

Looking For Safety in the Wrong Curve Places

KEY TAKEAWAYS

- Rate rise continues, with mixed results
- Flight to quality can mean different things
- K-12 credit musings

Relative Performance

MUNI VS. TREASURY RELATIVE PERFORMANCE

Rates continued to move higher last week as macro pressures and geopolitical volatility weighed on fixed income broadly. AAA BVAL yields rose 6.5 bps in 2s, 8 bps in 5s, and roughly 9 bps in 10s, with the long end up just over 3 bps. Treasuries again led the selloff, particularly at the front end, with yields rising 16 bps in 2s, 13 bps in 5s, and more modestly further out the curve.

Stepping back, municipals have clearly transitioned from an absolute value story to a relative value story over the past month. Coming into March, munis had already delivered roughly 52% of their 20-year average annual return in just the first two months of the year. Since then, geopolitical volatility has pressured all of fixed income, and municipals have not been immune.

That said, the market is behaving as expected. In a higher volatility environment, municipals are outperforming on a relative basis, particularly when Treasuries move more aggressively. This week was no exception — despite higher yields, municipals once again held in better than taxable counterparts in key parts of the curve.

From a performance standpoint, leadership remains consistent. High yield and BBB-rated municipals, along with the 17–22 year portion of the curve, have held up best year-to-date and continue to stand out from a total return perspective. That combination of carry, spread, and curve positioning continues to drive results.

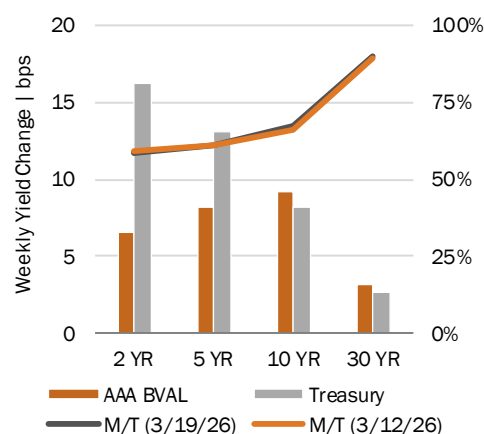
Bottom line: volatility has shifted the conversation. The easy absolute returns are behind us for now, but relative value is re-emerging — particularly in the longer portion of the curve, where ratios are consistently more compelling and performance leadership remains intact

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	-0.95%	0.84%	5.03%
Muni Bond 10-Year	-1.97%	0.36%	5.92%
Muni Bond 15-Year	-1.92%	0.68%	5.31%
Muni Long Bond	-1.42%	0.73%	1.95%
Muni Managed Money	-1.71%	0.59%	3.94%

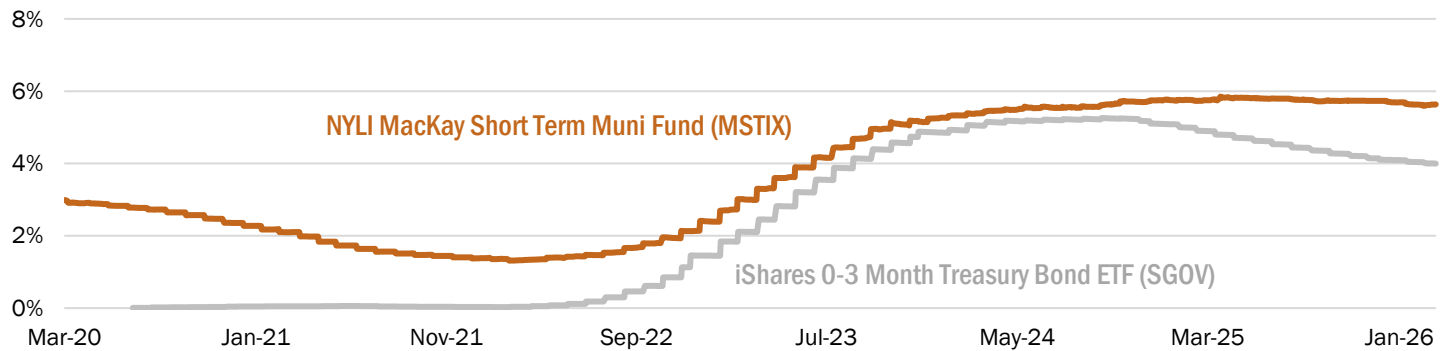
Data as of March 19, 2026.
Source: Bloomberg

FIGURE 2: MUNIS OUTPERFORM



Data as of March 19, 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

FIGURE 3: LOW DURATION VS NO DURATION



Data as of March 19, 2026
Source: Bloomberg

Market Technicals

The iShares 0-3 Month Treasury Bond ETF ([SGOV](#)) has quietly become the default hiding place in fixed income. It now sits at roughly \$79 billion in assets, with \$41 billion of inflows over the past year and another \$10+ billion already year-to-date, leading all domestic fixed income categories.

That's not just caution. That's crowding—specifically into the very front end of the curve.

And that's where the issue starts.

Clients think they're buying safety, and they are. But they're also overpaying for it. In eliminating duration and credit risk, they've effectively locked themselves into an income stream that resets lower the moment the Fed begins to ease. There's no ability to lock in today's yields, and no real total return potential if rates move in their favor.

That trade-off is becoming harder to justify.

This is where we believe the conversation needs to shift. It's not about pulling clients out of a defensive posture, it's about making that posture more efficient.

Instead of sitting entirely in cash-like exposures, modestly extending out the curve allows investors to maintain quality while improving income durability and adding some upside potential. That's where strategies like NYLI MacKay Short Term Muni Fund ([MSTIX](#)) come into play.

Today, MSTIX offers meaningfully higher tax-equivalent income—roughly 1.5x what SGOV provides—while maintaining high-quality exposure in the AA/Aa range. More importantly, it allows investors to lock in income for longer and participate in potential price appreciation if rates move lower.

This isn't about reaching for yield. It's about not underearning for the level of risk clients are already willing to take.

The opportunity right now is straightforward. SGOV allocations are everywhere. The instinct to prioritize safety is valid—but it's worth reframing the conversation. Instead of “should we take more risk,” but rather, “what are we giving up by staying here?”

Because at the moment, a large portion of client capital is sitting in one of the most crowded trades in fixed income—and getting paid the least to do it.

To access the most up-to-date information about a specific fund, simply click on the fund's name. This will take you to a detailed page that includes the prospectus, the fund's investment objectives, its performance history, key risk factors, Morningstar ratings, and other essential details.

For informational purposes only; not investment advice or a recommendation. References to specific funds (SGOV and MSTIX) are for illustrative purposes only and should not be construed as a recommendation. Investors should review each fund's prospectus and consider their individual circumstances before investing.

Questions from the Field

Q What's our current view on school district bonds given the concerns around enrollment declines and fiscal pressures?

A We remain firmly constructive on school district credit. While there are isolated concerns—mainly districts with governance issues or heavy reliance on potentially volatile state aid—these are limited in scope. Broadly, credit quality remains strong, with about 96% of Moody's-rated school district bonds in the AA/AAA categories versus ~79% for munis overall.

Enrollment pressure is a factor, but often overstated. Many states have built-in stabilizers like hold-harmless provisions, and when declines are widespread, funding is typically adjusted—resulting in higher per-pupil aid through formula changes or supplemental support, as we saw during COVID.

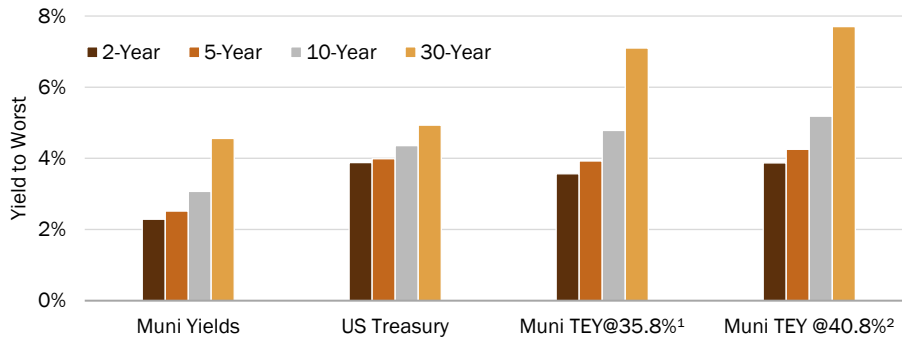
Importantly, bondholder security is even stronger than operating fundamentals suggest. School district bonds are generally backed by dedicated property tax levies for debt service, insulating them from budget pressures. Property tax revenues remain solid (up 7.8% YoY in 2024¹), and many states provide additional guarantees.

Bottom line: despite some headline risks, strong ratings, structural protections, and supportive funding frameworks continue to underpin a positive outlook.

1. Source: US Census Bureau



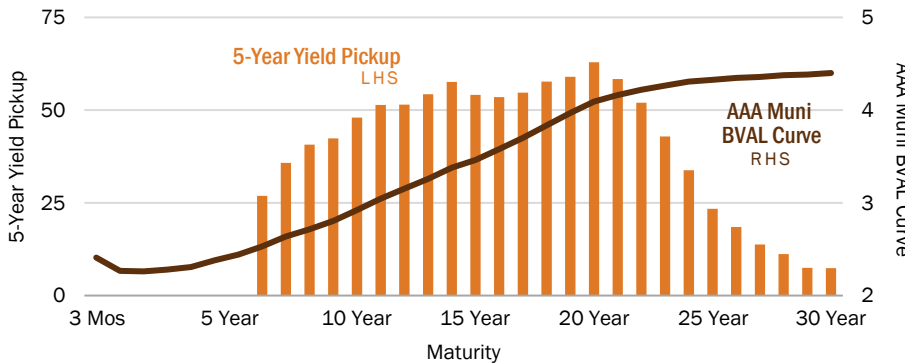
TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX



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 March 19, 2026.
 Source: Bloomberg

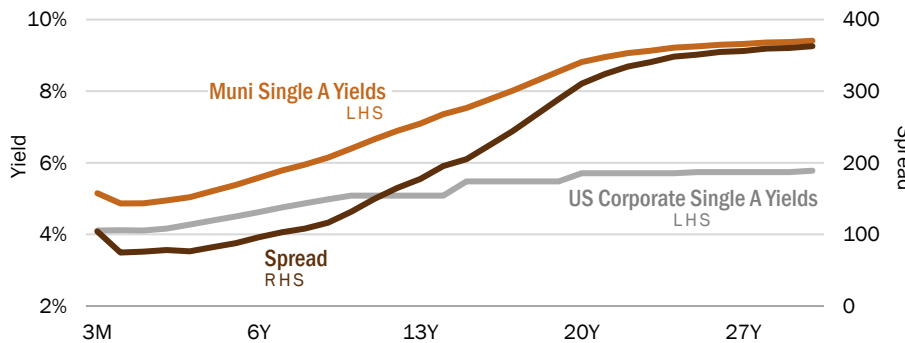
YIELD CURVE STEEPNESS



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

Data as of March 19, 2026.
 Source: Bloomberg

MUNI EXCEEDS CORPORATE SPREADS



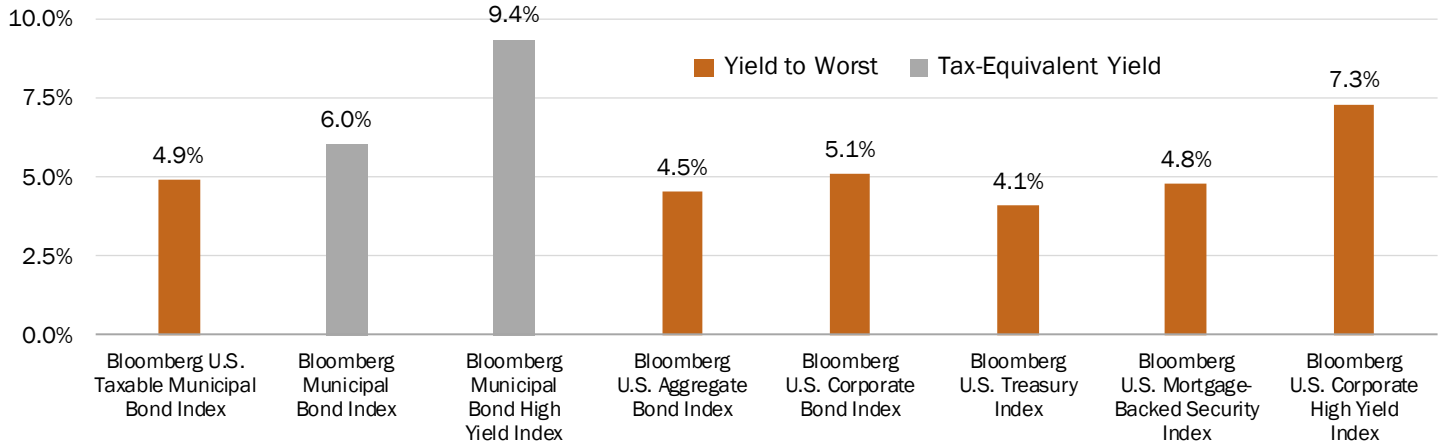
Tax equivalent munis continue to exceed corporate spread/yields

Data as of March 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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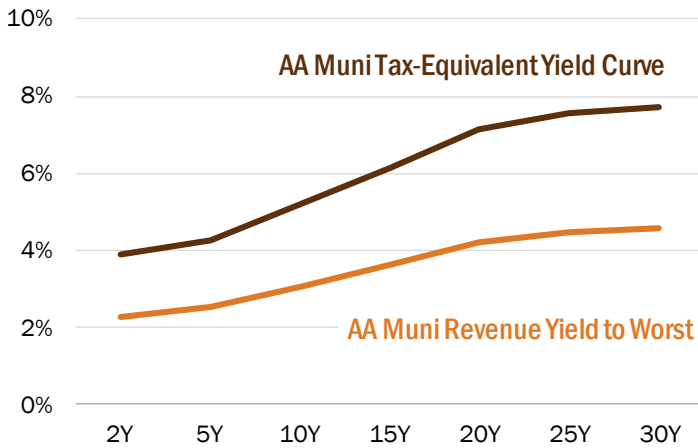


INDEX YIELDS



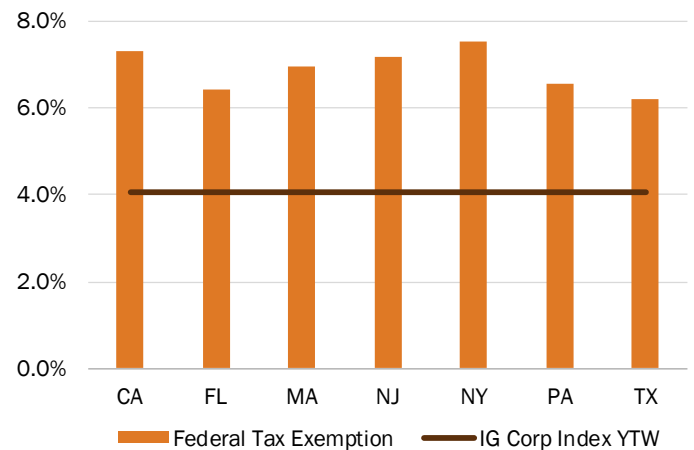
Data as of March 19, 2026
 Index definitions can be found in the Index Descriptions section in the back of this report.
 1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
 Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE



Data as of March 19, 2026
 Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
 Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW

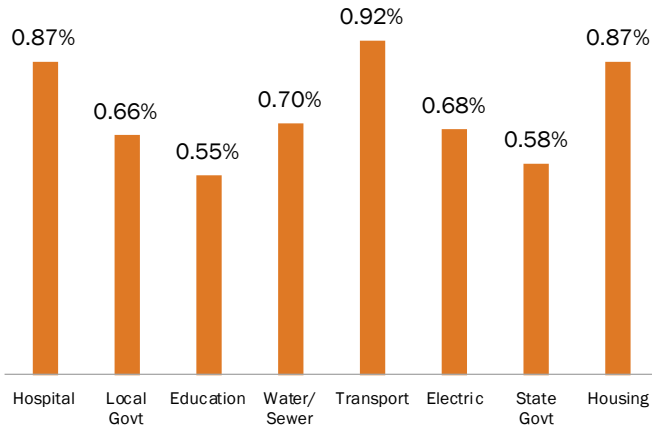


Data as of March 19, 2026
 Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
 Source: Bloomberg

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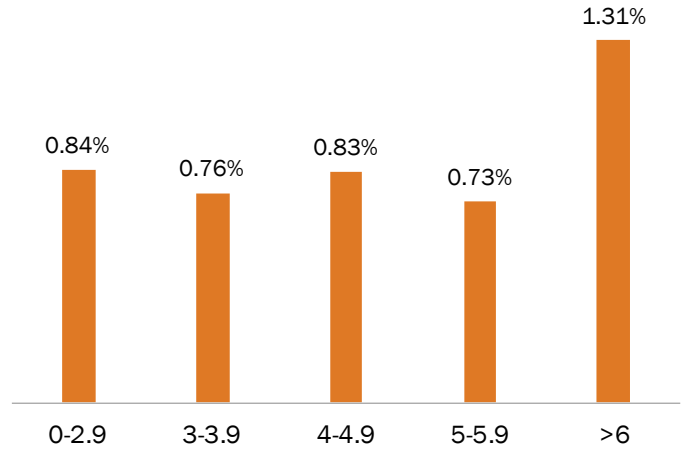


YTD TOTAL RETURNS BY SECTOR



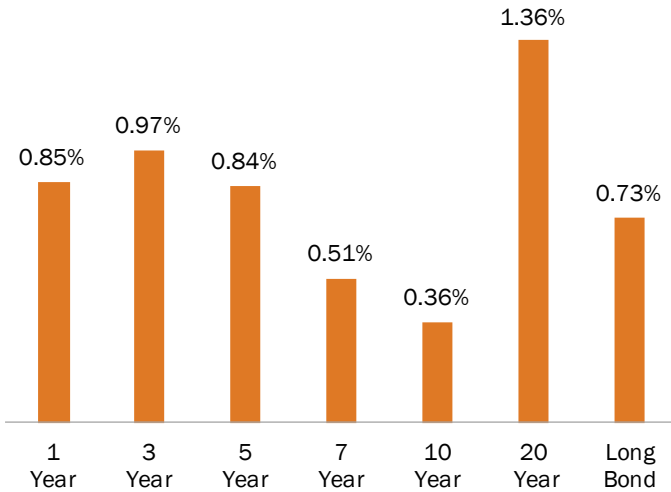
Data as of March 19, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



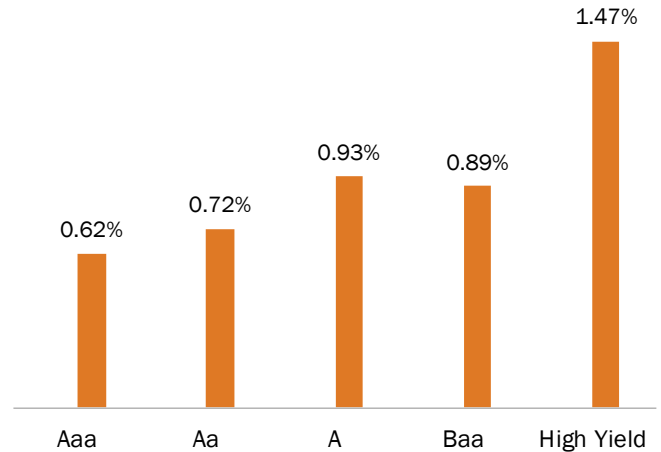
Data as of March 19, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of March 19, 2026
Source: Bloomberg

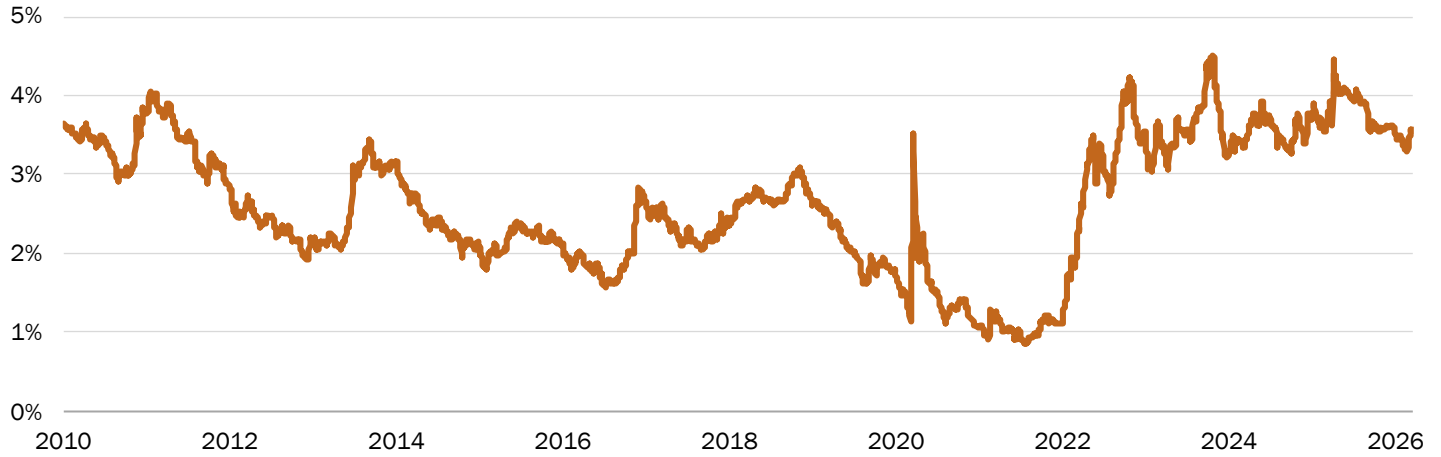
YTD TOTAL RETURNS BY RATING CATEGORY



Data as of March 19, 2026
Source: Bloomberg



BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of March 19, 2026
 "Post GFC Average" measures the period from 1/1/2010 - 3/19/2025
 Source: Bloomberg

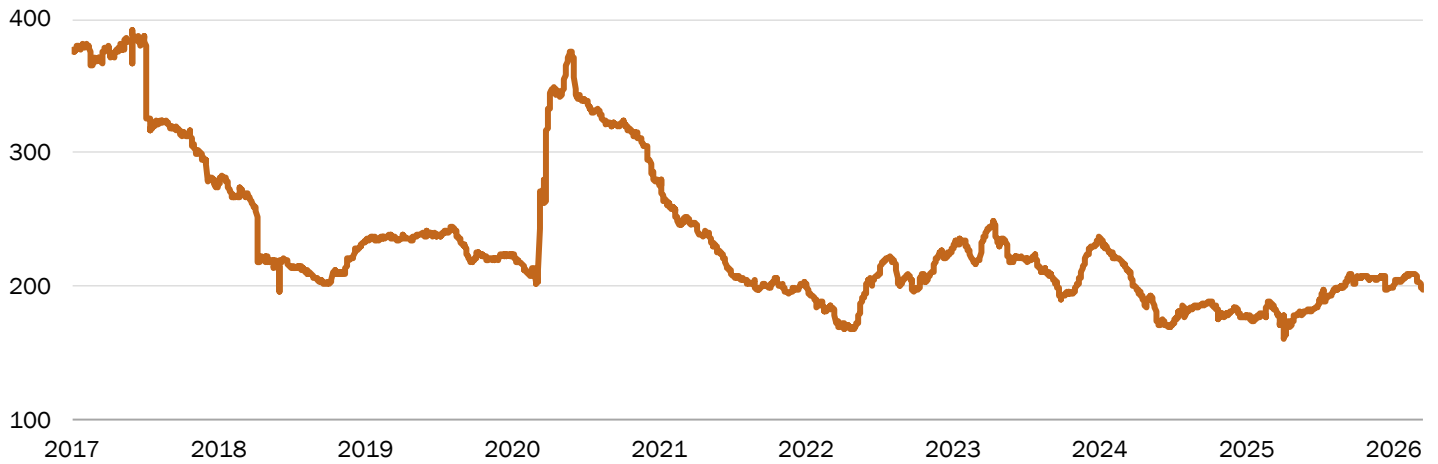
MUNI YIELDS

Tenor	3/19/2026	3/12/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.22%	2.21%	0.01%
5 YEAR	2.38%	2.36%	0.02%
10 YEAR	2.86%	2.83%	0.04%
30 YEAR	4.36%	4.37%	-0.01%
US TREASURY RATE YIELDS			
2 YEAR	3.79%	3.76%	0.03%
5 YEAR	3.88%	3.88%	0.00%
10 YEAR	4.25%	4.27%	-0.02%
30 YEAR	4.83%	4.88%	-0.05%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 46 bps	+ 58 bps	+ 104 bps
AAA MUNI CURVE SLOPE	+ 64 bps	+ 149 bps	+ 214 bps

Data as of March 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

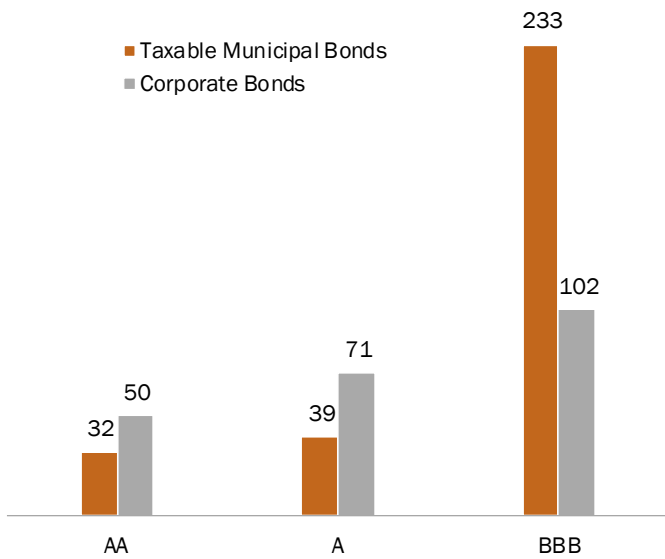


BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of March 19, 2026
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of March 19, 2026
The spread, better known as the option-adjusted spread (OAS) is the measurement of the yield of a fixed income security over that of a risk-free rate of return, which is adjusted to take into account an embedded option.
Source: Bloomberg



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Investing in below investment grade securities may carry a greater risk of nonpayment of interest or principal than higher-rated bonds. Funds that invest in bonds are subject to interest-rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner

Consider the Funds' investment objectives, risks, charges, and expenses carefully before investing. The prospectus and summary prospectus include this and other information about the Funds and are available by visiting www.nylinvestments.com. Read the prospectus carefully before investing.

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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.

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 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 Treasury Total Return Unhedged

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.