

Munis Are a Credit Market at Heart...

KEY TAKEAWAYS

- Municipals Outperform Again
- Sometimes the Answer is Just Spread
- Allocating to Munis

Relative Performance

Municipals delivered a strong rally last week, while Treasuries moved sharply higher in yield as the two markets temporarily diverged. AAA BVAL yields declined 4 bps in 2s, 3 bps in 5s, 5 bps in 10s, and nearly 9 bps in 30s, reflecting robust demand across the curve. Treasuries, meanwhile, sold off aggressively, with yields rising 17 bps in 2s, 15 bps in 5s, nearly 11 bps in 10s, and roughly 3 bps in 30s.

The result was one of the strongest weeks for municipal relative performance this year. Muni-to-Treasury ratios richened materially across the curve, with the 2-year ratio declining more than 3 points to 57.79%, the 5-year ratio falling 2.7 points to 59.39%, and the 10-year ratio improving 2.6 points to 64.42%. The 30-year ratio also richened significantly, declining nearly 2.5 points to 85.02%.

This type of divergence is uncommon and highlights the strength of municipal technicals heading into the summer reinvestment season. While Treasury markets continue to digest macro uncertainty, fiscal concerns, and shifting expectations around monetary policy, municipals are increasingly being driven by their own supply-demand dynamics. With June, July, and August historically representing some of the strongest reinvestment months of the year, we observe that investors are stepping in to lock in attractive tax-exempt income before seasonal cash flows accelerate.

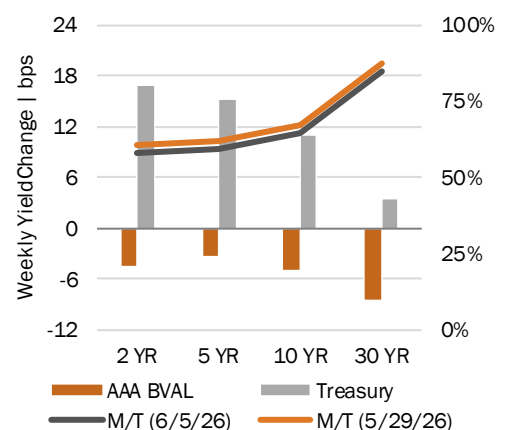
The move also reinforces a theme we've discussed throughout the year: municipals have evolved from an absolute return story into a relative value story. Following the volatility of March and April, investors were given a second opportunity to lock in attractive tax-exempt yields. As demand returns and technicals strengthen, portions of that opportunity are beginning to close.

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	0.26%	0.89%	5.03%
Muni Bond 10-Year	0.38%	0.82%	5.92%
Muni Bond 15-Year	0.49%	1.90%	5.31%
Muni Long Bond	0.72%	2.94%	1.95%
Muni Managed Money	0.50%	1.57%	3.94%

Data as of June 5, 2026.
Source: Bloomberg

FIGURE 2: MUNIS OUTPERFORM



Data as of June 5, 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

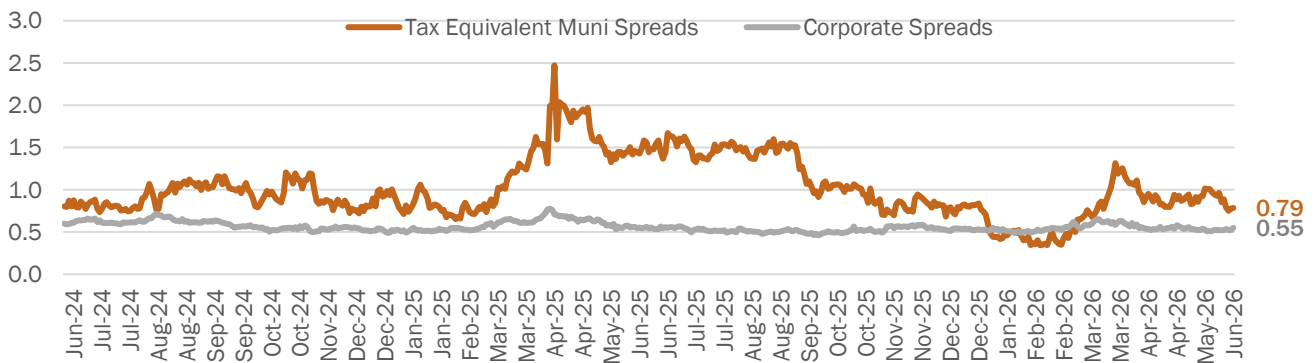
When discussing municipal valuations, we often default to familiar metrics. We talk about curve steepness. We talk about roll-down. We talk about muni-to-Treasury ratios.

All of those are important. But sometimes the simplest answer is the right one. Municipals are ultimately a credit market, and credit markets are driven by spread.

Today, the we believe long end of the municipal curve continues to offer some of the most compelling spread opportunities available anywhere in fixed income.

Take a look at the tax-equivalent spread profile. As of early June, a 10-year municipal bond offered roughly 79 basis points of tax-equivalent spread, compared to approximately 55 basis points for investment-grade corporates.¹

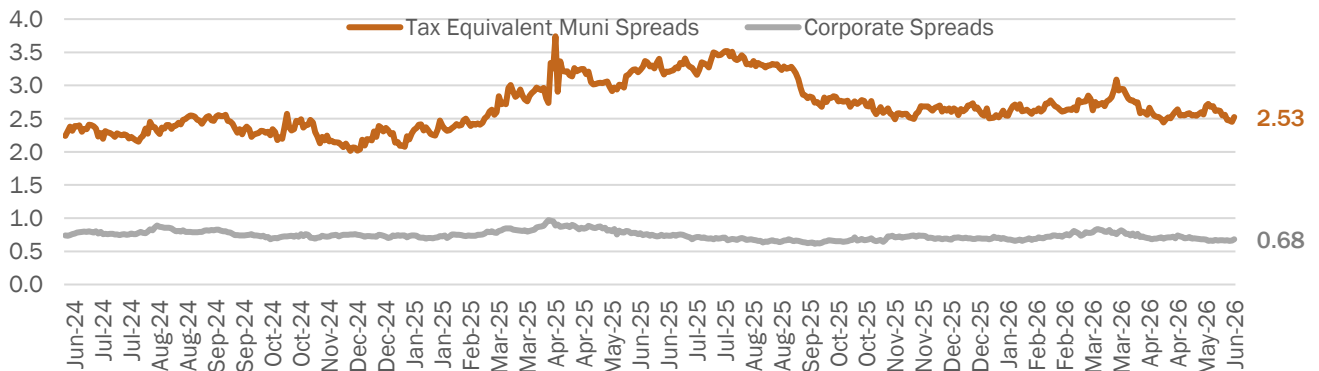
FIGURE 3: 10 YEAR TAX-EQUIVALENT SPREAD | (%)



Data as of June 4, 2026.
Source: Bloomberg Municipal Bond Index and Bloomberg US Corporate Bond Index

The story becomes even more compelling further out the curve. In 30 years, tax-equivalent municipal spreads are roughly 253 basis points, compared to just 68 basis points for comparable investment-grade corporates.

FIGURE 4: 30 YEAR TAX-EQUIVALENT SPREAD | (%)



Data as of June 4, 2026.
Source: Bloomberg Municipal Bond Index and Bloomberg US Corporate Bond Index

1. Tax Equivalent Muni Spread: The tax equivalent yield to worst of a AA-rated 10-year municipal revenue bond minus the yield to worst of a 10-year U.S. Treasury note. Assumes a 37% federal income tax bracket plus the 3.8% net investment income tax. This illustration does not constitute tax advice. The information contained herein should not be used as a substitute for advice from your tax advisor. Neither MackKay Municipal Managers nor MackKay Shields LLC advise clients on tax matters. Consult your tax advisor for further information.

In other words, investors are being paid substantially more spread in municipals than in corporates despite generally stronger credit quality, lower historical default rates, and an issuer base largely centered around essential-service infrastructure and public-purpose assets.

In our view, the recent volatility has only amplified that opportunity. While spreads have compressed from the wides reached in late March and early April, the long end continues to offer a meaningful pickup relative to both its own history and competing fixed income sectors.

This is why we've continued to emphasize the longer end of the municipal curve throughout the year. Yes, the curve remains steep. Yes, roll-down remains attractive. But those are secondary benefits.

The primary story is that investors are simply being paid more to own long municipal risk than many other forms of investment-grade credit.

And unlike prior periods when investors had to rely solely on duration to generate returns, today's market offers both income and spread.

When evaluating value in municipals, sometimes it's worth stripping away the complexity. The long end continues to stand out because the spread compensation is compelling. The curve and roll-down are nice bonuses. The spread is the reason to be there.

Questions from the Field

Q Is it better to make one large allocation into municipals today, or gradually average into the market over time?

A If the goal is to maximize income, waiting can be expensive. Every day spent in cash is another day of forgone tax-exempt income, and for many high-bracket investors that income remains historically attractive on both an absolute and tax-equivalent basis.

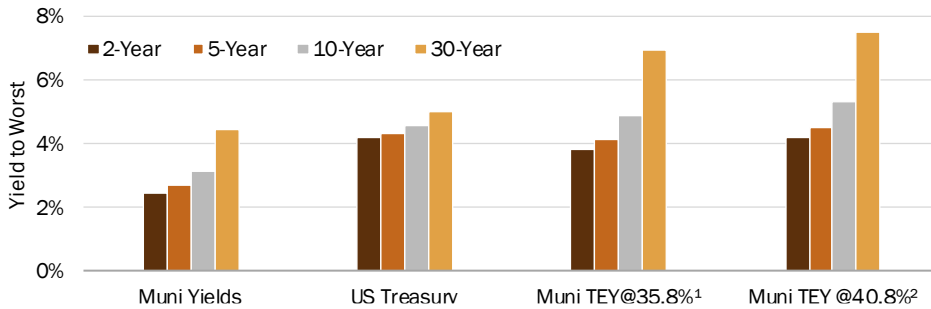
On the other hand, if the primary concern is timing rates, a phased approach can help manage behavioral risk. Markets rarely move in straight lines, and the last several months have reminded investors that volatility can create both opportunities and anxiety.

What's often overlooked is that municipal investing isn't just a duration decision—it's an income decision. Unlike equities, where the majority of the return may come from future price appreciation, a significant portion of municipal returns comes from the steady accumulation of tax-exempt income.

That changes the calculus.

Historically, some of the biggest mistakes in fixed income have come from waiting for a "better entry point" while income continues to accrue elsewhere. Investors often focus on a potential 10- or 20-basis-point move in yields while overlooking the income they're giving up in the process.

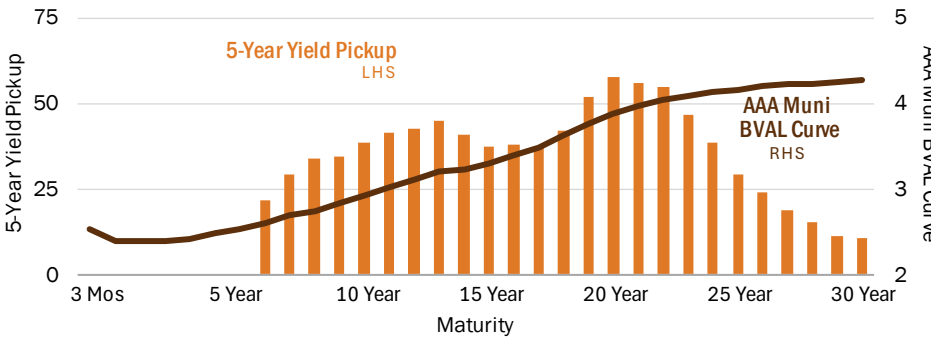
That's why we typically view implementation as a portfolio construction decision rather than a market-timing decision. Whether an investor chooses to allocate all at once or phase into the market, the more important question is whether the portfolio is ultimately positioned where it needs to be.



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 5, 2026.
 Source: Bloomberg

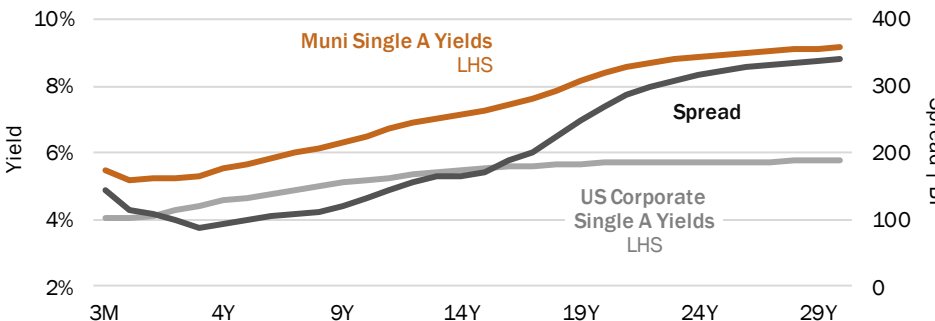
YIELD CURVE STEEPNESS



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

Data as of June 5, 2026.
 Source: Bloomberg

MUNI EXCEEDS CORPORATE SPREADS



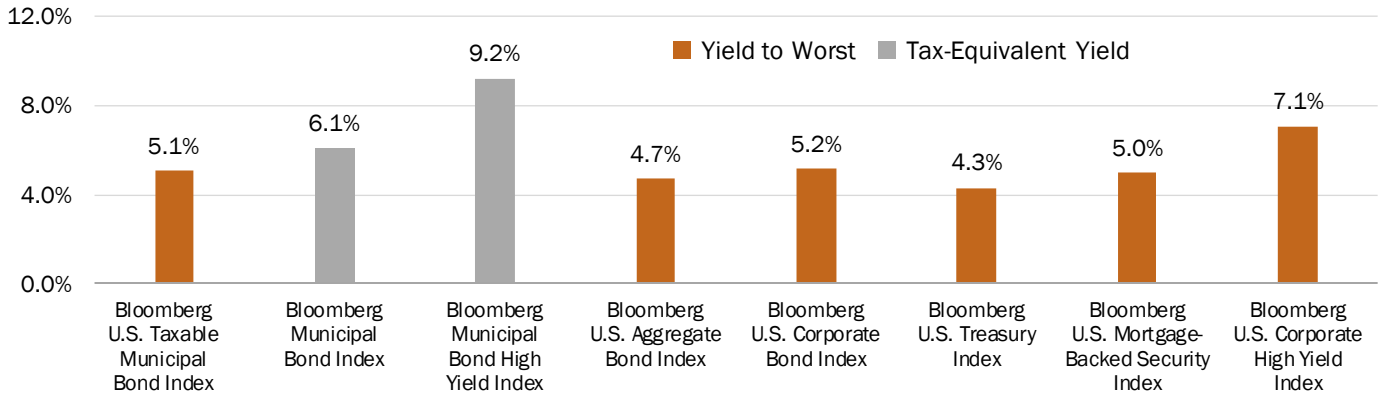
Tax equivalent munis continue to exceed corporate spread/yields

Data as of June 5, 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

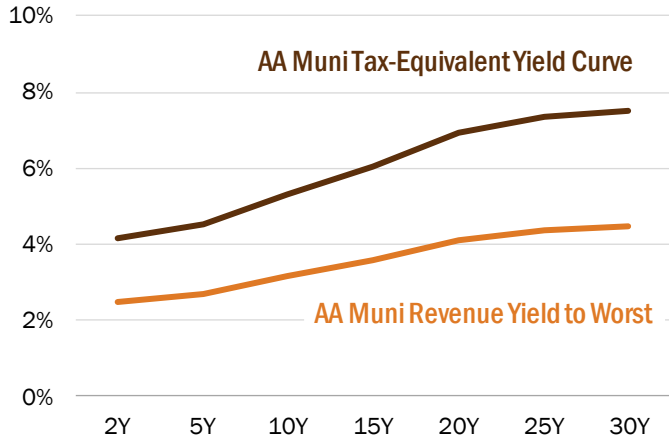


Data as of June 5, 2026

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

Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE

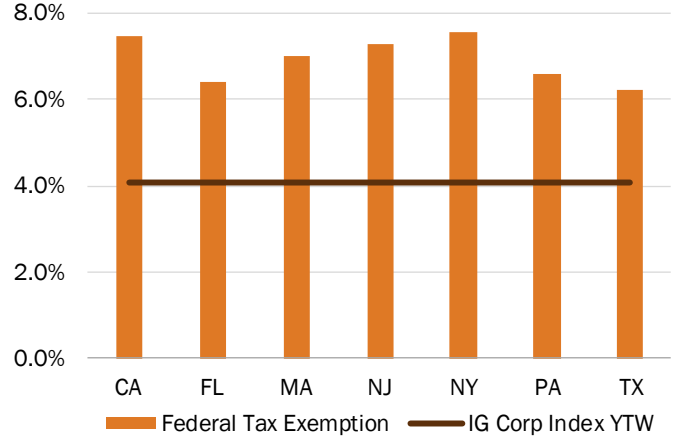


Data as of June 5, 2026

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

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



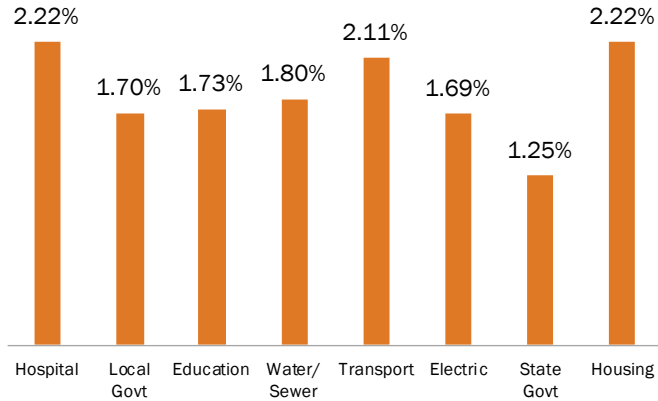
Data as of June 5, 2026

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

Source: Bloomberg

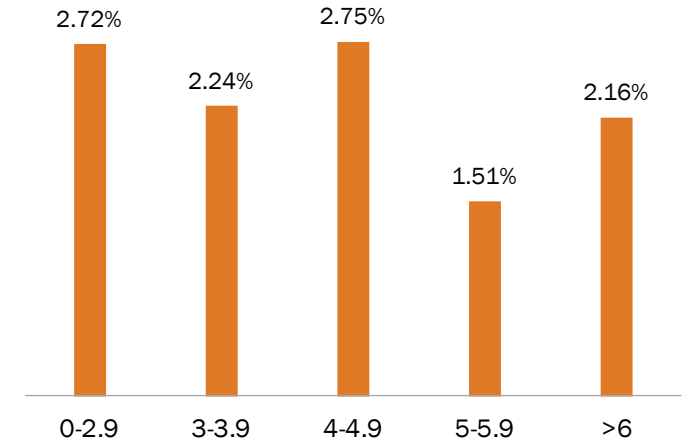


YTD TOTAL RETURNS BY SECTOR



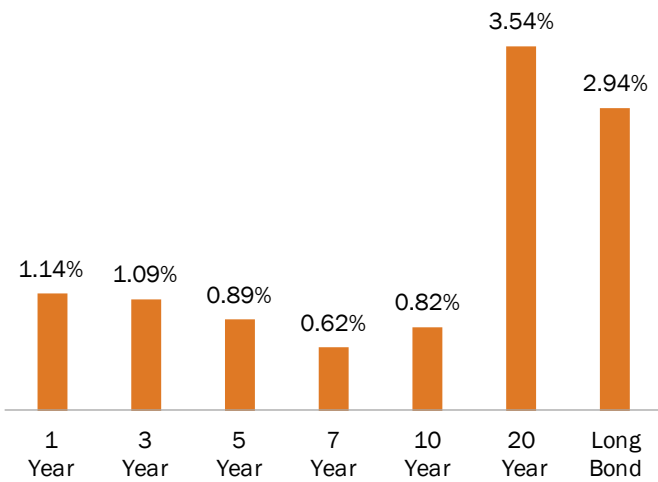
Data as of June 5, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



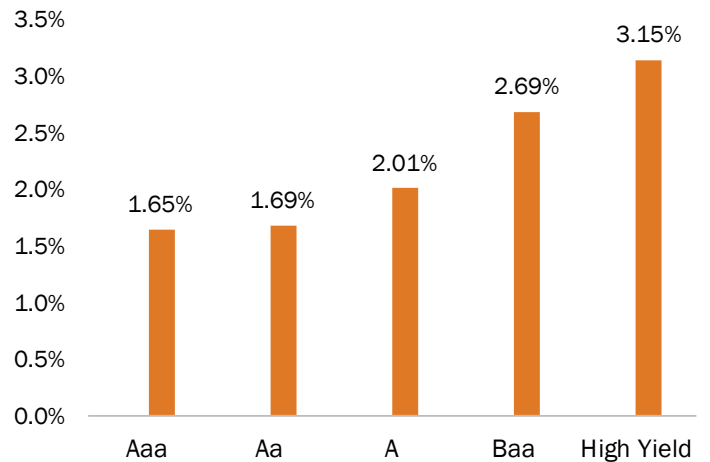
Data as of June 5, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of June 5, 2026
Source: Bloomberg

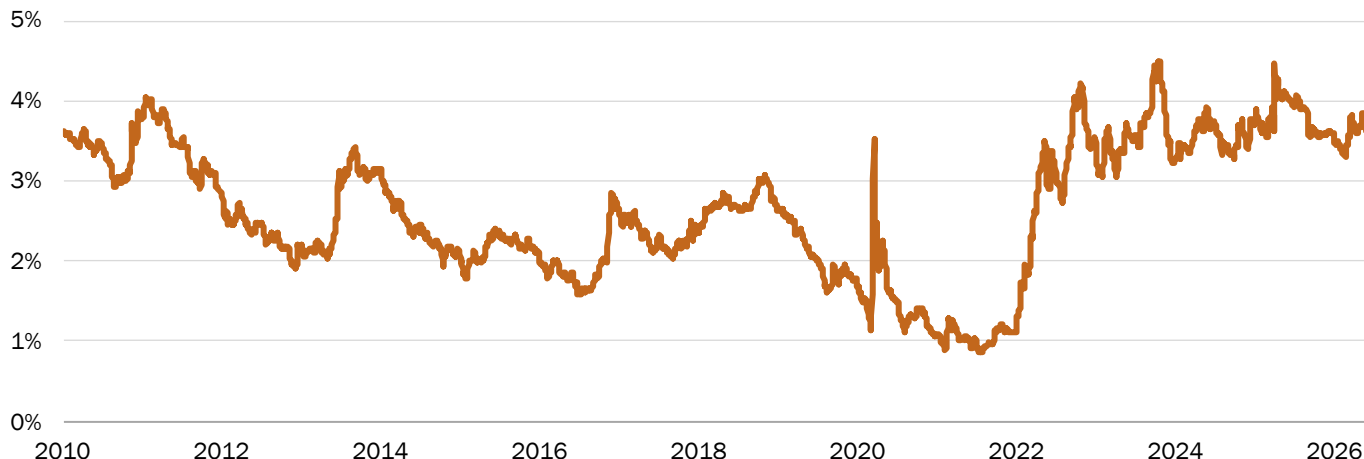
YTD TOTAL RETURNS BY RATING CATEGORY



Data as of June 5, 2026
Source: Bloomberg



BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of June 4, 2026

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

Source: Bloomberg

MUNI YIELDS

Tenor	6/4/2026	5/28/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.39%	2.48%	-0.09%
5 YEAR	2.53%	2.61%	-0.08%
10 YEAR	2.92%	3.01%	-0.10%
30 YEAR	4.26%	4.38%	-0.13%
US TREASURY RATE YIELDS			
2 YEAR	4.05%	3.99%	0.06%
5 YEAR	4.18%	4.15%	0.03%
10 YEAR	4.47%	4.45%	0.02%
30 YEAR	4.97%	4.98%	-0.01%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 42 bps	+ 50 bps	+ 92 bps
AAA MUNI CURVE SLOPE	+ 53 bps	+ 134 bps	+ 187 bps

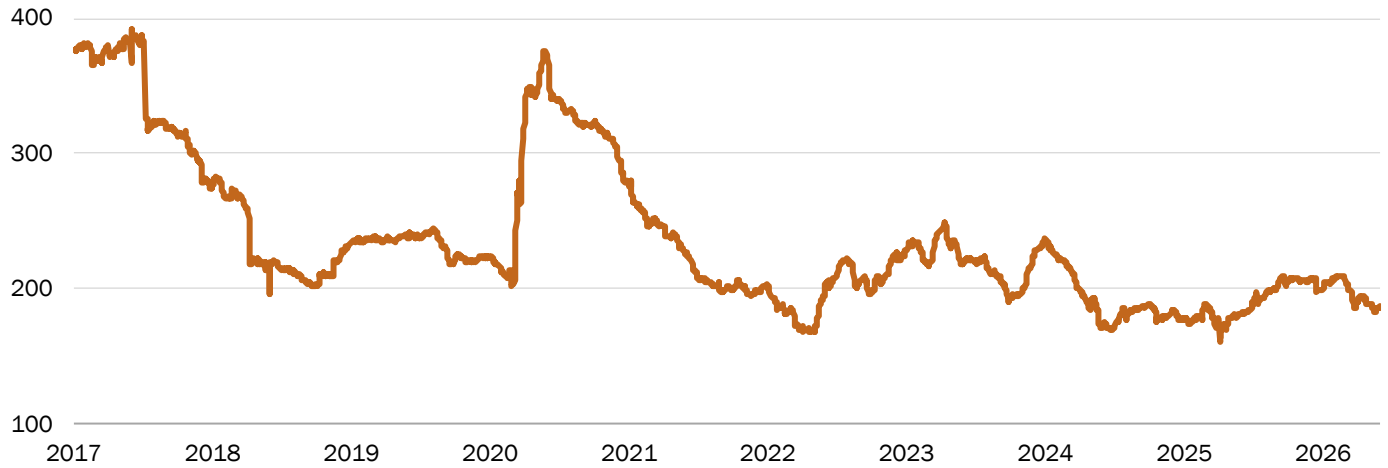
Data as of June 4, 2026

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

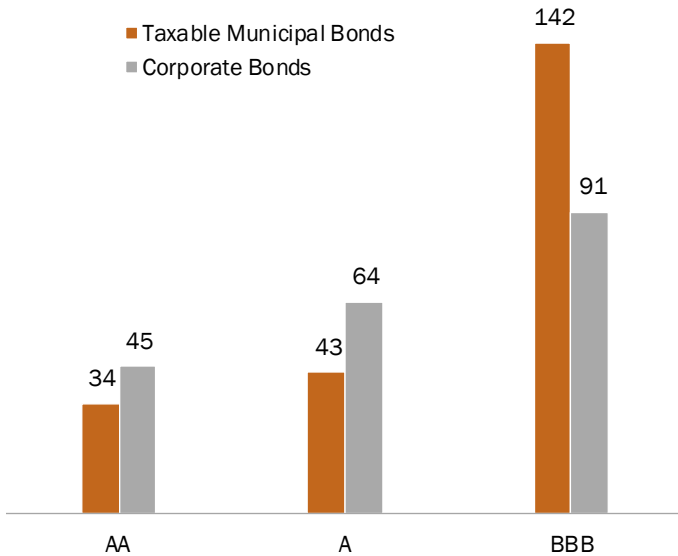


BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of June 4, 2026
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of June 4, 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.