Muni 360

WEEK ENDING: JULY 4, 2025

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.

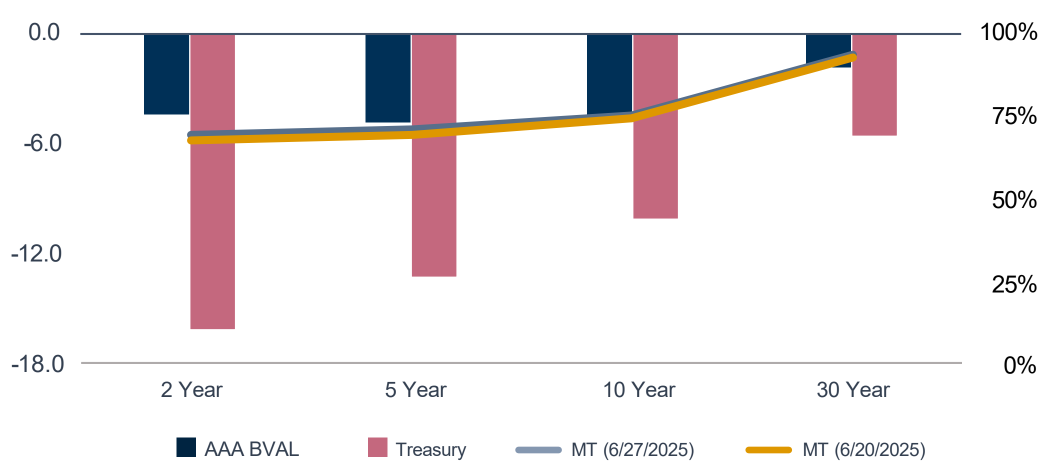
Not just tax-tortured coasts who benefit

- Senate begins debate on provisions of the One Big Beautiful Bill
- Muni summer gets underway with heaviest cash flows of the year
- It is not just coastal tax burdened residents who benefit from Muni exposure. We explain below.

Rate rally rolls on, despite muni lag

While overseas tensions have cooled substantially, attention has turned back toward the US domestic agenda, and top of the list is the passing of the One Big Beautiful Bill (OBBB), and by proxy extensions of many of the 2017 Tax Cuts and Jobs Act provisions. According to the Congressional Budget Office, the Senate version of the OBBB would add close to $3.3 trillion to the US deficit over the next decade. This could be weighing on long US Treasury rates which did not follow the same rally path cut by many tenors shorter on the curve. As it impacts our world, municipals follow directionally yet underperformed in all areas, with the front being most pronounced. On a ratio basis, the longer end of the curve still shows the largest potential for relative value, especially if banks and insurance companies dip their toes back into exempt waters over the second half of the year.

WEEKLY YIELD CHANGE[1]



1. Data as of June 27, 2025. Source: Bloomberg

NEW YORK LIFE INVESTMENTS

Muni technicals hit overdrive

With the heat spiking, there is no doubt summer is here. What that means for municipals is that we are heading into one of the most seasonally strong periods of the year. Over the next two months there is close to $100 billion of principal and interest coming back to muni investors.[2] Much of that seasonal money has sought reinvestment back into the exempt market.

On a broader basis, many sell side shops are re-adjusting their supply estimates, and it is to the upside. This is welcome news to a municipal market that is, at least for now, more than happy to devour new issue supply as many new deals are multiple times oversubscribed. We say this with a slight caveat, in that the levels of over subscription really depend on what part of the curve the bonds are being sold in. In the more passively dominated portion of the market (inside 10 years), new issue pricing continues to be tighter, despite some recent relief. We continue to see more relative value opportunities by adding duration exposure to the portfolios.

2025 MONTHLY REINVESTMENT[3] ($ MILLIONS)

Month	Principal	Interest	P + I
Jan-2025	27,315	15,463	42,778
Feb-2025	31,460	15,383	46,844
Mar-2025	20,835	9,743	30,579
Apr-2025	14,628	10,520	25,148
May-2025	26,546	13,785	40,331
Jun-2025	44,998	16,251	61,249
Jul-2025	36,647	16,246	52,893
Aug-2025	37,773	15,996	53,768
Sep-2025	17,467	10,102	27,569
Oct-2025	17,615	10,943	28,558
Nov-2025	18,859	13,738	32,598
Dec-2025	22,157	16,207	38,364
Total	**316,301**	**164,376**	**480,677**

Data as of 6/27/2025.

2. Source: Bloomberg

3. Data as of June 27,2025. Source: Bloomberg. For illustrative purposes only. Not to be construed as tax advice. See important additional disclosures.

Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

Not just coastal residents suffering tax migraines

We typically discuss the after-tax yield advantage that municipals have over both US Treasuries and even corporates to a large degree. However, when we do this analysis, we are as guilty as anyone by focusing much of our relative value attention on the uber high tax enclaves of New York, New Jersey and California. The fact of the matter is that there is a wide swath of the US where in-state income tax is due AND, because of where absolute rates are today, municipals are still a go-to arrow in the tax planning quiver. Looking at a sample of debt from Arizona, Utah and Oregon shows that municipals have a distinct yield advantage over national exempt options and more importantly US Treasury rates all the way down to a 2.5% in-state top tax rate. We calculated approximate yields for each of these states, using the universe of index eligible bonds of the Bloomberg Municipal Indices and factoring in a duration that closely aligns with intermediate state specific strategies.

IN STATE TAX-ADVANTAGE OF MUNIS AT VARIOUS TAX RATE[4]

	Muni	Max State Tax Rate	General Mkt GO BVAL (AA)	General Market yield after state tax	In-state advantage	UST rates	UST after Fed tax Assumes 37%	State GO over UST	UST after Fed tax
ARIZONA Exempt Yield	3.18%	2.50%	3.01%	2.93%	+25	4.25%	2.68%	+50	5.26% Assumes 37% Fed and 2.5% State
UTAH Exempt Yield	3.56%	4.55%	3.01%	2.87%	+69	4.25%	2.68%	+88	6.09% Assumes 37% Fed and 4.55% State
OREGON Exempt Yield	3.51%	9.90%	3.01%	2.71%	+80	4.25%	2.68%	+83	6.61% 9.9% STATE Assumes 37% Fed and 9.9% State

4. Data as of June 27,2025. Source: Bloomberg. For illustrative purposes only. Not to be construed as tax advice. See important additional disclosures.

Yields not the only things taking front and center

If we believe that the Fed should be active later this year, shorter duration strategies can potentially provide an even further boost to any 2H 2025 returns.

Some of our reasoning behind this statement lies in looking at trends of the past. For example:

LOWER INTEREST RATE/ PRICE SENSITIVITY:

Shorter-duration bonds are less sensitive to interest rate changes, which can help lessen price volatility if the Fed is pivoting on policy direction

REINVESTMENT SPEED:

With shorter maturities, investors can reinvest principal and interest proceeds more quickly into potentially higher-yielding opportunities if the Fed's actions lead to a sharper curve steepening

HISTORICAL PERFORMANCE:

After previous Fed pauses or pivots, shorter-duration bonds have often delivered strong forward annualized returns

Questions from the Field

Q: "With municipals now "safe" from tax threats, what are one of the biggest positives to come from any proposed tax bill extension provisions?"

Tax reform, or should we say, any tax bill, regardless of how Big or Beautiful it will end up being is still very much a work in progress. The latest news from the Senate is that they might ignore the House's SALT caucus regarding the proposed increase of the state and local tax deduction. This could result in either the existing SALT cap remaining at $10,000 and essentially a non-issue for the tax-exempt market, or if the cap is increased, it could meaningfully phase out at combined income over $500,000, also non-impactful for our market.

We are very constructive on the fact that there is little appetite in both the House and the Senate to revisit the return of AMT (Alternative Minimum Tax) in any meaningful way. This would leave the existing population subject to AMT at 200,000 down from 5 million in 2017. For active managers like us, this creates an opportunity to continue to identify pockets of value in areas of the municipal market still subject to AMT and translate that into meaningful yield pickup for investors.

INDEX RETURNS[5] (%)

	WTD	YTD	1-year
Bbg. Municipal (IG)	+0.20	-0.45	+1.03
Bbg. HY Muni	+0.23	-0.39	+1.68
Bbg. Taxable Municipal	+0.84	+3.27	+4.42
Bbg. Muni California Exempt	+0.23	-0.74	+0.93
Bbg. Muni New York Exempt	+0.13	-0.90	+0.46
Bbg. Municipal 1yr (1-2)	+0.12	+1.83	+3.65
Bbg. Municipal 3yr (2-4)	+0.17	+2.01	+4.04
Bbg. Municipal 5yr (4-6)	+0.23	+2.18	+4.22
Bbg. Municipal 7yr (6-8)	+0.28	+1.94	+3.85
Bbg. Municipal 10yr (8-12)	+0.29	+0.94	+2.22
Bbg. Municipal 15yr (12-17)	+0.22	-1.10	-0.11
Bbg. Municipal 20yr (17-22)	+0.11	-2.86	-1.46
Bbg. Municipal Long 22yr+	+0.14	-3.48	-2.18

MUNI RATIOS

	6/20/2025	6/27/2025	5-Yr Avg
AAA Muni/Treasury Ratio[5] (%)			
2-year	65.7	66.4	82.7
5-year	68.4	69.5	75.7
10-year	71.6	72.4	79.7
30-year	91.5	91.1	93.0
AAA Muni/Corporate Ratio[6] (%)			
2-year	65.7	66.4	82.7
5-year	68.4	69.5	75.7
10-year	71.6	72.4	79.7
30-year	91.5	91.1	93.0

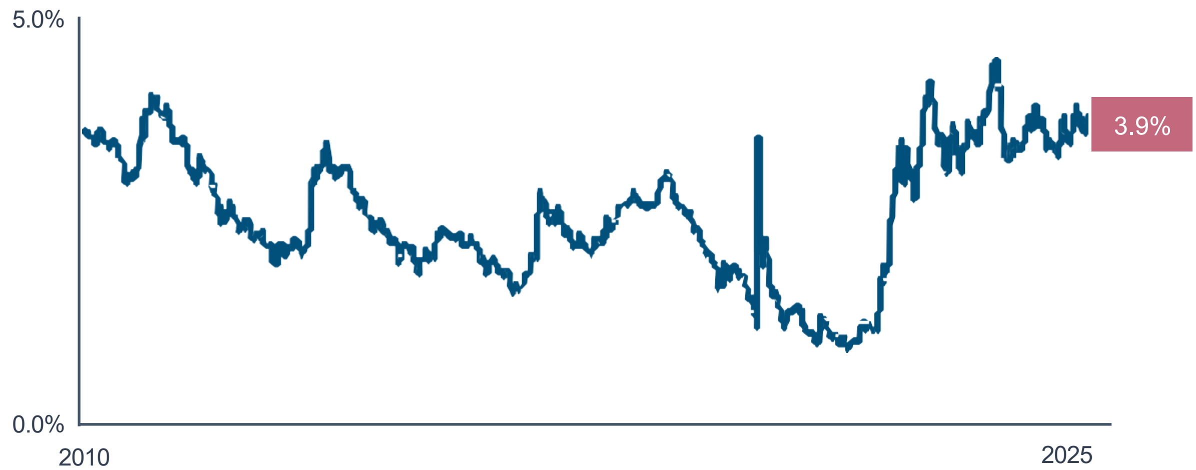
Data as of 6/27/2025.

5. Source: Bloomberg

6. Source: J.P. Morgan, as of 6/27/2025. AA Muni/AA Corp Yield Ratio is a comparison of the current yield to worst of AA rated municipal bonds to AA rated U.S. corporates.

Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

BLOOMBERG MUNICIPAL YIELD-TO-WORST[7] (YTW)



MUNI YIELDS

Tenor	6/20/2025	6/27/2025	Change (+/–)
Bloomberg AAA Muni Key Rate Yields[8]			
2-year	2.67%	2.63%	-0.04%
5-year	2.78%	2.73%	-0.05%
10-year	3.27%	3.22%	-0.04%
30-year	4.55%	4.53%	-0.02%
US Treasury Key Rate Yields[8]			
2-year	3.90%	3.73%	-0.17%
5-year	3.96%	3.83%	-0.13%
10-year	4.38%	4.29%	-0.09%
30-year	4.89%	4.85%	-0.04%
US Treasury & AAA Muni Curve Slopes[9]			
	2s10s	**10s30s**	**2s30s**
US Treasury Curve Slope	+0.56%	+0.56%	+1.12%
AAA Muni Curve Slope	+0.60%	+1.31%	+1.91%

Data as of 6/27/2025.

7. Source: Bloomberg. “Post GIFC Average” measures the period from 1/1/2010–6/27/2025.

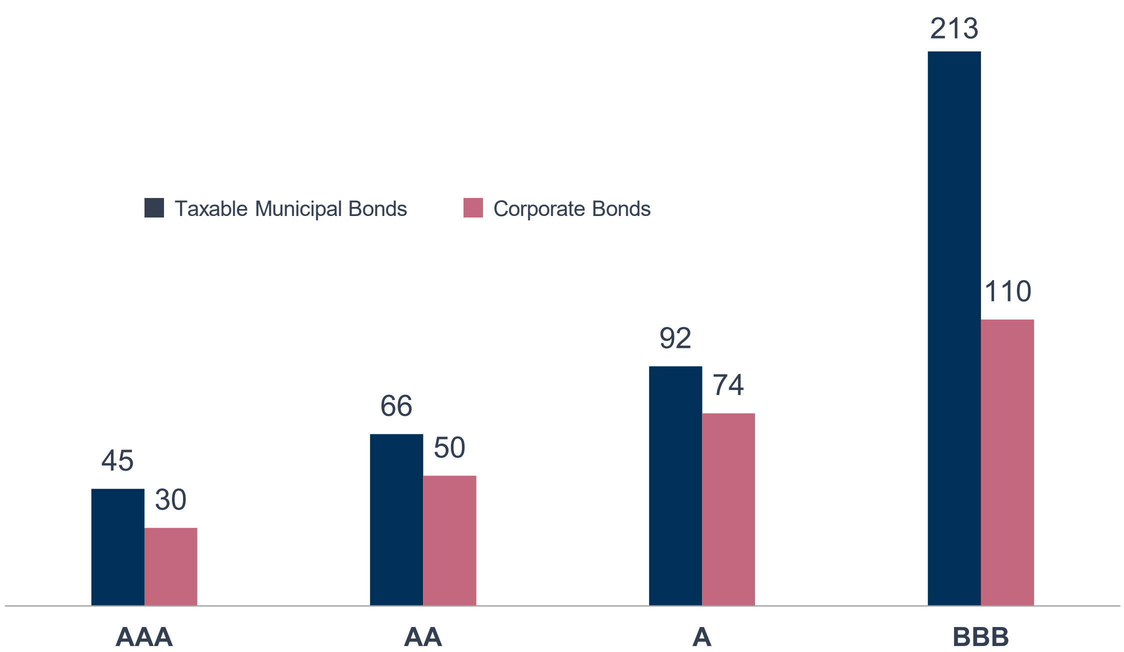
8. Source: Bloomberg.

9. Source: Bloomberg. 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.

Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

BLOOMBERG MUNICIPAL HIGH YIELD—IG YIELD DIFFERENTIAL[10]

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS[11]



Data as of 6/27/2025.

10. Source: Bloomberg.

11. Source: ICE Data. 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.

Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

LONG TERM FUND FLOWS[12] (USD BILLION)

Data as of 6/27/2025.

12. Source: Investment Company Institute (ICI). http://www.ici.org.

Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

DISCLOSURES

Availability of this document and products and services provided by MacKay Shields LLC may be limited by applicable laws and regulations in certain jurisdictions and this document is provided only for persons to whom this document and the products and services of MacKay Shields LLC may otherwise lawfully be issued or made available. None of the products and services provided by MacKay Shields LLC are offered to any person in any jurisdiction where such offering would be contrary to local law or regulation. It does not constitute investment advice and should not be construed as an offer to buy securities. The contents of this document have not been reviewed by any regulatory authority in any jurisdiction. This material contains the opinions of the MacKay Municipal Managers™ team of MacKay Shields LLC but not necessarily those of MacKay Shields LLC. The opinions expressed herein are subject to change without notice. This material is distributed for informational purposes only. Forecasts, estimates, and opinions contained herein should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Any forward-looking statements speak only as of the date they are made and MacKay Shields assumes no duty and does not undertake to update forward-looking statements. No part of this document may be reproduced in any form, or referred to in any other publication, without express written permission of MacKay Shields LLC.

MacKay Shields LLC does not offer or sponsor any funds registered under the Investment Company Act of 1940, as amended ("Registered Funds"). MacKay Shields LLC serves in the capacity as investment manager of certain Registered Funds through sub-advisory arrangements.

MacKay Municipal Managers is a trademark of MacKay Shields LLC.

MacKay Shields LLC is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company. "New York Life Investments" is both a service mark, and the common trade name of certain investment advisers affiliated with New York Life Insurance Company. Investments are not guaranteed by New York Life Insurance Company or New York Life Investments.

It is not possible to invest directly into an index. Past performance is not indicative of future results.

NOTE TO UK AND EUROPEAN UNION INVESTORS

This document is intended only for the use of professional investors as defined in the Alternative Investment Fund Manager's Directive and/or the UK Financial Conduct Authority's Conduct of Business Sourcebook. To the extent this document has been issued in the United Kingdom, it has been issued by NYL Investments UK LLP, 200 Aldersgate Street, London UK EC1A 4HD, which is authorized and regulated by the UK Financial Conduct Authority. To the extent this document has been issued in the EEA, it has been issued by NYL Investments Europe Limited, 77 Sir John Rogerson's Quay, Block C Dublin D02 VK60 Ireland. NYL Investments Europe Limited is authorized and regulated by the Central Bank of Ireland (i) to act as an alternative investment fund manager of alternative investment funds under the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) and (ii) to provide the services of individual portfolio management, investment advice and the receipt and transmission of orders as defined in Regulation 7(4) of the AIFMD Regulations to persons who meet the definition of "professional client" as set out in the MiFID Regulations. It has passported its license in additional countries in the EEA.

This document only describes capabilities of certain affiliates of New York Life Investments and/or MacKay Shields LLC. No such affiliates will accept subscriptions in any funds not admitted to marketing in your country or provide services to potential customers in your country, including discretionary asset management services, except where it is licensed to do so or can rely on an applicable exemption.

MacKay Shields LLC is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company. "New York Life Investments" is both a service mark, and the common trade name of certain investment advisers affiliated with New York Life Insurance Company. Investments are not guaranteed by New York Life Insurance Company or New York Life Investments.

NOTE TO CANADIAN RECIPIENTS

The information in these materials is not an offer to sell securities or a solicitation of an offer to buy securities in any jurisdiction of Canada. In Canada, any offer or sale of securities or the provision of any advisory or investment fund manager services will be made only in accordance with applicable Canadian securities laws. More specifically, any offer or sale of securities will be made in accordance with applicable exemptions to dealer and investment fund manager registration requirements, as well as under an exemption from the requirement to file a prospectus, and any advice given on securities will be made in reliance on applicable exemptions to adviser registration requirements.

NOTE TO JAPANESE RECIPIENTS

This is issued by New York Life Investment Management Asia Limited (Financial Instruments Business Operator, Kanto Local Finance Bureau (FIBO) No. 2964, Member of Japan Investment Advisers Association and Type 2 Financial Instruments Firms Association) for institutional investors only. As costs and/or fees to be borne by investors vary depending on circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance. All investments involve risks, including market fluctuation and investors may lose the principal amount invested. Investors should obtain and read the prospectus and/or information set forth in Article 37-3 of the Financial Instruments and Exchange Act carefully before making investment decisions.

COMPARISONS TO AN INDEX

Comparisons to a financial index are provided for illustrative purposes only. Comparisons to an index are subject to limitations because portfolio holdings, volatility and other portfolio characteristics may differ materially from the index. Unlike an index, portfolios within the composite are actively managed and may also include derivatives. There is no guarantee that any of the securities in an index are contained in any managed portfolio. The performance of an index may assume reinvestment of dividends and income, or follow other index-specific methodologies and criteria, but does not reflect the impact of fees, applicable taxes or trading costs which, unlike an index, may reduce the returns of a managed portfolio. Investors cannot invest in an index. Because of these differences, the performance of an index should not be relied upon as an accurate measure of comparison.

SOURCE INFORMATION

"Bloomberg®", "Bloomberg Indices®", Bloomberg Fixed Income Indices, Bloomberg Equity Indices and all other Bloomberg indices referenced herein are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by MacKay Shields LLC ("MacKay Shields"). Bloomberg is not affiliated with MacKay Shields, and Bloomberg does not approve, endorse, review, or recommend MacKay Shields or any products, funds or services described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to MacKay Shields or any products, funds or services described herein.

All ICE Data indices referenced herein (each such index, the "Index"), are products of ICE data indices, LLC ("ICE Data"), and are used with permission. ICE® is a registered trademark of ICE Data or its affiliates, and BofA® is a registered trademark of Bank of America Corporation licensed by Bank of America Corporation and its affiliates ("BofA") and may not be used without BofA's prior written approval. ICE Data, its affiliates and their respective third party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE Data, its affiliates nor their respective third party suppliers shall be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and your use is at your own risk. Inclusion of a security within an index is not a recommendation by ICE Data to buy, sell, or hold such security, nor is it considered to be investment advice. ICE Data, its affiliates and their respective third party suppliers do not sponsor, endorse, or recommend MacKay Shields LLC, or any of its products or services.

In State Tax-Advantage Analysis on Page 3 The state-specific, after-tax yields, were calculated by MacKay Shields in conjunction with the Bloomberg Municipal Bond Index (LMBITR). Specifically, MacKay used a representative sample of state specific, index-eligible bonds, derived from the Bloomberg Municipal Aggregate Bond Index as of 6/27/25, the accuracy of which is not guaranteed and which has not been independently verified. It is not possible to invest directly in an index. Prospective investors should not rely on this illustration in making an investment decision as there is no assurance that the figures shown above are applicable to each investor or that every similarly situated investor would receive the same After-Tax yields.

Bloomberg Municipal Bond Index (LMBITR) Index is 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.

NEW YORK LIFE INVESTMENTS

MS031-25

PRD-00097-07/25