

US Treasury Influence on Muni Long Bonds

KEY TAKEAWAYS

- Munis Outperform on the Week
- Munis Eye Soft YCC
- Higher Education Makes Headlines

Relative Performance¹

Rates moved higher last week, but once again Treasuries absorbed considerably more of the selloff than municipals. AAA BVAL yields rose just 1bp in 2s, roughly 3bps in 5s, and 3–4bps in 10s and 30s. Treasuries, by comparison, sold off nearly 10–11bps in 2s and 5s, roughly 6bps in 10s, and just over 3bps in 30s.

That produced another interesting relative move across the curve. The 2-year muni-to-Treasury ratio richened nearly 2 points to 57.59%, while the 5-year ratio declined 0.8 points to 63.84%. Further out, the relationship flipped: the 10-year ratio cheapened modestly to 70.43%, while the 30-year ratio widened 1.5 points to 88.20%.

The shape of the move is probably more interesting than the outright change in yields. The Treasury selloff was heavily concentrated in shorter maturities, while municipals remained relatively anchored there. At the long end, however, the two markets moved by almost exactly the same amount—30-year AAA munis +3.2 bps versus 30-year Treasuries +3.4 bps. That's a notable change from earlier this summer, when long municipals repeatedly insulated investors from much larger moves in long Treasury rates.

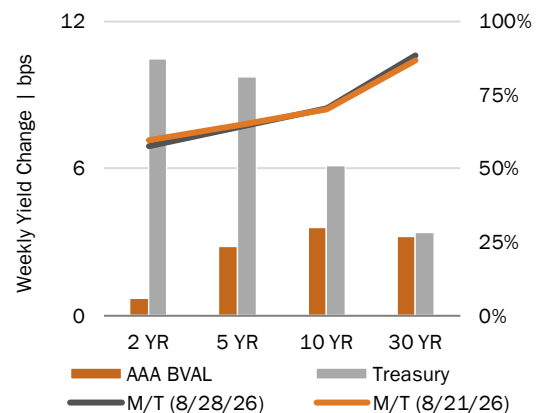
From a relative value standpoint, we're paying attention to that long-end reset. A 30-year ratio back above 88%, combined with the absolute yield levels now available further out the municipal curve, improves the compensation for investors willing to take duration. The same is true around 10 years, where ratios remain above 70%.

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	0.64%	0.82%	5.03%
Muni Bond 10-Year	0.46%	-0.35%	5.92%
Muni Bond 15-Year	-0.43%	-0.82%	5.31%
Muni Long Bond	-0.38%	1.04%	1.95%
Muni Managed Money	-0.04%	-0.09%	3.94%

Data as of August 28, 2026.
Source: Bloomberg

FIGURE 2: MUNIS OUTPERFORM



Data as of August 28, 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

We've spent a lot of time this year talking about why we continue to find value further out the municipal curve. Now there's another wrinkle worth watching: what the market has started calling "soft YCC." To be clear, this is not formal yield-curve control. Treasury hasn't targeted a specific yield or committed to unlimited purchases. Instead, it is increasing buybacks in the 10–30 year portion of the Treasury curve, officially to improve liquidity in older securities. But the message to markets is also pretty clear: Treasury would prefer to avoid a disorderly move higher in long-term borrowing costs.

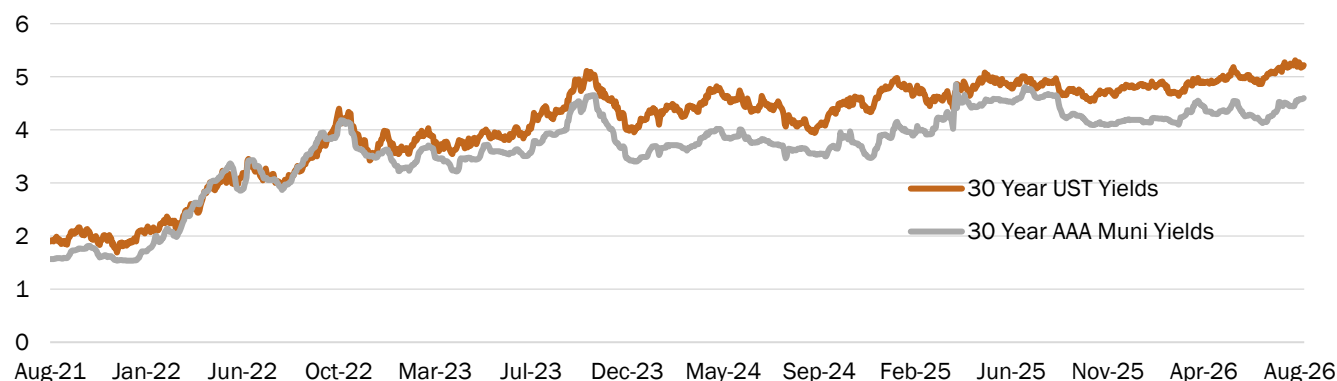
Why should muni investors care? Because anything that helps improve liquidity, reduce volatility, or simply put a speed bump in front of a sharp long-end Treasury selloff we believe can provide a better anchor for long municipals. Treasury buybacks won't eliminate concerns around deficits, inflation or term premium—and they certainly don't guarantee lower long rates. But they can reduce some of the technical pressure at precisely the part of the curve where those concerns have been most visible. For municipals, that potentially means a more stable backdrop for duration at a time when absolute tax-exempt yields and the shape of the muni curve already look attractive.

There's also a relative-value wrinkle that we believe is important. If Treasury support causes long UST yields to rally before municipals fully participate, muni/Treasury ratios can temporarily cheapen. We've seen repeatedly this year that those disconnects can attract crossover buyers and eventually pull municipals along for the ride. So, in our view, even a Treasury-led rally can initially make the muni opportunity better, not worse.

The caveat is equally important: this is a backstop, not a cure-all. Treasury can improve market functioning and influence technicals, but it can't make fiscal concerns or inflation disappear. In fact, we would argue the value so far is less about engineering a sustained rally and more about reducing the probability of a disorderly selloff at the long end.

For us, that distinction matters. We already liked longer municipals because of the income, curve shape and relative value—not because we were forecasting a big rally in Treasury rates. If Treasury is now willing to provide an additional degree of support to the long end, we view that as another potential tailwind.

FIGURE 3: YIELDS | 30 YEAR UST VS. 30 YEAR MUNI (IN %)



Data as of August 28, 2026.

Source: Bloomberg

Questions from the Field

Q With enrollment pressures and changing federal support, should investors be more concerned about higher-education municipal credit?

A Higher education is becoming a great example of why you can't talk about "municipal credit" as one homogeneous asset class.

There are real pressures building in parts of the sector. A recent [Bloomberg article](#) highlighted that nearly 200 private colleges borrowed from restricted endowment funds in 2025, up from roughly 130 in 2021. Smaller schools are dealing with declining enrollment, weaker revenue growth and, in some cases, increasingly aggressive endowment draws simply to support operations.

That's something we pay attention to because an endowment draw isn't automatically a credit problem—but when an institution is repeatedly using its balance sheet to plug an operating deficit, the distinction matters.

But we wouldn't take those headlines and make a blanket call on higher education. The pressure isn't evenly distributed. Large institutions with strong brands, durable enrollment, substantial liquidity and diversified revenue streams are in a very different position than smaller regional schools competing for a shrinking pool of students.

For us, that makes higher education increasingly a credit-selection story. We want to understand enrollment trends, liquidity, endowment spending, operating margins and how dependent an institution is on tuition before we ever get to the yield on the bond. And then we ask the question we always come back to: are we actually being paid enough for the risk?

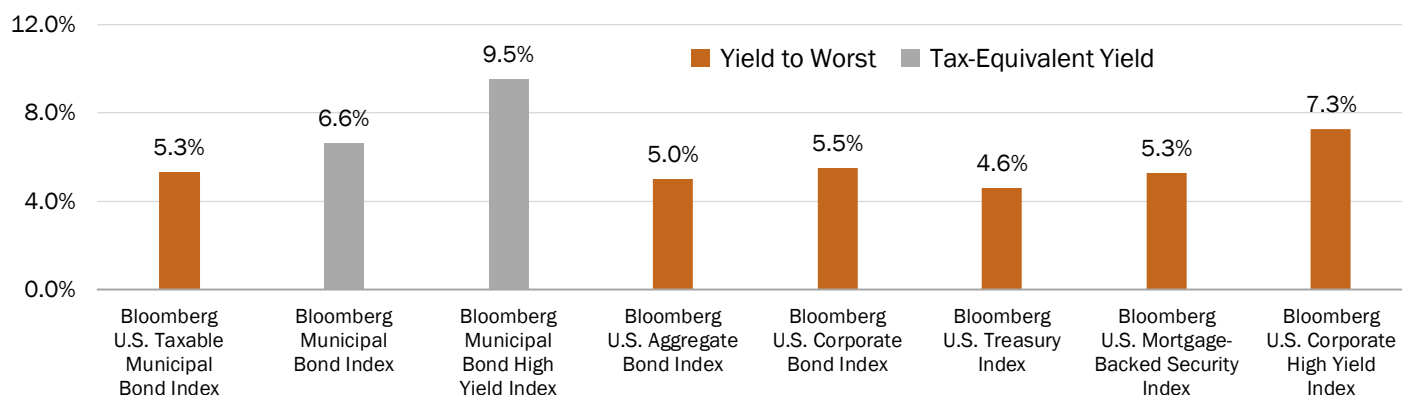
Not really. If anything, the volatility has improved the opportunity set.

Yields have reset higher, tax-equivalent income remains compelling, and we've seen relative value return to parts of the market that had become expensive earlier in the year. At the same time, municipal credit fundamentals remain broadly healthy and demand for tax-exempt income continues to provide a strong technical underpinning.

What has changed is that the market is becoming more selective. Not every part of the curve offers the same value, and not every additional step in credit risk is being compensated equally. That's where we think investors need to spend their time.

The other important point is that you don't need a perfect rate forecast to make the case for municipals today. Starting yields are doing much more of the work, which gives investors a larger income cushion if volatility continues.

INDEX YIELDS

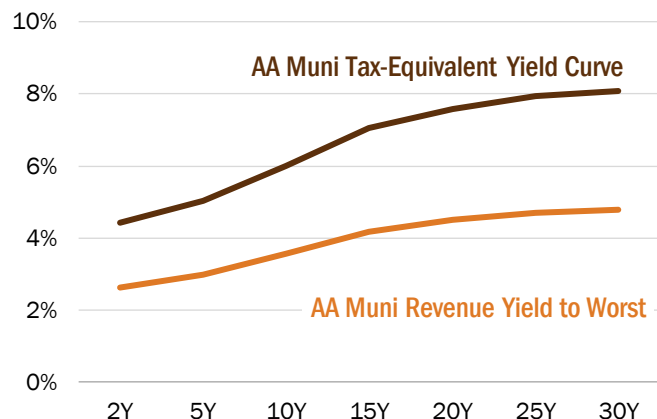


Data as of August 28, 2026

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

Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE

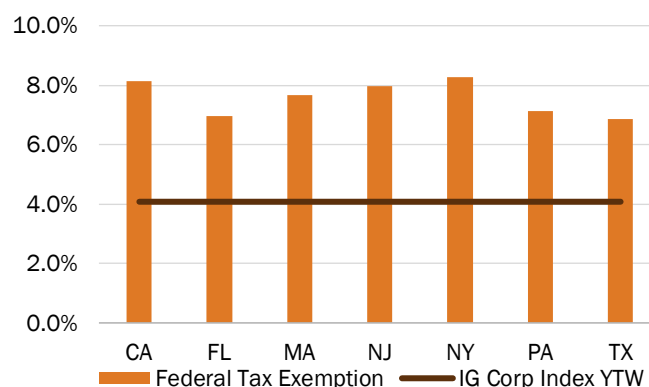


Data as of August 28, 2026

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

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



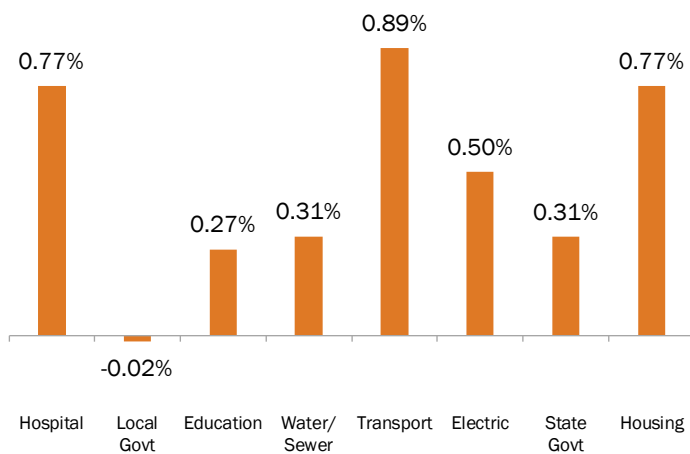
Data as of August 28, 2026

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

Source: Bloomberg

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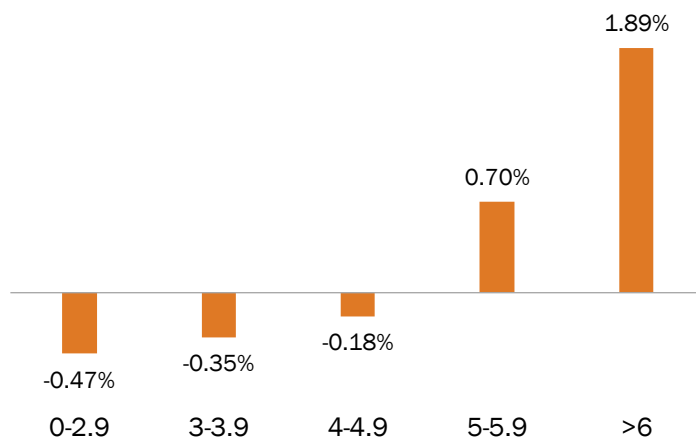
YTD TOTAL RETURNS BY SECTOR



Data as of August 28, 2026

Source: Bloomberg

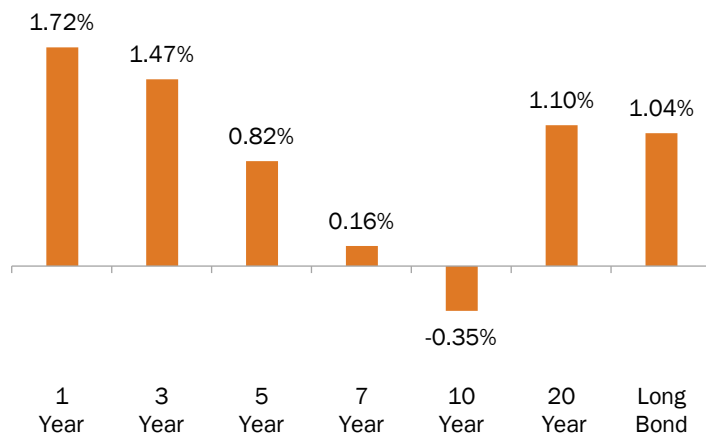
YTD TOTAL RETURNS BY COUPON



Data as of August 28, 2026

Source: Bloomberg

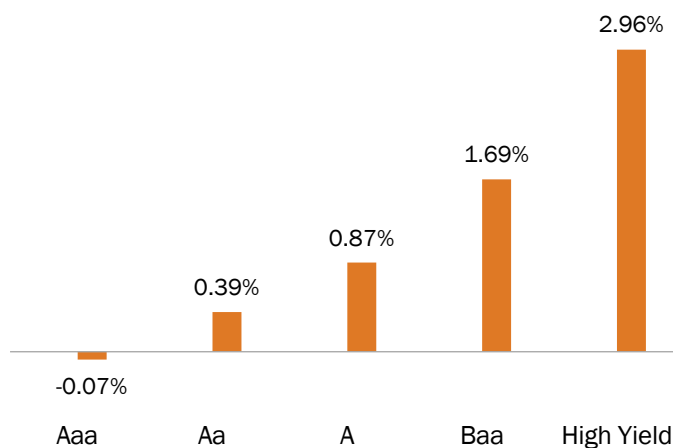
YTD TOTAL RETURNS BY MATURITY



Data as of August 28, 2026

Source: Bloomberg

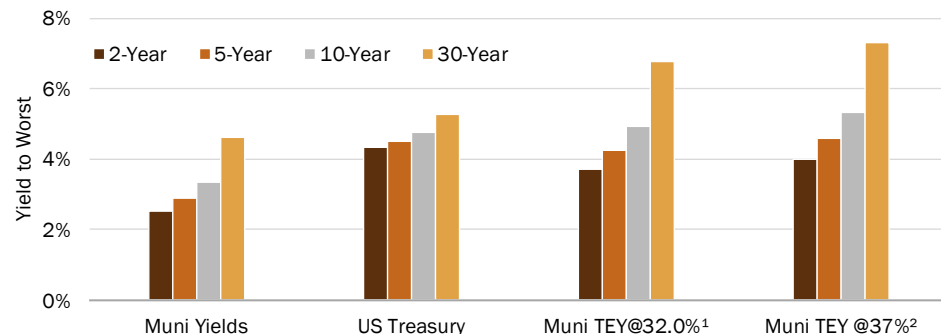
YTD TOTAL RETURNS BY RATING CATEGORY



Data as of August 28, 2026

Source: Bloomberg

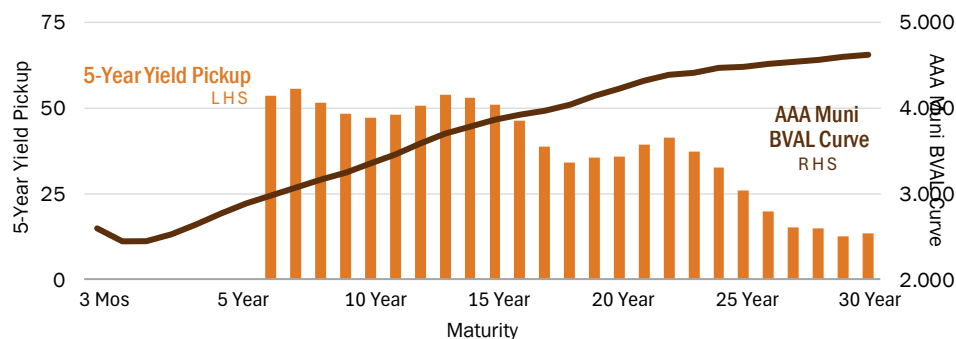
TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX



**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 August 28, 2026.
Source: Bloomberg

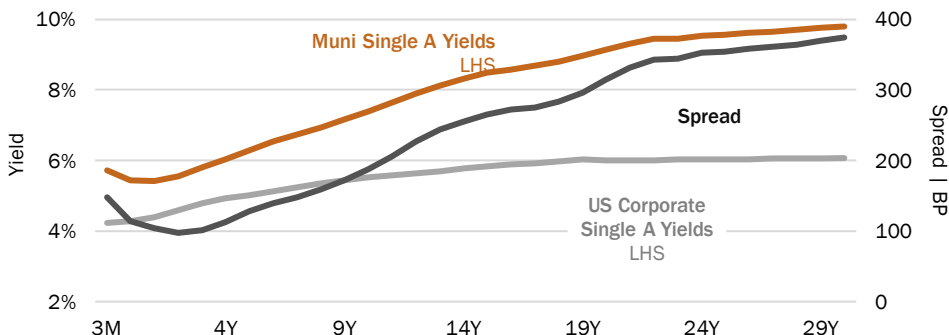
YIELD CURVE STEEPNESS



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

Data as of August 28, 2026.
Source: Bloomberg

MUNI EXCEEDS CORPORATE SPREADS

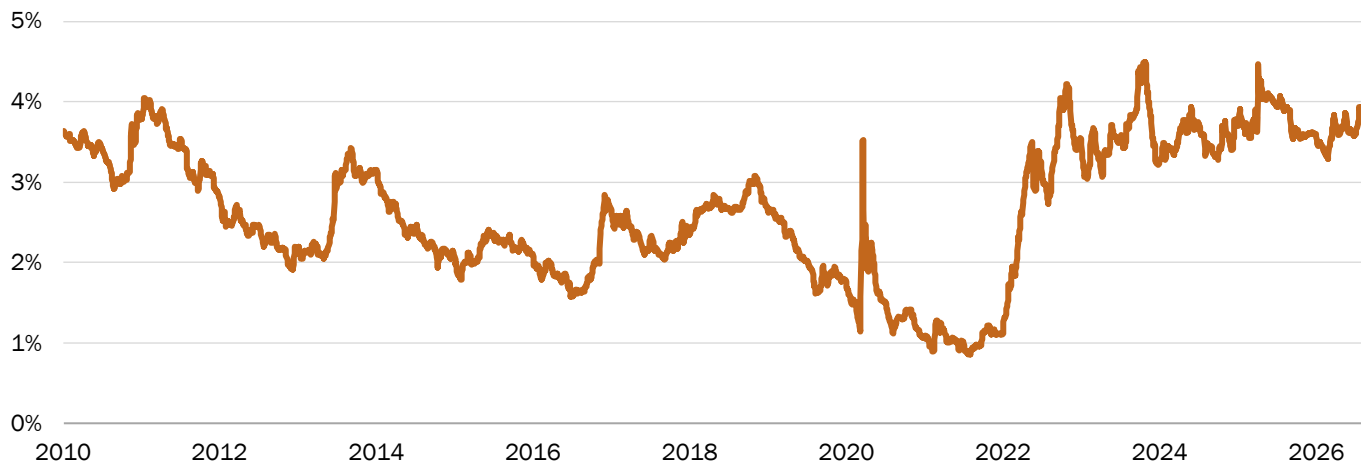


**Tax equivalent munis
continue to exceed
corporate spread/yields**

Data as of August 28, 2026.
Muni Single A Yields: Bloomberg Municipal Bond Index; US Corporate Single A Yields: Bloomberg Corporate Bond Index
Source: Bloomberg

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BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of August 28, 2026

"Post GFC Average" measures the period from 1/1/2010 – 8/28/2026

Source: Bloomberg

MUNI YIELDS

Tenor	8/28/2026	8/21/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.51%	2.52%	-0.01%
5 YEAR	2.86%	2.86%	0.00%
10 YEAR	3.33%	3.32%	0.01%
30 YEAR	4.60%	4.57%	0.03%
US TREASURY RATE YIELDS			
2 YEAR	4.34%	4.24%	0.10%
5 YEAR	4.48%	4.43%	0.05%
10 YEAR	4.73%	4.74%	-0.01%
30 YEAR	5.22%	5.27%	-0.05%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 39 bps	+ 49 bps	+ 88 bps
AAA MUNI CURVE SLOPE	+ 82 bps	+ 127 bps	+ 209 bps

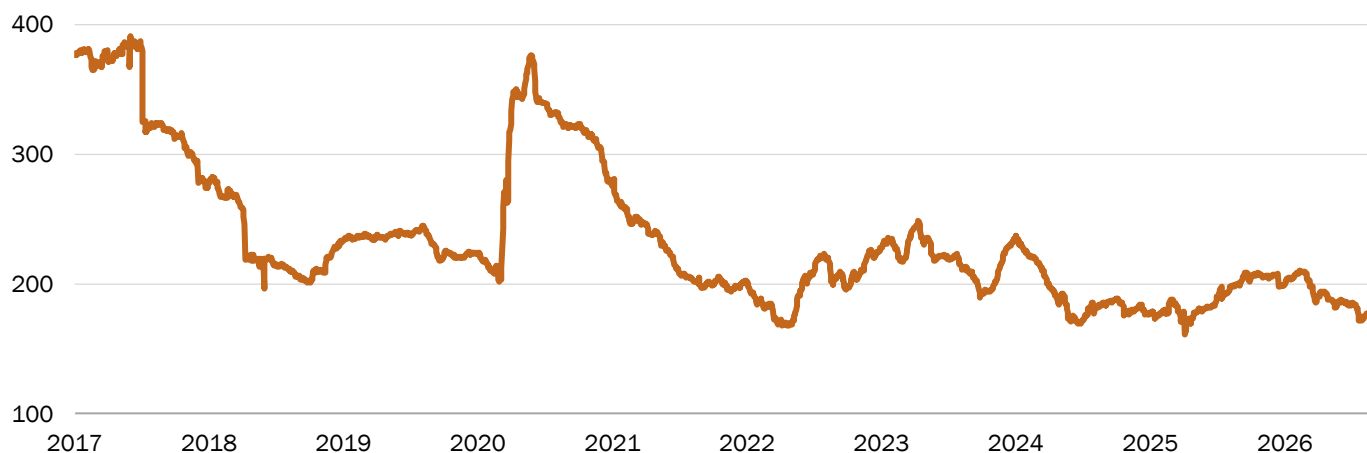
Data as of August 28, 2026

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

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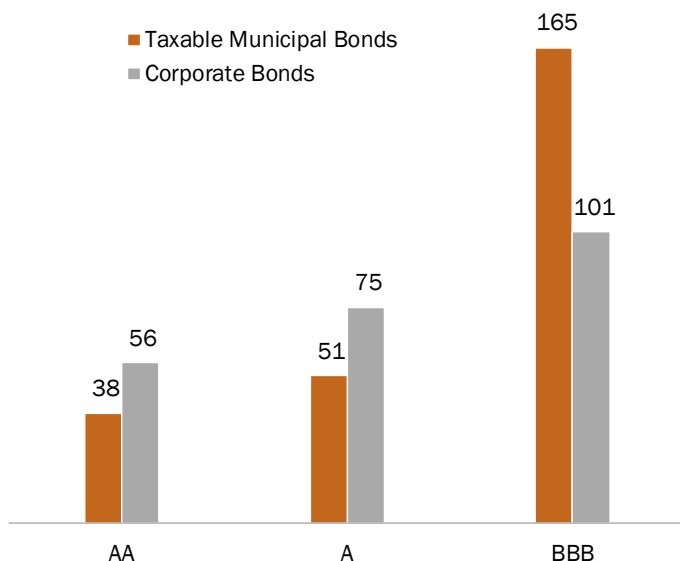
BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of August 28, 2026

Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of August 28, 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 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.

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.