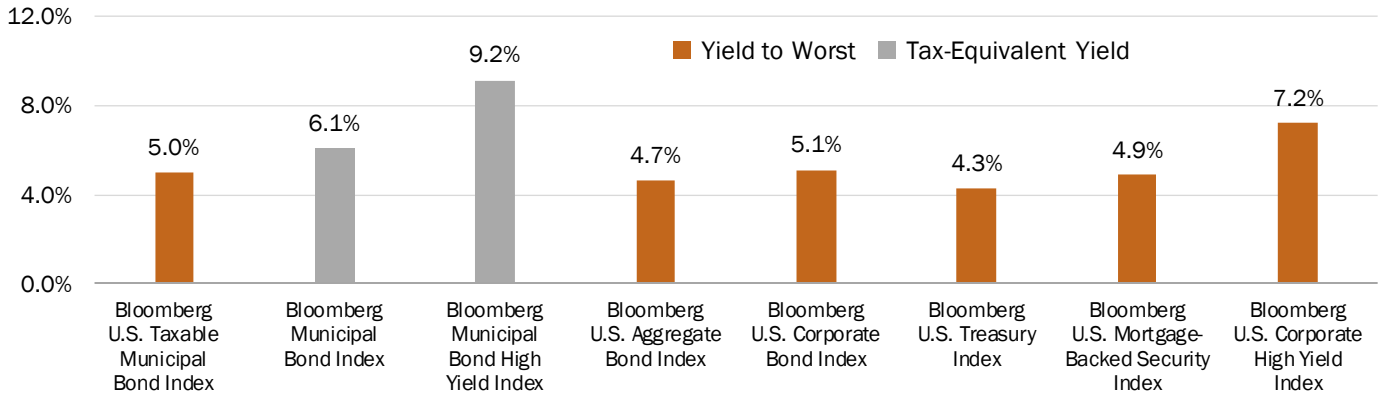
Tax equivalent munis continue to exceed corporate spread/yields

Data as of June 26, 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

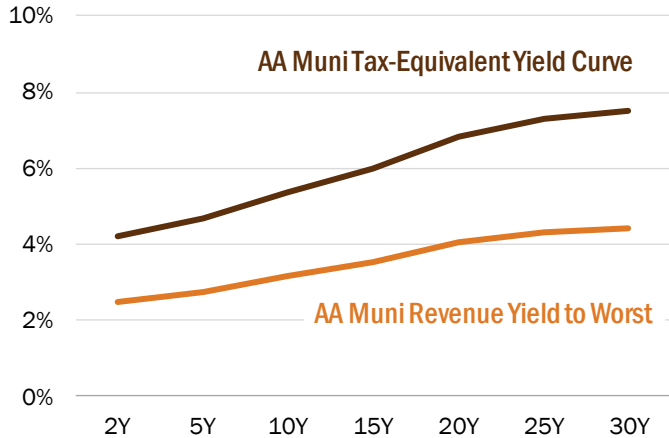


Data as of June 26, 2026

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

Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE

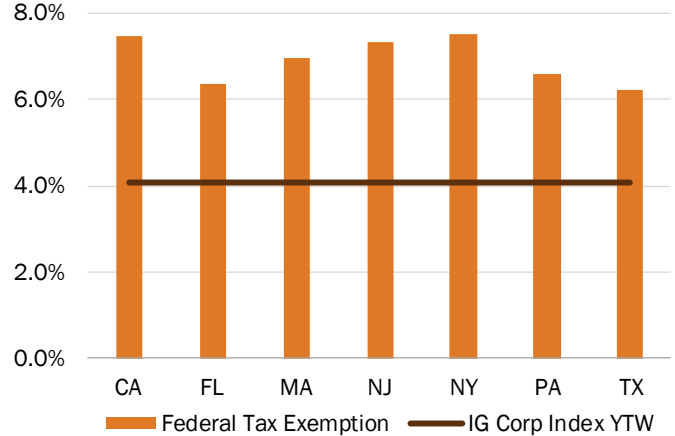


Data as of June 26, 2026

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

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



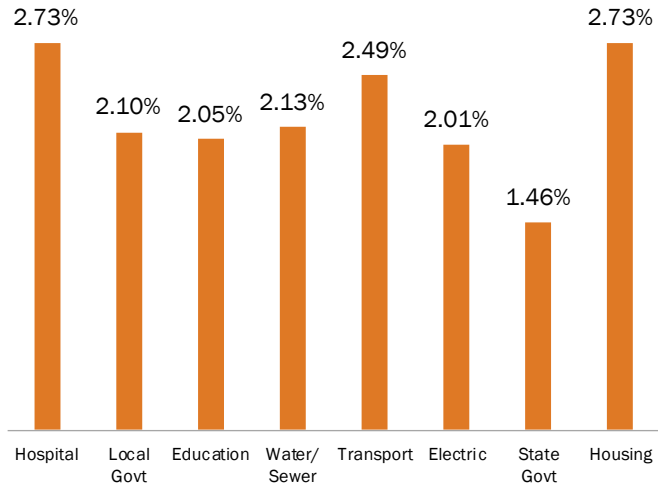
Data as of June 26, 2026

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

Source: Bloomberg

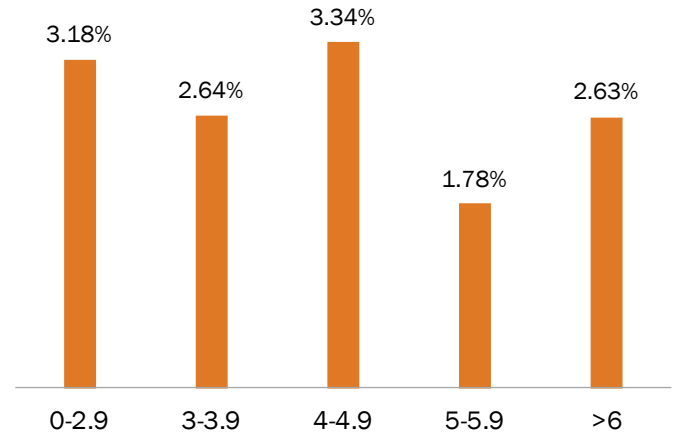


YTD TOTAL RETURNS BY SECTOR



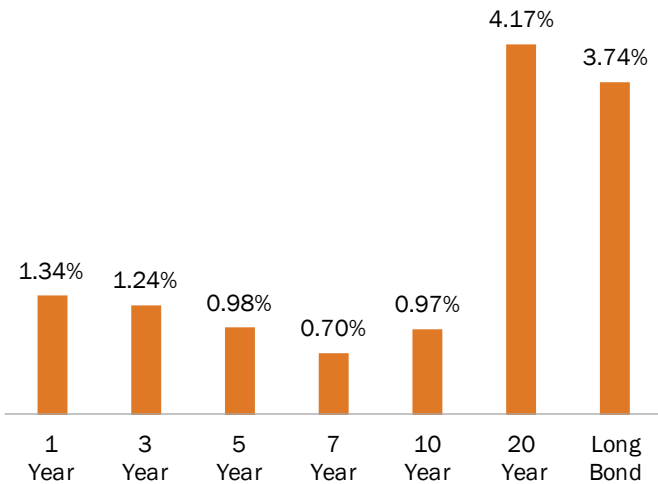
Data as of June 26, 2026  
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



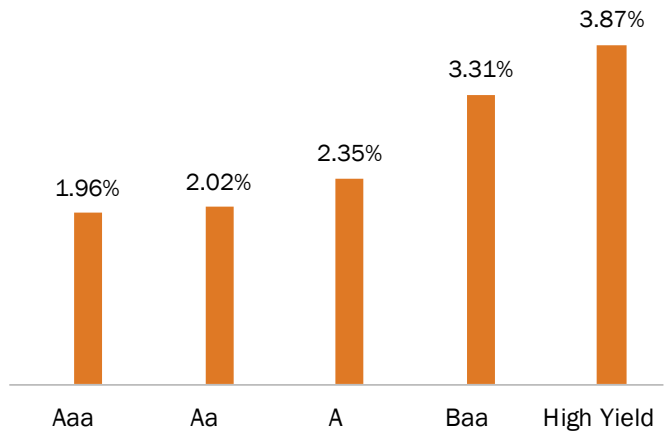
Data as of June 26, 2026  
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of June 26, 2026  
Source: Bloomberg

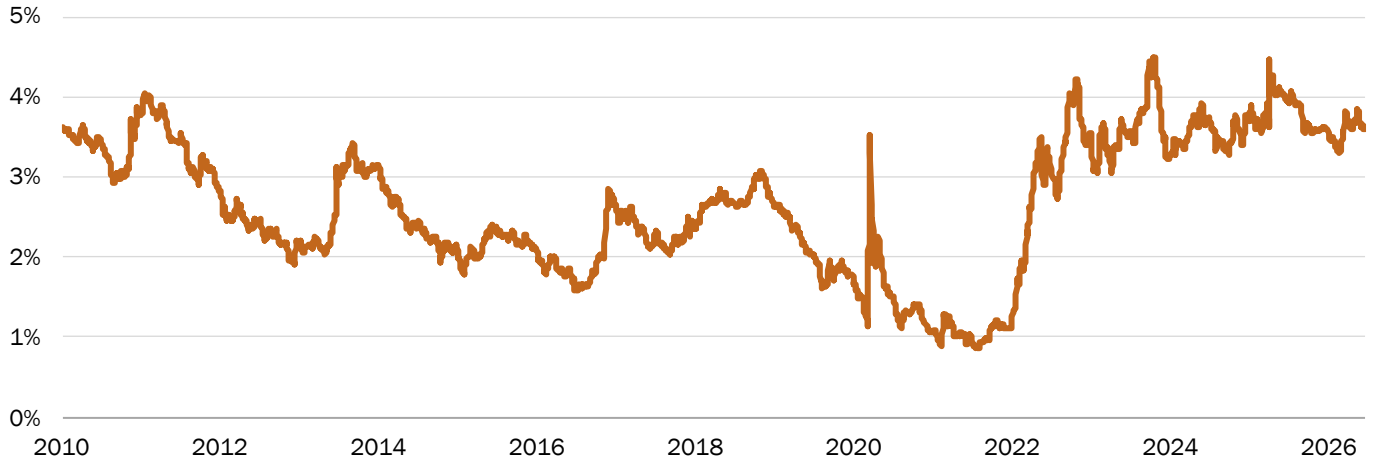
YTD TOTAL RETURNS BY RATING CATEGORY



Data as of June 26, 2026  
Source: Bloomberg



**BLOOMBERG MUNICIPAL YIELD-TO-WORST**



Data as of June 26, 2026  
 “Post GFC Average” measures the period from 1/1/2010 – 5/1/2026  
 Source: Bloomberg

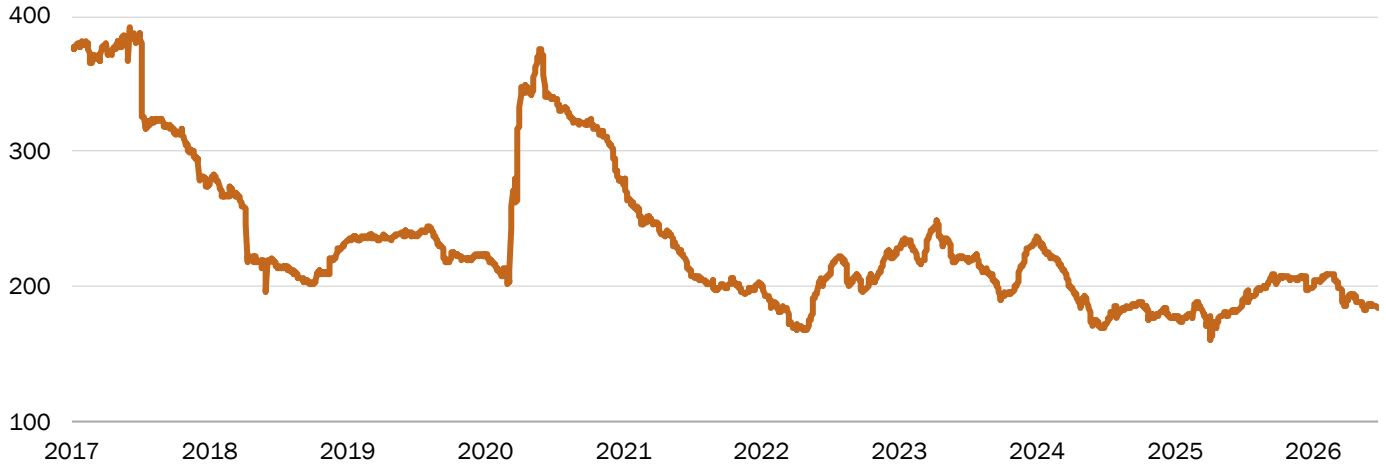
**MUNI YIELDS**

Tenor	6/26/2026	6/19/2026	Change (+/-)
<b>BLOOMBERG AAA MUNI KEY RATE YIELDS</b>			
2 YEAR	2.34%	2.36%	-0.02%
5 YEAR	2.56%	2.54%	0.02%
10 YEAR	2.91%	2.91%	0.01%
30 YEAR	4.16%	4.22%	-0.06%
<b>US TREASURY RATE YIELDS</b>			
2 YEAR	4.07%	4.19%	-0.12%
5 YEAR	4.12%	4.23%	-0.11%
10 YEAR	4.38%	4.46%	-0.08%
30 YEAR	4.87%	4.90%	-0.03%
<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	+ 31 bps	+ 49 bps	+ 80 bps
AAA MUNI CURVE SLOPE	+ 57 bps	+ 125 bps	+ 182 bps

Data as of June 26, 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

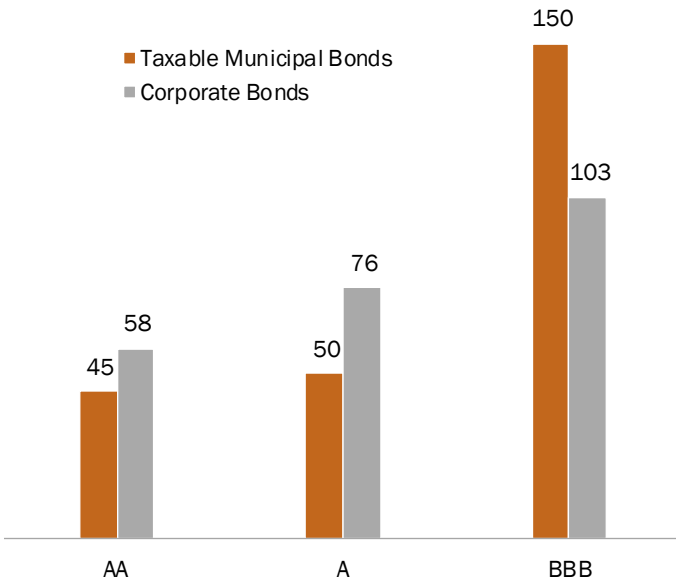


**BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL**



Data as of June 26, 2026  
Source: Bloomberg

**TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS**



Data as of June 26, 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.