Muni Bonds Reign as Comeback Kids

KEY TAKEAWAYS

- Swift Reversal
- Are AMT Bonds a Muni Free Snack?
- Could Supply Take a Breather

Relative Performance[1]

After several weeks of significant selling pressure, municipals staged an impressive comeback last week, outperforming Treasuries across much of the curve. AAA BVAL yields declined nearly 22 bps in 2s, 23 bps in 5s, 22 bps in 10s, and 17 bps in 30s. Treasuries also rallied, but the move was more muted in shorter maturities, with yields falling 8 bps in 2s, 15 bps in 5s, and roughly 16–17 bps in 10s and 30s.

The result was meaningful richening in muni-to-Treasury ratios, particularly in the front and intermediate portions of the curve. The 2-year ratio declined 3.6 points to 66.19%, while the 5-year ratio improved 2.8 points to 67.50%. The 10-year ratio richened 2.1 points to 73.80%, and the 30-year ratio was relatively unchanged at 92.49%.

What's particularly interesting is the speed of the reversal. Following September's historic selloff and continued weakness into early October, municipals have quickly begun reclaiming some of that lost ground. The move was particularly pronounced inside 10 years, where the prior cheapening had created a significant valuation reset. With Treasury yields also moving lower, the combination of a broader rates rally and improving municipal technicals provided a welcome tailwind.

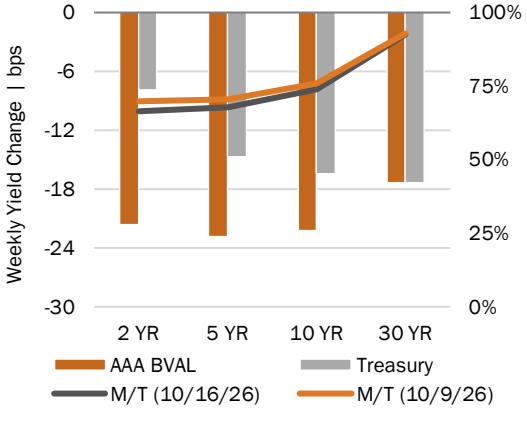
The bigger takeaway is how quickly relative value can disappear once buyers return. We've spent the past several weeks highlighting the opportunities created by higher absolute yields and wider muni-to-Treasury ratios. Last week's rally was a reminder that those windows don't necessarily remain open for long. Even after the move, however, 10-year ratios near 74% and 30-year ratios above 92% remain considerably more attractive than the levels we saw during much of the summer.

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	1.76%	-0.80%	5.03%
Muni Bond 10-Year	2.31%	-2.84%	5.92%
Muni Bond 15-Year	2.43%	-3.87%	5.31%
Muni Long Bond	2.10%	-3.03%	1.95%
Muni Managed Money	2.13%	-2.80%	3.94%

Data as of October 16, 2026.
Source: Bloomberg

FIGURE 2: MUNIS OUTPERFORMED



Data as of October 16, 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 overlooked developments following passage of the One Big Beautiful Bill Act (OBBBA) has been its implications for the municipal bond market, particularly bonds subject to the Alternative Minimum Tax (AMT). While much of the discussion had centered on the possibility that millions of taxpayers could once again become subject to AMT, the legislation told a different story. More importantly, current valuations suggest investors may be getting paid to assume a tax risk that is considerably narrower than in prior history.

Prior to the Tax Cuts and Jobs Act (TCJA), approximately 5 million taxpayers were subject to AMT annually. That changed dramatically in 2018, when Congress increased AMT exemptions and raised the income thresholds at which those exemptions began to phase out. The result was a reduction in AMT taxpayers to roughly 200,000 annually.

Those provisions were originally scheduled to expire at the end of 2025, raising concerns that millions of households could once again fall under the AMT regime. However, OBBBA prevented that outcome by making the higher TCJA-era exemptions permanent.

There was a catch. Beginning in 2026, the legislation lowered the income thresholds at which AMT exemptions begin to phase out, from approximately $1.25 million to $1 million for married couples filing jointly, and from roughly $626,000 to $500,000 for single filers. It also accelerated the exemption phaseout rate from 25% to 50%.

While those changes could increase AMT exposure among higher-income households, they do not represent a return to the pre-TCJA framework. The concern that the number of taxpayers subject to AMT will suddenly return to 5 million or more is simply not supported by the legislation.

SO WHY DOES THIS MATTER FOR MUNICIPAL INVESTORS?

Certain municipal bonds, primarily specified private activity bonds, generate interest that is exempt from regular federal income taxes but may be included in the AMT calculation. Historically, investors have demanded additional yield to compensate for that potential tax liability.

And that is where today's relative value opportunity becomes interesting.

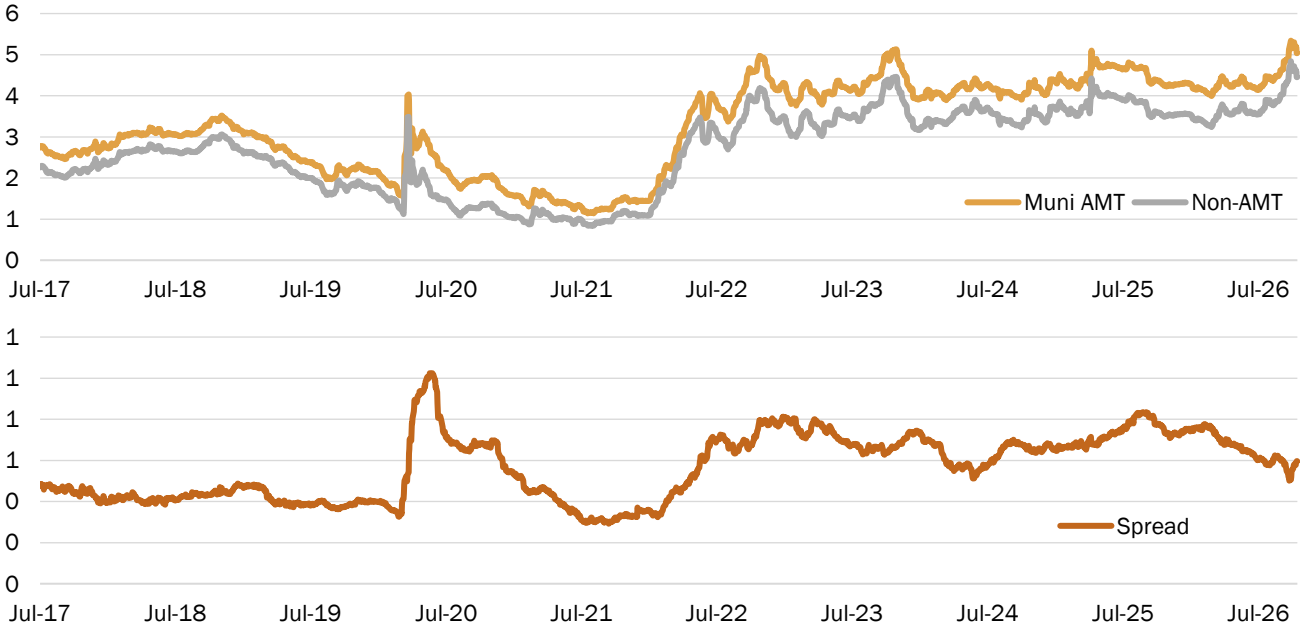
As the accompanying chart illustrates, the Bloomberg Municipal AMT Bond Index currently yields approximately 5.04%, compared with 4.45% for the Bloomberg Municipal Investment Grade ex-AMT Index. That represents a yield advantage of nearly 60 basis points.

For perspective, the historical average spread over the period shown is approximately 57 basis points. Today's spread is modestly wider than that average, although well below the extremes observed during periods of market stress.

The distinction matters because AMT bonds are not trading at unprecedented discounts, but they continue to offer incremental yield at a time when the legislative changes have preserved much of the tax relief introduced under TCJA.

For investors who are not subject to AMT, that additional income may represent an attractive opportunity, particularly when evaluated alongside comparable non-AMT bonds. Of course, differences in credit quality, duration, sector composition and liquidity also influence index-level yields, making security selection essential.

FIGURE 3: YIELDS | BLOOMBERG MUNICIPAL BOND: AMT BOND INDEX VS. NON-AMT (IN %)



Data as of October 16, 2026.
Source: Bloomberg

Questions from the Field

Q After a record pace of municipal issuance this year, could higher borrowing costs and the upcoming elections finally slow new-issue supply?

A I think there's a reasonable argument that municipal supply could begin to lose some momentum as we move toward year-end.

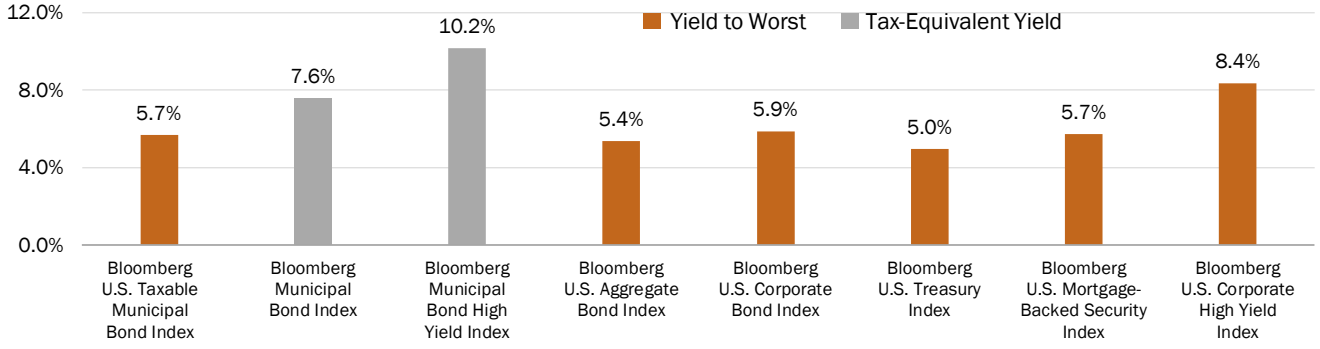
We've spent much of 2026 talking about record issuance and the market's ability to absorb it. But higher rates change the economics for issuers just as much as they do for investors. Refinancings become less attractive, discretionary capital projects may get pushed out, and municipalities have to weigh the cost of borrowing today against the possibility of better financing conditions down the road.

Add in the November elections, particularly with 36 gubernatorial races on the calendar, and there's another reason some issuers may choose to wait. Changes in political leadership, budget priorities and fiscal policy can all influence the timing of debt issuance. That doesn't mean essential infrastructure projects disappear, but the timing of when they come to market can certainly change.

What's interesting is what that could mean for municipal technicals. After a year in which investors have had to absorb an enormous amount of new supply, even a modest slowdown in issuance could shift the supply-demand balance. If fund flows remain supportive and fewer bonds come to market, that could provide another tailwind for valuations, particularly following the significant repricing we've experienced since September.

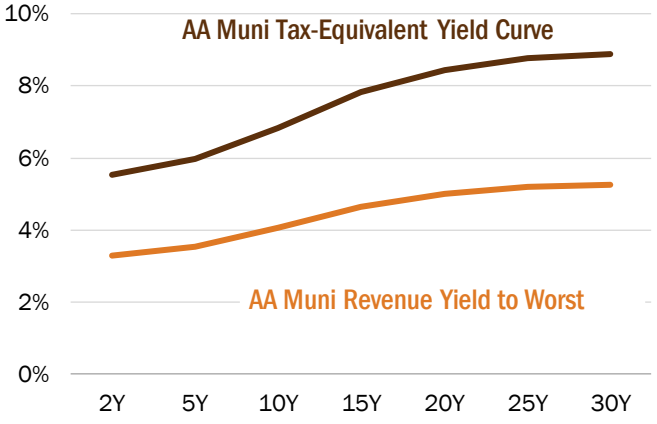
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INDEX YIELDS



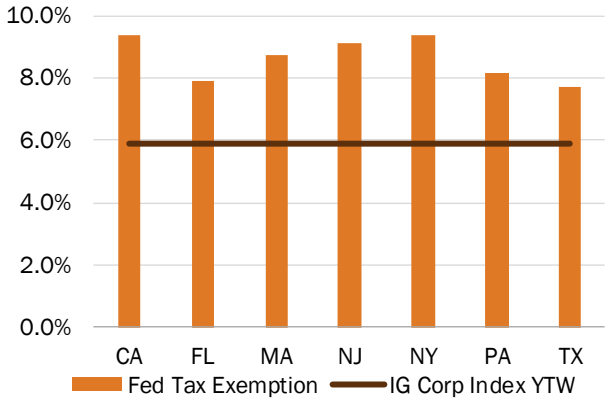
Data as of October 16, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE



Data as of October 16, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

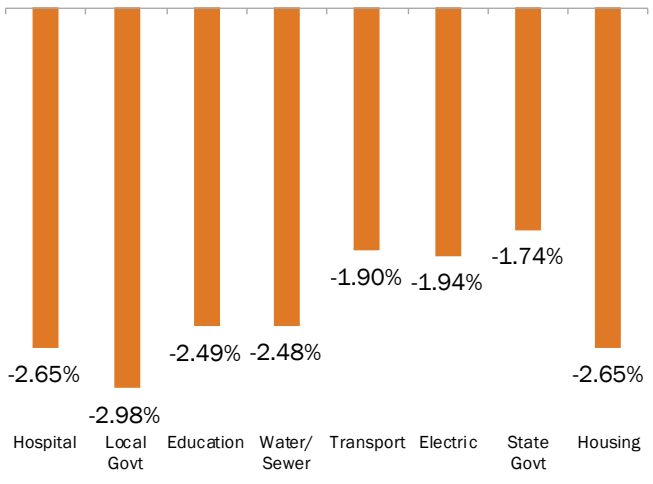
IN-STATE MUNI TAX-EQUIVALENT YTW



Data as of October 16, 2026
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

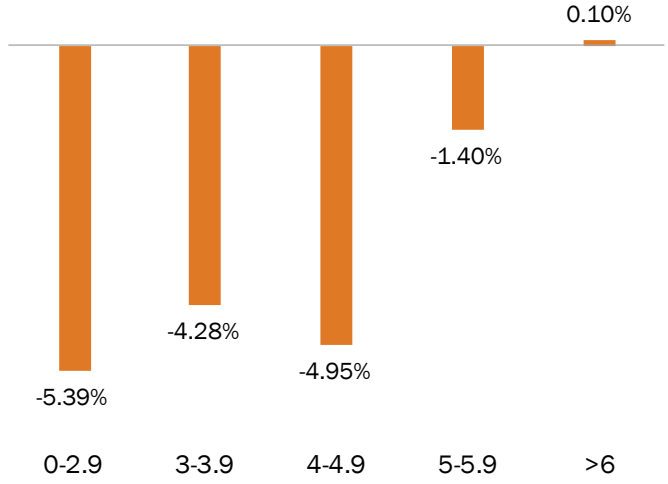
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YTD TOTAL RETURNS BY SECTOR



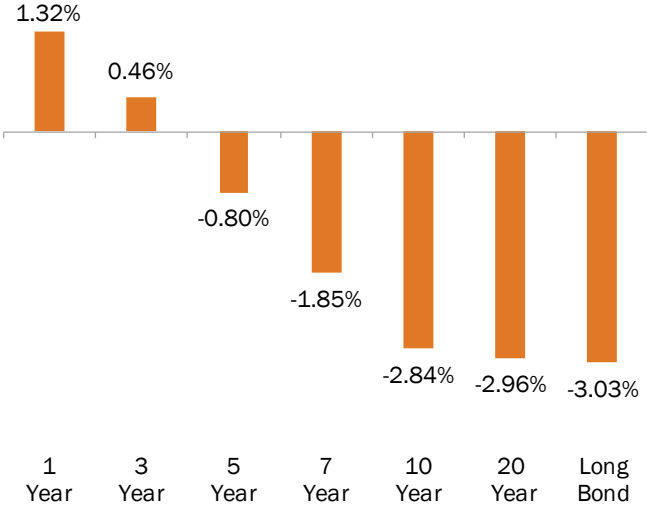
Data as of October 16, 2026
Source: Bloomberg Municipal Bond Index

YTD TOTAL RETURNS BY COUPON



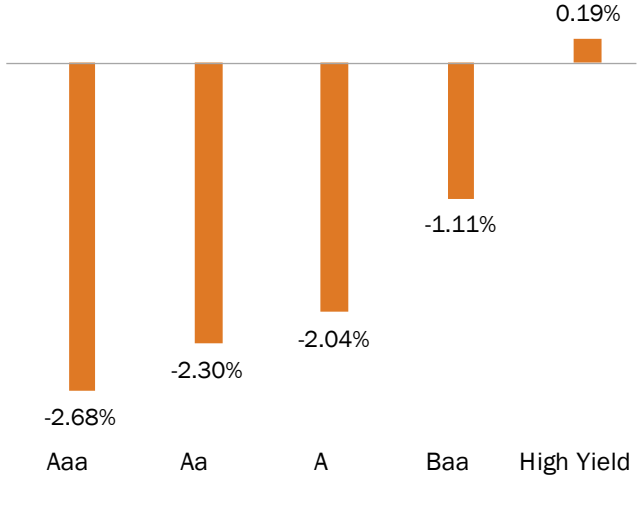
Data as of October 16, 2026
Source: Bloomberg Municipal Bond Index

YTD TOTAL RETURNS BY MATURITY



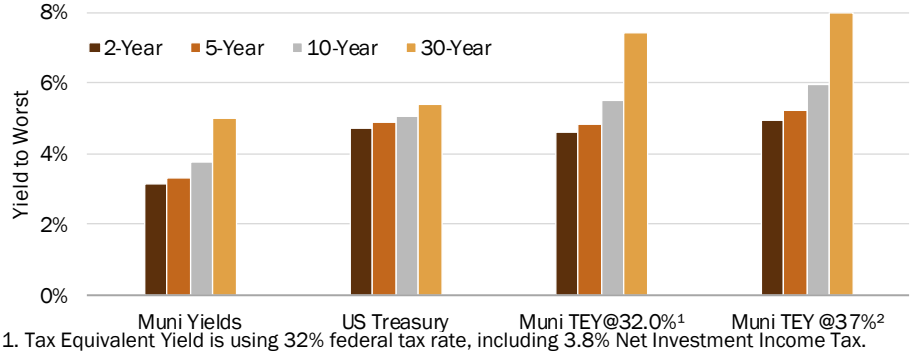
Data as of October 16, 2026
Source: Bloomberg Municipal Bond Index

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of October 16, 2026
Source: Bloomberg Municipal Bond Index

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

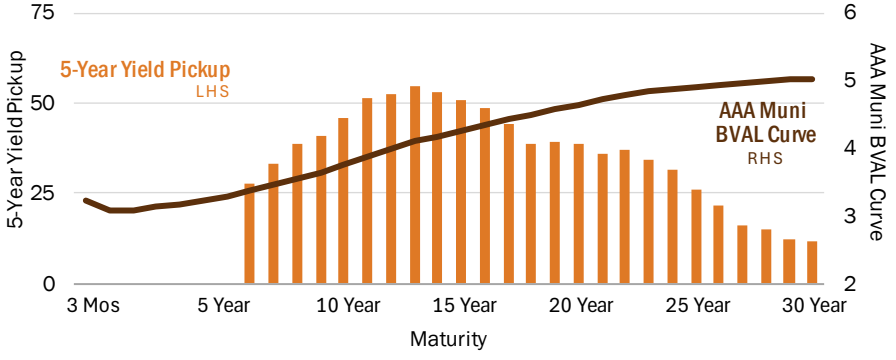


1. Tax Equivalent Yield is using 32% federal tax rate, including 3.8% Net Investment Income Tax.
2. Tax Equivalent Yield is using 37% federal tax rate, including 3.8% Net Investment Income Tax.

Data as of October 16, 2026.
Source: Bloomberg

On a tax-adjusted basis munis handily lead across tenors

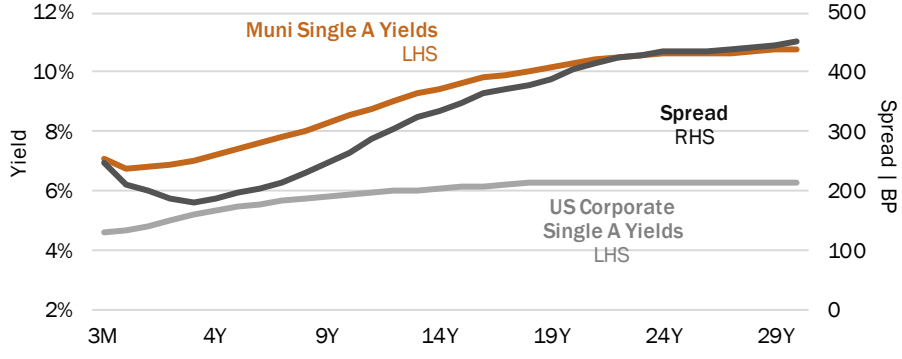
YIELD CURVE STEEPNESS



Data as of October 16, 2026.
Source: Bloomberg

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

MUNI EXCEEDS CORPORATE SPREADS

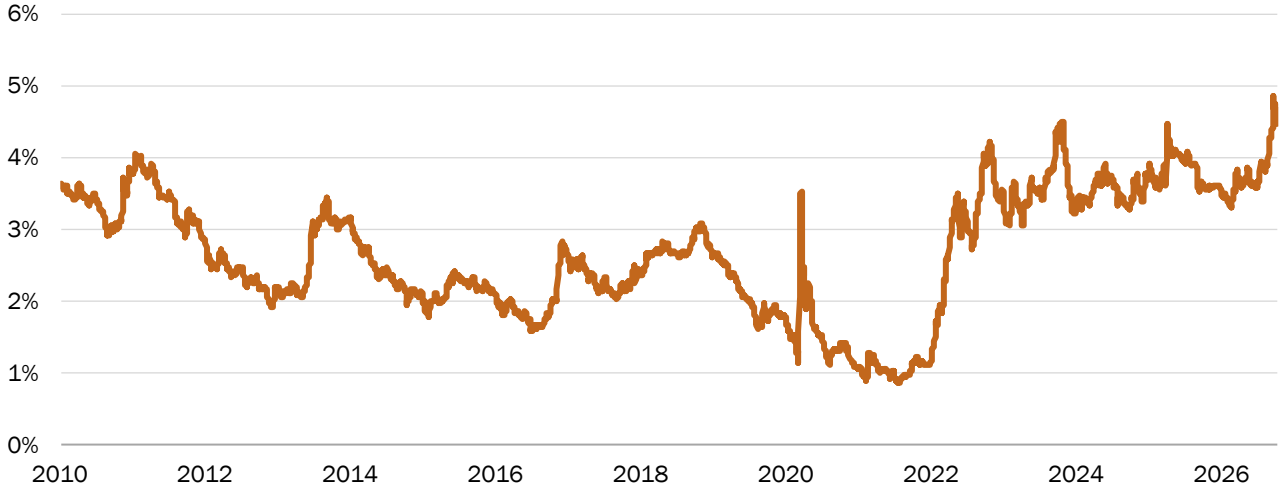


Data as of October 16, 2026.
Muni Single A Yields: Bloomberg Municipal Bond Index; US Corporate Single A Yields: Bloomberg Corporate Bond Index
Source: Bloomberg

Tax equivalent munis continue to exceed corporate spread/yields

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BLOOMBERG MUNICIPAL YIELD-TO-WORST



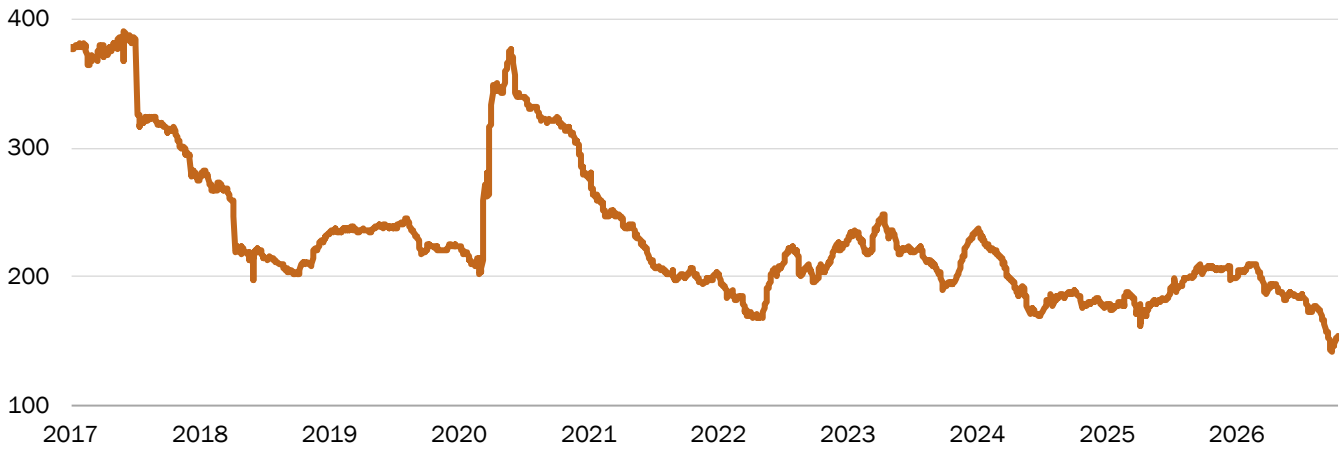
Data as of October 16, 2026
"Post GFC Average" measures the period from 1/1/2010 – 10/16/2026
Source: Bloomberg

MUNI YIELDS

Tenor	10/16/2026	10/9/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	3.12%	3.34%	-0.22%
5 YEAR	3.30%	3.53%	-0.23%
10 YEAR	3.76%	3.98%	-0.22%
30 YEAR	5.03%	5.20%	-0.17%
US TREASURY RATE YIELDS			
2 YEAR	4.74%	4.80%	-0.06%
5 YEAR	4.89%	5.02%	-0.13%
10 YEAR	5.09%	5.24%	-0.15%
30 YEAR	5.43%	5.60%	-0.17%
US TREASURY & AAA MUNI CURVE SLOPES[1]			
	2s10s	**10s30s**	2s30s
US TREASURY CURVE SLOPE	+ 35 bps	+ 34 bps	+ 69 bps
AAA MUNI CURVE SLOPE	+ 63 bps	+ 127 bps	+ 190 bps

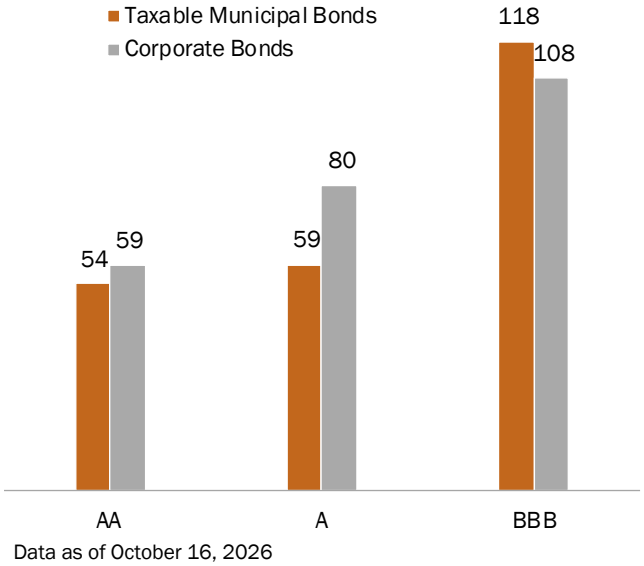
Data as of October 16, 2026
1. 2s10s – is spread between 10yr and 2yr yield; 10s30s – refers to spread between 30yr and 10yr yield; 2s30s – refers to spread between 30yr and 2yr yield
Source: Bloomberg

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of October 16, 2026
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of October 16, 2026
Source: Bloomberg

YIELD DIFFERENTIAL FOR NYL/MACKAY MUNICIPAL PRODUCTS

	Yield to Worst[1]		Change in YTW	TEY 10/16/26	Market Price	Duration to Worst
	10/16/26	6/30/26				
NYLIM MACKAY ARIZONA MUNI FUND	4.48	3.45	1.03	7.52	98.24	5.5
NYLIM MACKAY CALIFORNIA MUNI FUND	4.74	3.79	0.95	7.92	99.24	6.5
NYLIM MACKAY CALIFORNIA MUNI INTERMEDIATE ETF	4.04	3.36	0.68	6.82	101.29	5.2
NYLIM MACKAY COLORADO MUNI FUND	4.45	3.63	0.82	7.46	99.61	5.5
NYLIM MACKAY DEFINED TERM MUNI OPPORTUNITIES FUND	7.08	4.78	2.30	11.74	97.12	8.9
NYLIM MACKAY HIGH YIELD MUNI BOND FUND	5.61	4.75	0.86	9.02	84.63	10.4
NYLIM MACKAY MUNI ALLOCATION ETF	5.02	4.17	0.85	8.40	93.37	8.2
NYLIM MACKAY HIGH INCOME ETF	5.96*	--	--	9.78	89.61	9.5
NYLIM MACKAY MUNI INCOME OPPORTUNITIES FUND	6.12	4.93	1.19	9.92	95.57	7.1
NYLIM MACKAY MUNI INSURED ETF	4.93	4.13	0.80	8.33	96.07	8.5
NYLIM MACKAY MUNI INTERMEDIATE ETF	4.46	3.68	0.78	7.53	99.91	5.5
NYLIM MACKAY MUNI SHORT DURATION ETF	4.03	3.49	0.54	6.52	100.29	2.4
NYLIM MACKAY NEW YORK MUNI FUND	4.93	4.36	0.57	8.16	92.72	8.8
NYLIM MACKAY OREGON MUNI FUND	4.38	3.35	1.03	7.33	99.26	5.3
NYLIM MACKAY SHORT TERM MUNI FUND	3.80	3.32	0.48	6.14	100.27	2.4
NYLIM MACKAY STRATEGIC MUNI ALLOCATION FUND	4.71	3.75	0.96	7.91	98.44	5.6
NYLIM MACKAY TAX FREE BOND FUND	4.86	4.04	0.82	8.15	96.06	7.5
NYLIM MACKAY U.S. INFRASTRUCTURE BOND FUND	5.57	4.88	0.69	5.61	94.76	5.7
NYLIM MACKAY UTAH MUNI FUND	4.81	3.84	0.97	8.06	97.39	5.7

*5.84 when including cash
Data as of October 16, 2026
Source: MacKay Shields

Click on the Fund Name to access current information about the fund , which includes the prospectus, investment objectives, performance, risk, and other essential information. Returns represent past performance, which is no guarantee of future results. Current performance may be lower or higher. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Visit https://www.nylim.com/investment-products for the most recent month-end performance.

1. Yield to Worst (YTW) is the lowest potential yield that can be received on a bond without issuer default, assuming the bond is called, prepaid or otherwise retired at the earliest permitted date. Fund YTW reflects the yield to worst of the securities held in the portfolio. Tax-Equivalent YTW represents the taxable yield required to equal the stated YTW after federal income taxes, assuming a federal income tax rate of [XX.XX%], and will vary based on an investor's tax rate and individual circumstances. State and local taxes are not reflected unless otherwise indicated. YTW and Tax-Equivalent YTW are portfolio characteristics, are not guaranteed, and do not represent a Fund's distribution yield, SEC yield, total return or shareholder return.

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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.

DEFINITION OF TERMS (CONT'D)

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 may assist them in meeting specific income requirements even in adverse 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.

INDEX DESCRIPTIONS (CONT'D)

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.

Morningstar U.S. Active Fund Muni National Intermediate
The Morningstar U.S. Active Fund Muni National Intermediate category contains mutual funds and exchange-traded funds (ETFs) that primarily invest in investment-grade municipal bonds issued by state and local governments with durations typically ranging between 4.5 and 7 years. Because they are actively managed, the fund managers dynamically adjust credit exposure, interest rate sensitivity, and yield curve positioning rather than tracking a static index.

Morningstar U.S. Passive Fund Muni National Intermediate
The Morningstar U.S. Passive Fund Muni National Intermediate category includes intermediate-term national municipal bond portfolios that invest in tax-exempt debt issued by state and local governments. Passive options and index ETFs in this group track broad municipal indexes to offer low-cost, tax-free income with moderate interest-rate risk.

ADDITIONAL DISCLOSURES

Investments in municipal securities are subject to market, interest-rate, credit and liquidity risks. Bond values generally decline as interest rates rise, and investors may lose money.

Before investing, investors should carefully consider the investment objectives, risks, charges, and expenses of the investment company. This and other important information are contained in the prospectus and, if available, the summary prospectus, which may be obtained by visiting https://dfinview.com/NYLIM or by contacting your financial professional. Investors should read the prospectus and, if available, the summary prospectus carefully before investing.

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