Muni 360

JULY 15, 2025

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.

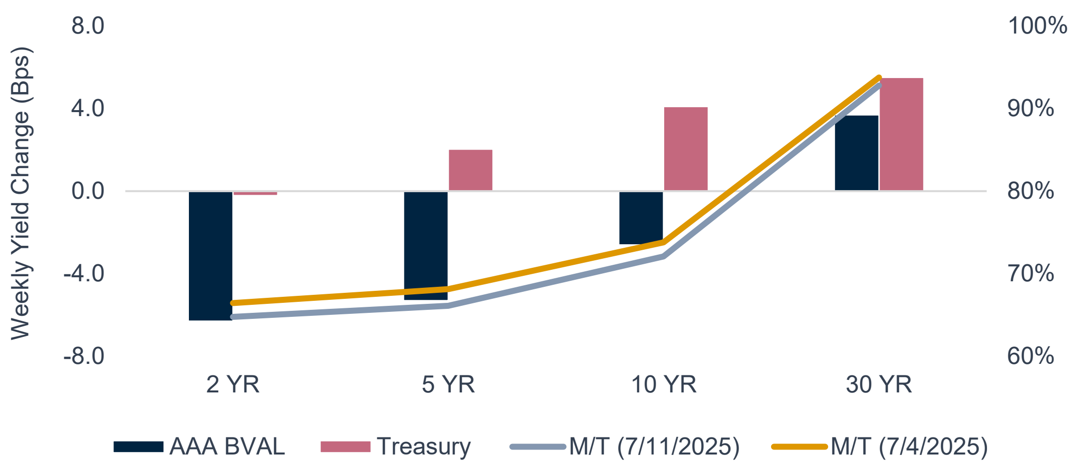
Short Munis Got Big Reasons to Smile

- Short end of the curve offers compelling argument for value/return
- Municipals eager to narrow the performance gap vs Treasuries
- Supply wave looks to test 2024 high water mark

Relative Performance

Month-to-date, munis have tried to narrow some of the performance gap on US Treasuries. Over the past five trading days, Municipals continued the path of out-performance but did also face some headwinds. The movement in rates was somewhat mixed depending on where along the yield curve you were focusing. For the prior week, The 10-year AAA municipal yield fell about 3 basis points (bps) to 3.00% (5.06% tax-equivalent yield[1] for high-bracket investors), while the 10-year Treasury yield rose 4bps to 4.38%. Municipal-to-Treasury (M/T) yield ratios tightened slightly, with the 10-year M/T ratio dropping to 72% from 73% last week. This suggests munis are appreciating, especially in the intermediate range (5-15 years), where tax-exempt valuations have been the most pressured. At the long end, uncertainty over tariff impacts and overall deficits weighed on rates with both US Treasuries and tax-exempts climbing higher. If you're chasing after-tax yield, munis still look like a solid bet compared to Treasuries, but volatility's keeping everyone on their toes.

MUNIS OUTPERFORMED[1]



1. Data as of July 11, 2025. Source: Bloomberg. Spot Muni, Spot AA rates.

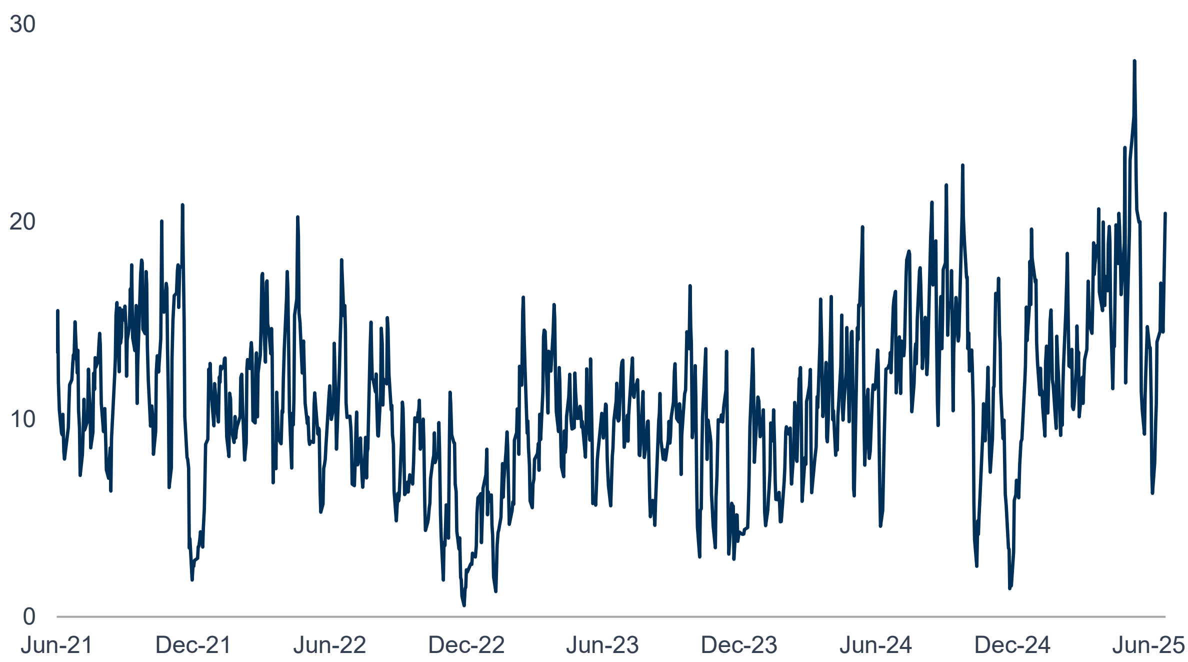
Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

Market Technicals

The muni market's technicals are in full summer season. On the supply side, new issuance was close to $15 billion last week, not very in line with the typical summer slowdown. This supply wave was met happily by the calendar high levels of principal and interest reinvestment cash that is available over the next 45 days. This recent spate of sales brings 2025 YTD muni issuance level to $300 billion, representing a 20% YoY growth rate. This also puts the municipal market firmly on the path to eclipse the $500 billion level of new issue sales for this year. It is important to note that even if the market pushes past $500 billion in sales, the high-water mark was set in 2024 with $556 billion of new issuance.

Supply over the next 30-days is measuring at $20 billion, which is almost twice the longer-term average coming out of the pandemic.

30 DAY VISIBLE MUNICIPAL SUPPLY ($BILLIONS)[2]



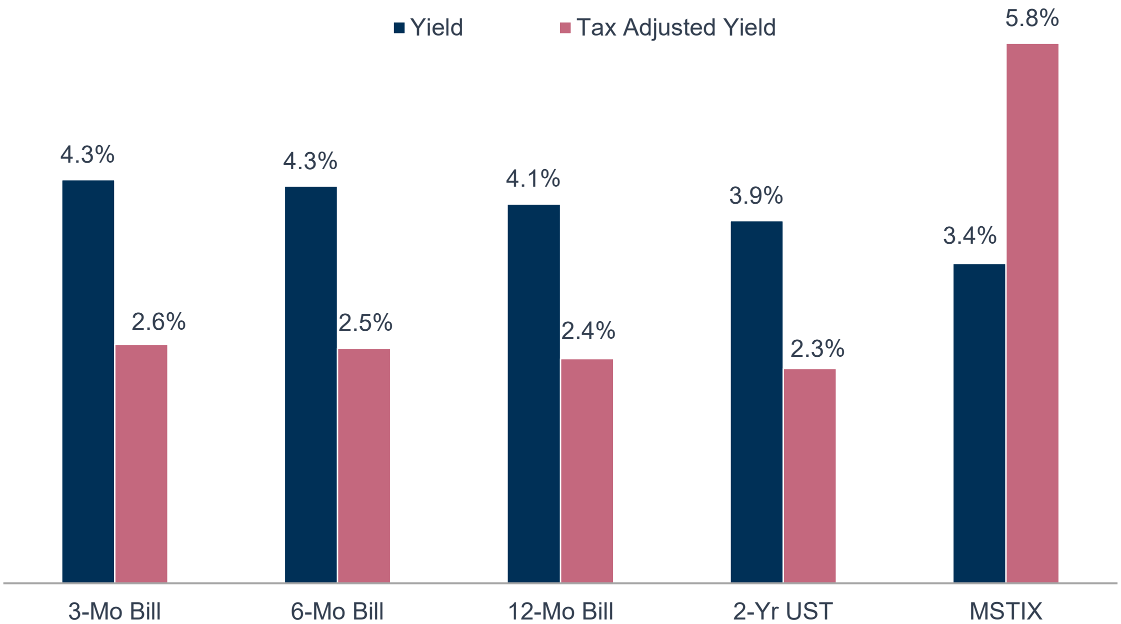
2. Data as of July 14, 2025. Source: Bloomberg. Bloomberg Municipal 30-Day Visible Supply Volume Total Index

Fed Could Set the Stage for Exempt Exuberance

Expectations after the passing of the One Big Beautiful Bill Act were that interest rates would continue their downward trajectory and give the markets the rally we very much want to manifest in our minds. Not that they won't, but the immediate read is that adding potentially trillions to the US deficit is not viewed as a winning recipe with the markets seemingly poised to teach the US a lesson in fiscal prudence. Regardless of the near-term direction of rates, the expectation is still firm in strategist circles that the Federal Reserve will become more active at some point this year or in 2026. Any intervention by the Fed would be seen as a response to slower growth in the US economy, a fact that seems in direct opposition to what the equity markets seem to be saying, as cyclicals are trading higher relative to defensives, leading to the expectation that growth is about to accelerate.

In our view, the simplest way to position a portfolio in advance of any Federal Reserve cuts would be to bolster a position in the front end of the curve, i.e., focus on shorter maturity debt. Ideally, an investor looking for more sustainable income would step out of cash and cash like instruments and into the bond market via an active investment vehicle. The chart below compares pre-tax and Tax-Adjusted rates for 3, 6,12 month T-bills and 2 YR UST compared to the actively managed NYLI MacKay Short Term Muni Fund (MSTIX). For investors who are sitting in either short UST or in cash, MSTIX offers a compelling alternative in that the current effective yield is almost twice that of a 2YR UST. We believe an investor would be positioned well for total return potential going forward when the Fed becomes more active.

TAX EQUIVALENT YIELD OF MSTIX VS. U.S. BILLS/BONDS[3]

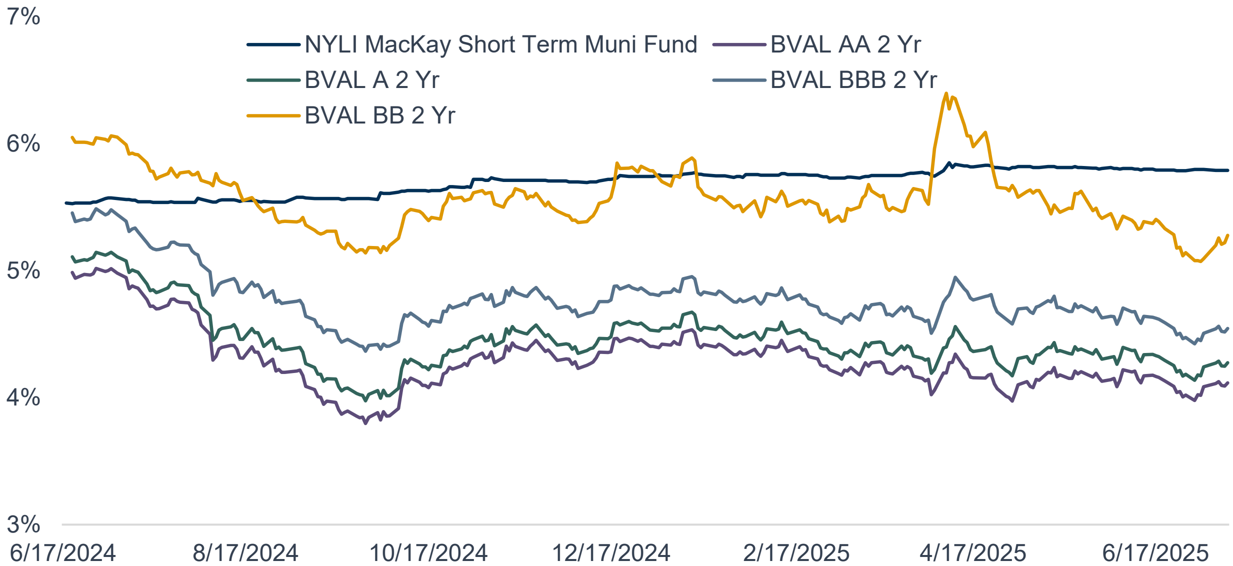


3. Data as of 7/14/2025. Assuming top tax rate plus 3.8% Medicaid for 40.8%.

MSTIX = NYLI MacKay Short Term Muni Fund

Click on the Fund Name, 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 newyorklifeinvestments.com for the most recent month-end performance. Treasury Securities are backed by the full faith and credit of the United States government as to payment of principal and interest if held to maturity. Interest income on these securities is exempt from state and local taxes.

TAX EQUIVALENT YIELD NYLI MACKAY SHORT TERM MUNI FUND VS. CORPORATE OPTIONS[4]



4. Data as of July 11,2025. Source: Bloomberg.

But What if I have Short Credit Exposure Already?

The second visual is a comparison of what other investments (aka corporate bonds are yielding with similar duration) In the visual we graphed 2 YR AA, A, BBB and BB generic corporate rates and the effective Taxable Equivalent Yield for MSTIX comes out ahead on all fronts. The only other option for investors looking to beat the effective yield of MSTIX is to slide out longer on the yield curve, but they would lose out on the total return potential noted above.

Fed Action Could Result in Quick Reset

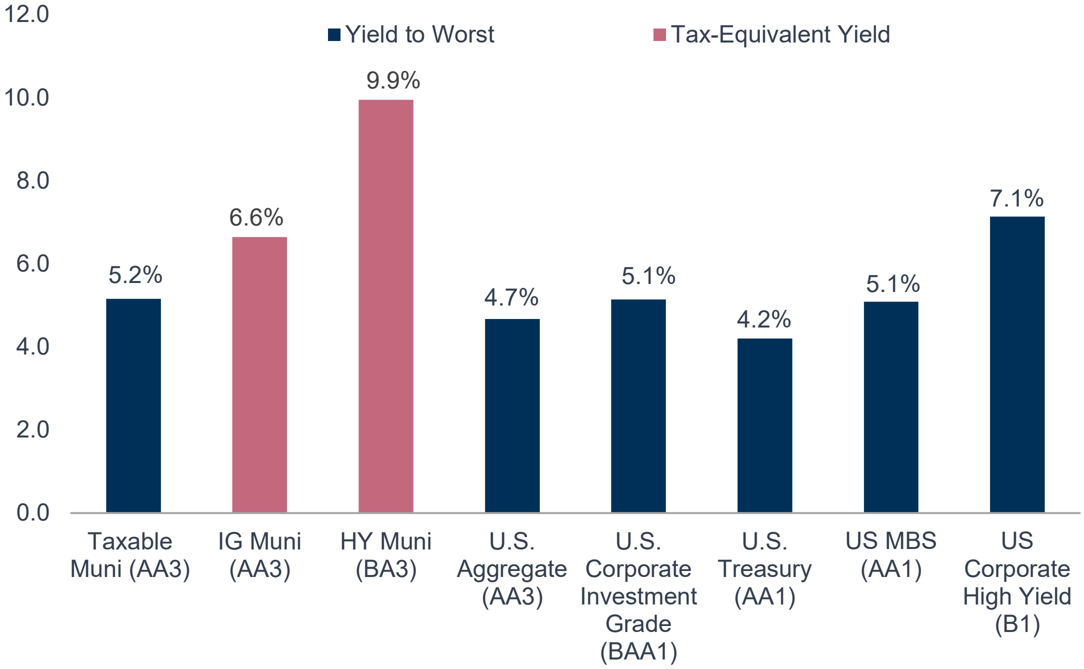
Lastly, and we think this point is underappreciated, when the Fed does become active, those clients who are still exposed to cash and cash like instruments, such as VRDO in the exempt space, will see a much sharper reset in rates lower than our active approach to management in MSTIX, which is built to hedge against those sort of moves and has a buffer of some slight duration.

Questions from the Field

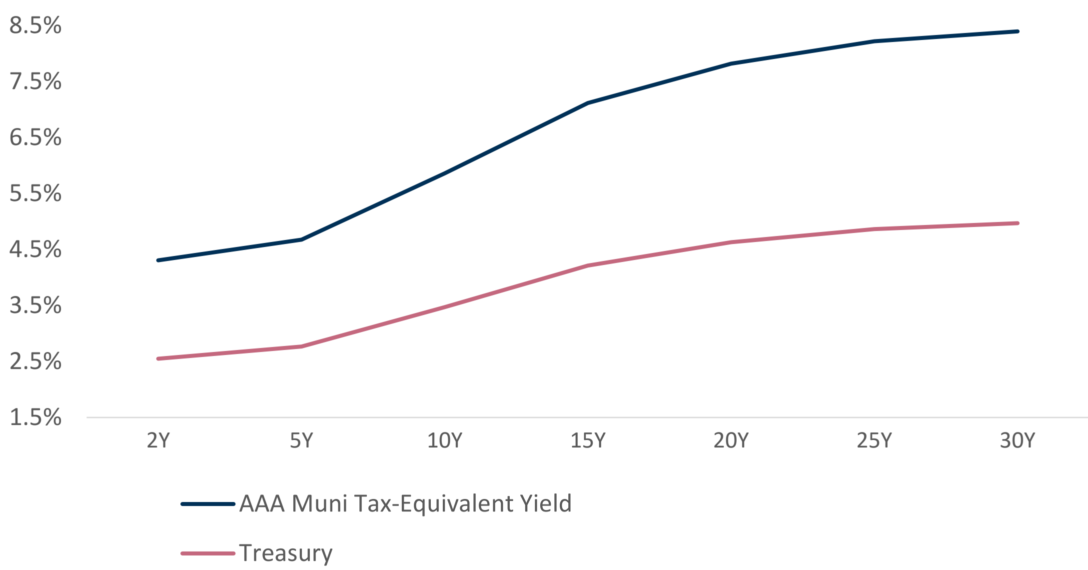
Q: For longer term investors, where on the curve should the focus be in 2h of 2025?

This is a question that we get quite often and our answer has remained somewhat static in where we see the most identifiable relative value, at least based on muni to US Treasury ratios. The long end of the municipal yield curve appears to be the cheapest area with ratios in the mid 90% range. In fact, the long end of the muni curve, relative to the 10-year tenor and front of the curve is at some of the widest ratios in the past year. We would note that there is a key difference between relative value and absolute value. While the long end of the curve looks the most appealing on a relative basis, we continue to have high conviction that the front end of the curve has extremely attractive absolute value (as described above) and could lead in total returns should the Fed begin to cut rates.

INDEX YIELDS AND AVERAGE RATINGS (in %)[5]



AAA MUNI TAX-EQUIVALENT YIELD CURVE[6]



Data as of 7/8/2025.

5. Source: Bloomberg, UBS. *Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

6. Source: Bloomberg, UBS. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

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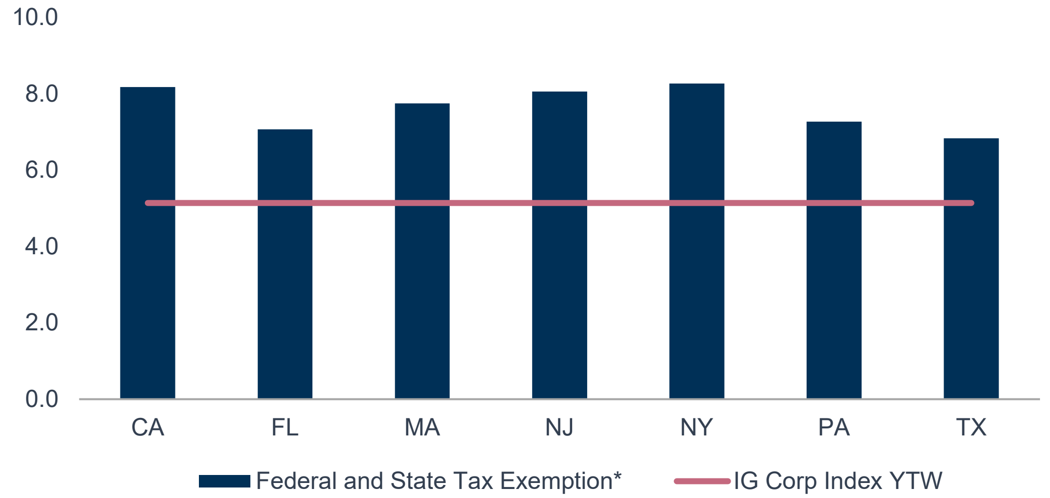
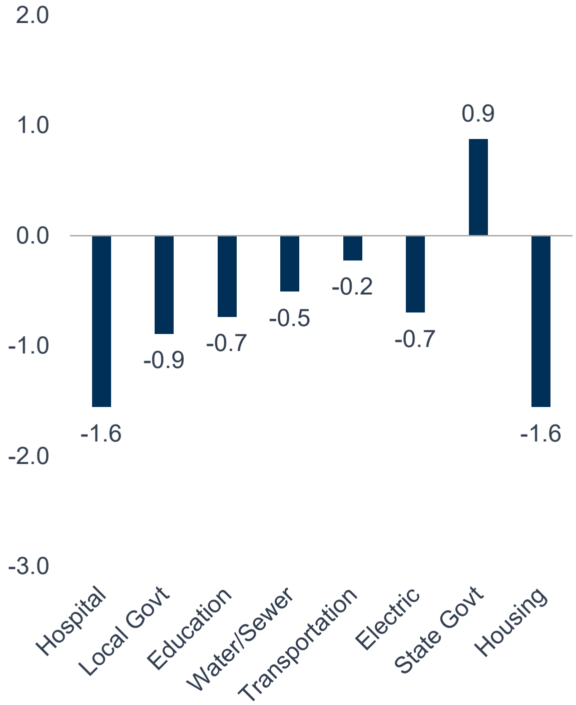
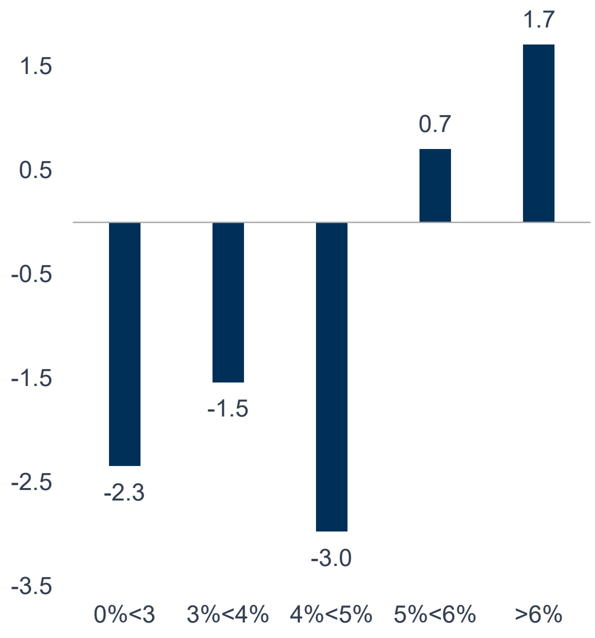
IN-STATE MUNI TAX-EQUIVALENT YTW[7]



YTD TOTAL RETURNS BY SECTOR (in %)[8]



YTD TOTAL RETURNS BY COUPON (in %)[9]



Data as of 7/8/2025.

7. Source: Bloomberg, UBS. *Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. **Using respective maximum state income tax rate.

8. Source: Bloomberg, UBS. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

9. Source: Bloomberg, UBS. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

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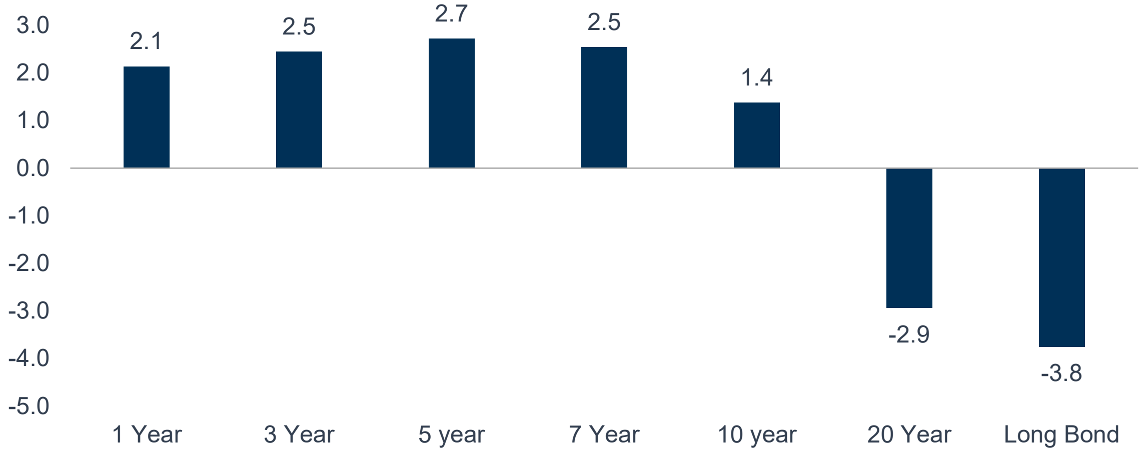
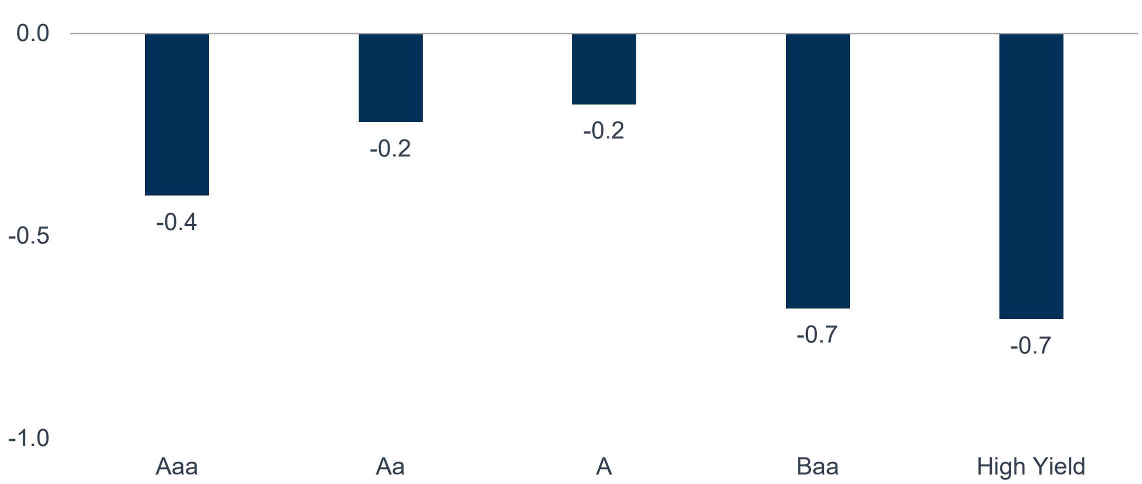
YTD TOTAL RETURNS BY MATURITY (in %)[10]



YTD TOTAL RETURNS BY RATING CATEGORY (in %)[11]



Data as of 7/8/2025.

10. Source: Bloomberg, UBS.

11. Source: Bloomberg, UBS.

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BLOOMBERG MUNICIPAL YIELD-TO-WORST[12] (YTW)

MUNI YIELDS

Tenor	7/4/2025	7/11/2025	Change (+/–)
Bloomberg AAA Muni Key Rate Yields[13]			
2-year	2.58%	2.52%	-0.06%
5-year	2.68%	2.63%	-0.05%
10-year	3.21%	3.18%	-0.03%
30-year	4.56%	4.60%	+0.04%
US Treasury Key Rate Yields[13]			
2-year	3.88%	3.90%	+0.02%
5-year	3.94%	3.99%	+0.05%
10-year	4.35%	4.43%	+0.08%
30-year	4.86%	4.96%	+0.10%
US Treasury & AAA Muni Curve Slopes[14]			
	2s10s	**10s30s**	**2s30s**
US Treasury Curve Slope	+53 bps	+53 bps	+106 bps
AAA Muni Curve Slope	+67 bps	+141 bps	+208 bps

Data as of 7/11/2025.

12. Source: Bloomberg. “Post GIFC Average” measures the period from 1/1/2010–7/11/2025.

13. Source: Bloomberg.

14. 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.

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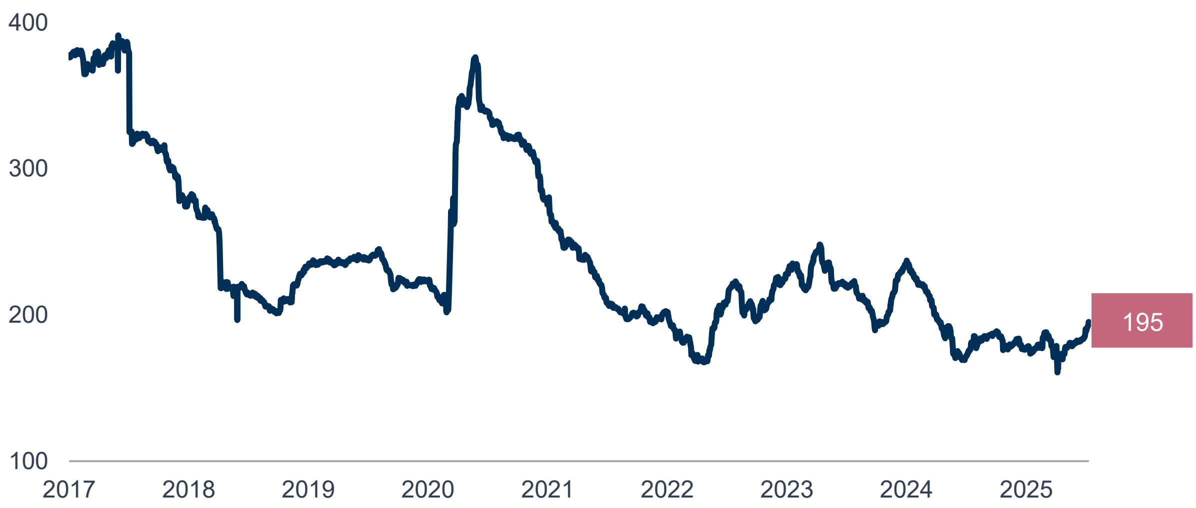
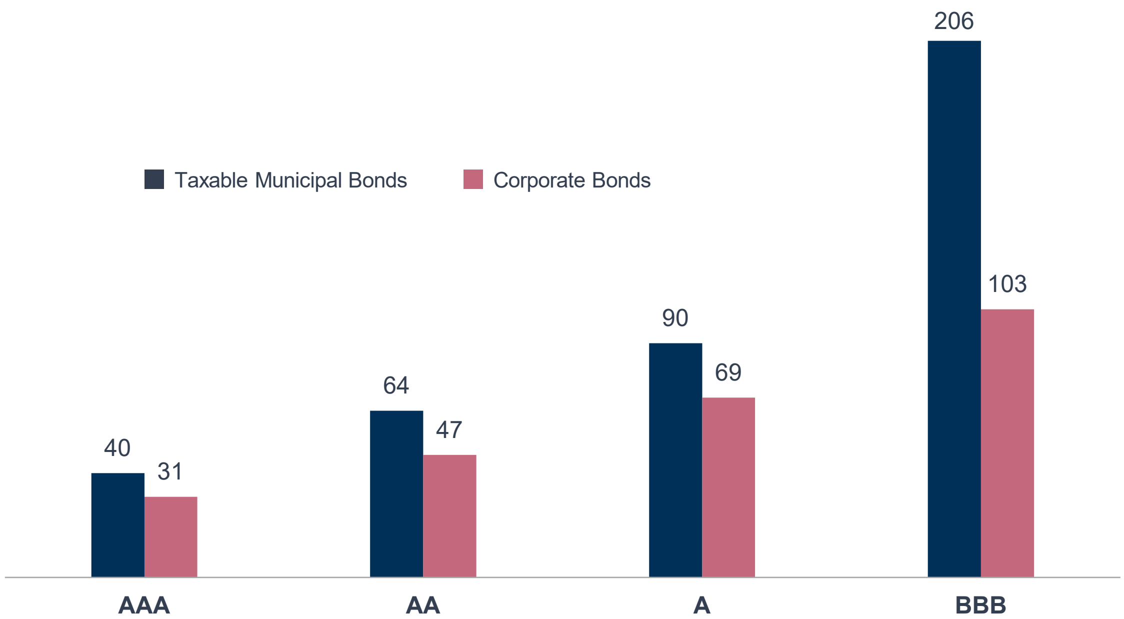
BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL[15]



TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS[16]



Data as of 7/11/2025.

15. Source: Bloomberg.

16. 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.

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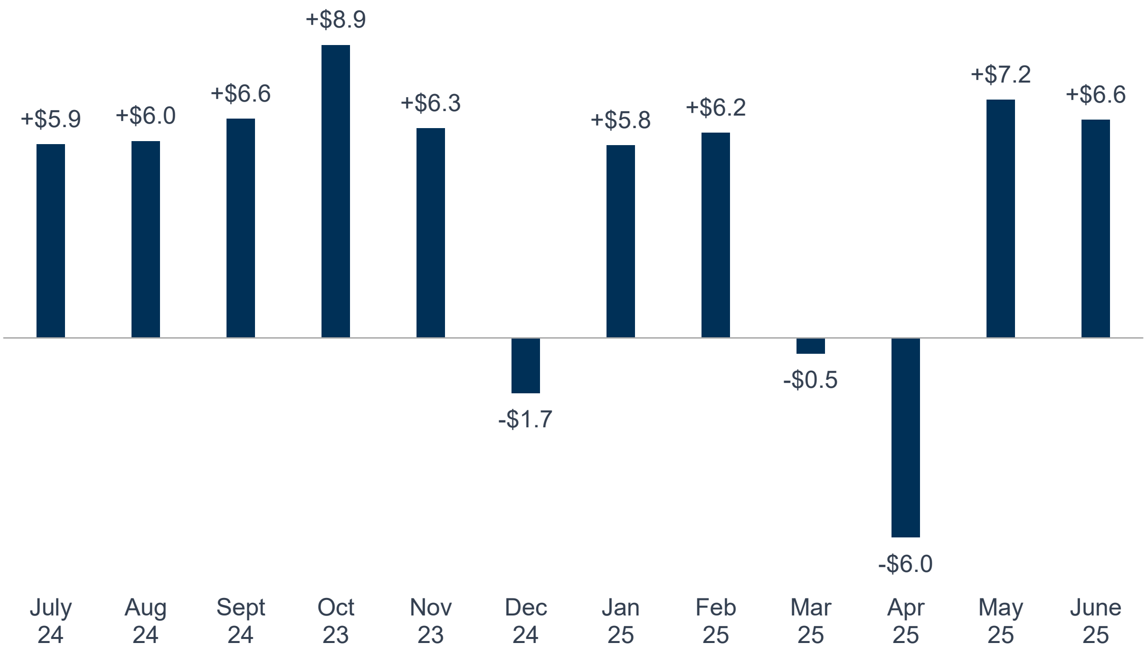
LONG TERM FUND FLOWS[17] (USD BILLION)



Data as of 7/11/2025.

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

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NYLI MacKay Short Term Muni Fund | New York Life Investments

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.

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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 Municipal Bond Total Return Index is a broad, market-weighted index that tracks the performance of the long-term, tax-exempt bond market in the United States. It includes general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds, and is designed to be a benchmark for investors in this market.

NEW YORK LIFE INVESTMENTS

PRD-00099-07/25