

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.



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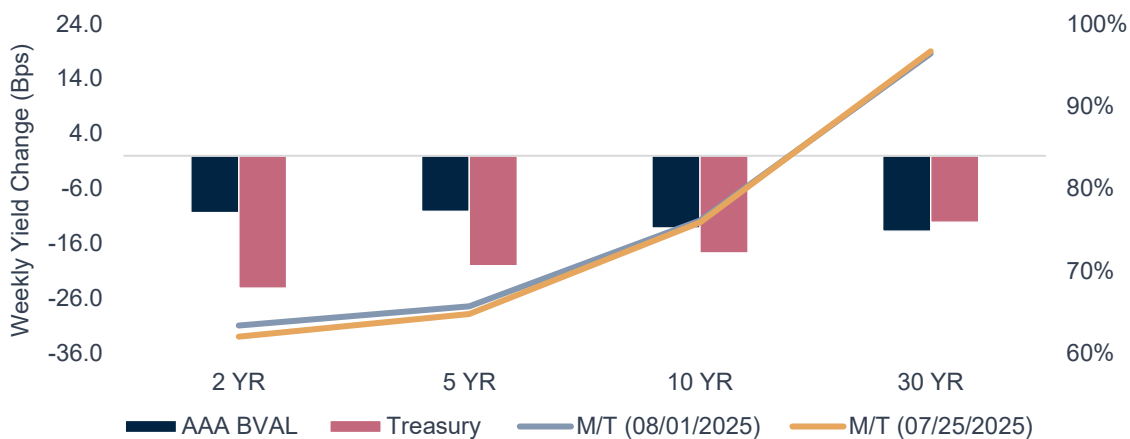
Don't Fear the Steepener!

- We have a bit of rally underway
- Muni curve had steepened at historical pace
- However, slowing pace leaves some ratios in play

Relative Performance

Over the past week, AAA tax-exempt municipal bonds have demonstrated absolute strength as they participated directionally in the broader rate rally. However, compared to both U.S. Treasuries and corporate debt, tax-frees appeared to under-perform as their yields did not decline as much as their taxable counterparts. The 10-year AAA muni yield declined by approximately 13 basis points to 3.18%, while the 10-year Treasury yield declined 20 basis points to 4.22%, leaving the muni-to-Treasury yield ratio in the existing tighter band of 75-76%. Notably, the tonal shift in rates, while macro drive, can on the margin suggests growing investor demand for munis, particularly in the longer end of the curve, where valuations have been under pressure. Tax-equivalent yield (TEY) comparisons—especially for high-bracket investors—continue to favor munis, with recent charts showing multi-decade wides in TEY pickup over similarly rated corporates. These dynamics, coupled with a still seasonally cash heavy posture, we believe reinforce a constructive outlook for total returns in the near term.

MUNIS OUTPERFORM ACROSS THE CURVE¹



1. Data as of August 1, 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 term “fatigue” has been frequently used to describe municipal bond performance this year. While we understand the sentiment, applying it broadly across the asset class overlooks important distinctions — particularly across duration buckets. Investors with shorter-duration mandates are having markedly different conversations than those positioned further out on the curve (Bloomberg).

As relative value managers, our focus remains on identifying the most attractive segments of the curve. On a muni-to-Treasury ratio basis, we believe longer-duration municipals continue to offer compelling value. However, given evolving curve dynamics and steepness, tactical positioning remains essential.

TALE OF TWO MUNI MARKETS²

Maturity	1-Day Return	MTD Return	YTD Return
1 Year (1-2)	0.02%	0.51%	2.40%
3 Year (2-4)	0.03%	0.77%	2.86%
5 Year (4-6)	0.07%	0.86%	3.15%
7 Year (6-8)	0.08%	0.57%	2.62%
10 Year (8-12)	0.08%	0.11%	1.15%
15 Year (12-17)	0.11%	-0.60%	-1.58%
20 Year (17-22)	0.10%	-1.15%	-3.84%
Long bond (22+)	0.12%	-1.08%	-4.42%

2. Data as of 08/01/2025. Source: Bloomberg.

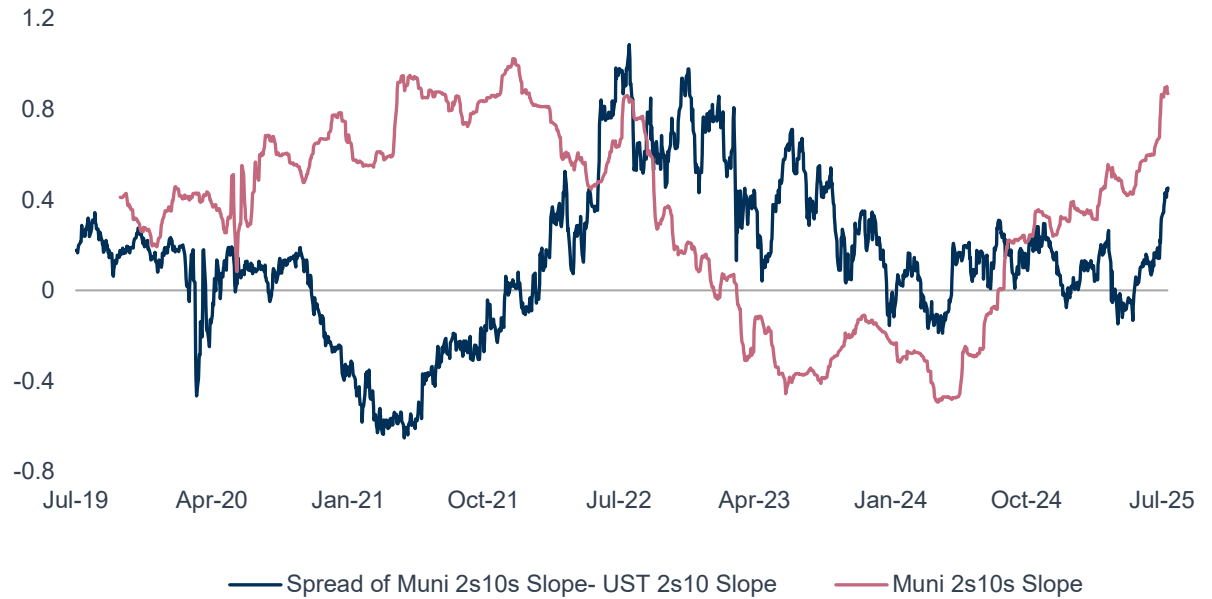
Movin on Up...in Slope

This year, AAA BVAL tax-exempt yields have shifted dramatically—long-end rates have risen by up to 90bps, while short-end rates have dropped nearly 70bps (Bloomberg). This divergence has driven the return dispersion noted above.

What's notable isn't just the steepening of the muni curve, but the pace at which it's occurred. The 2s–10s slope now stands at 87bps—a level seen before, but the rapid steepening, especially relative to Treasuries, is creating tactical opportunities.

One way to assess this is through relative steepness ratios. A year ago, investors could capture 78% of the 30-year muni yield at the 2-year tenor. Today, that figure is closer to 51%, well below the 5-year average. Meanwhile, the 15-year portion offers nearly 84% of the 30-year yield, aligning with historical norms. It is our view that positioning in the 15-year range allows for effective duration management while capitalizing on roll-down and total return potential.

MUNIS SHIFTING TO OLD NORMAL³



3. Data as of 08/01/2025. Source: Bloomberg.

RATIO ANALYSIS FLAGS SLOPE METRICS⁴

	Recent	Last Week	Last Month	Last Year-End	5-Year Average
2YR / 30YR	50.62%	51.34%	57.68%	73.41%	62.75%
5YR / 30YR	53.37%	53.96%	59.93%	75.41%	63.87%
10YR / 30YR	69.60%	70.36%	71.17%	81.48%	72.99%
15YR / 30YR	83.54%	83.92%	83.07%	86.97%	84.33%
20YR / 30YR	93.44%	93.62%	92.04%	94.02%	92.12%

4. Data as of 08/01/2025. Source: Bloomberg.

The dramatic shift in percentages of the long end yield picked up earlier on the curve leaves two thoughts behind. We believe it shows 1) the stability of yield beyond the intermediate portion of the curve and 2) further makes the case for active management which can help in taking advantage of dynamic curve changes i.e., layering in short end exposures over time versus being extremely reactive after the curve has shifted.

Questions from the Field

Q: Which yield metric should be of focus when discussing our products with financial advisors?

The municipal market offers a wide array of yield figures, often leading to inconsistencies and misconceptions about what a portfolio is truly earning. We believe yield to worst (YTW) is the most conservative and economically accurate measure of a portfolio's potential earnings—which is why it is the industry standard driver of a fund's distribution rate.

Other metrics, such as yield to maturity (YTM) and current yield (CY), can overstate earnings potential.

Example: Why Current Yield Can Mislead

Consider two investors holding the same 5% coupon bond

- In 2021, Investor A buys the bond at \$103, locking in a YTW of 2%.
- In 2025, Investor B buys the same bond at \$100, locking in a YTW of 5%.

Despite the second investor having a significantly better book yield (5% vs. 2%), both portfolios show an identical current yield of 5%—calculated as annual coupon income divided by market price. This illustrates how current yield can mask the true earnings potential embedded in a portfolio.

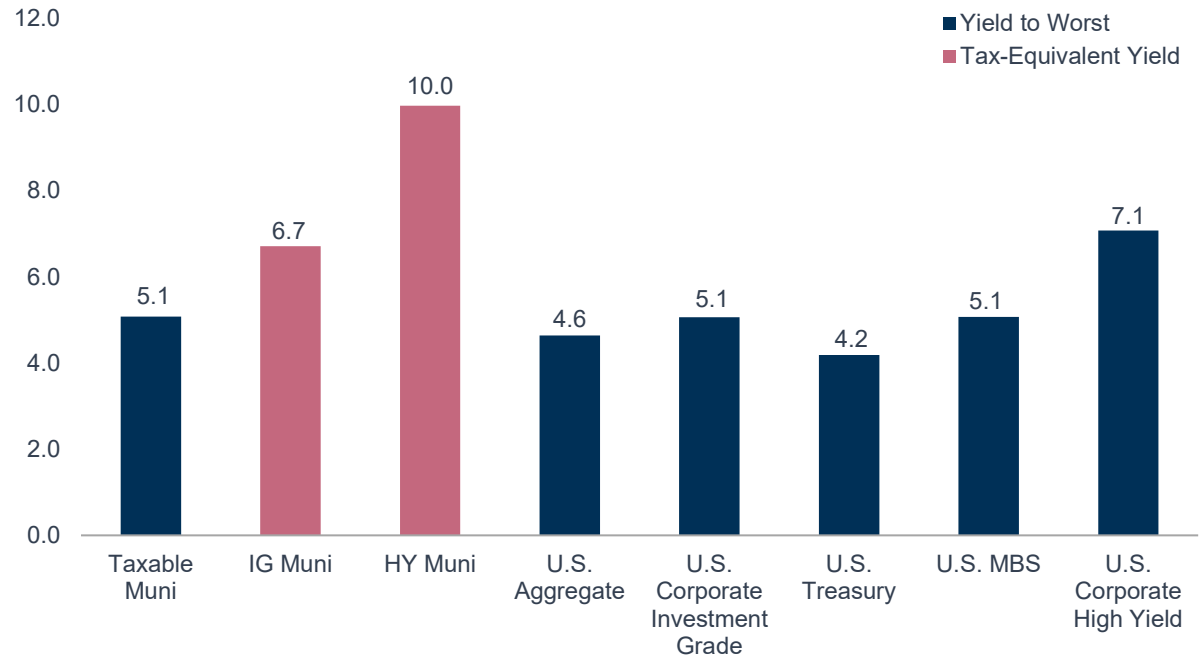
Definitions

Yield to Worst - Yield to worst represents the lowest yield a bondholder might receive if the bond is redeemed before maturity while still complying to agreement terms.

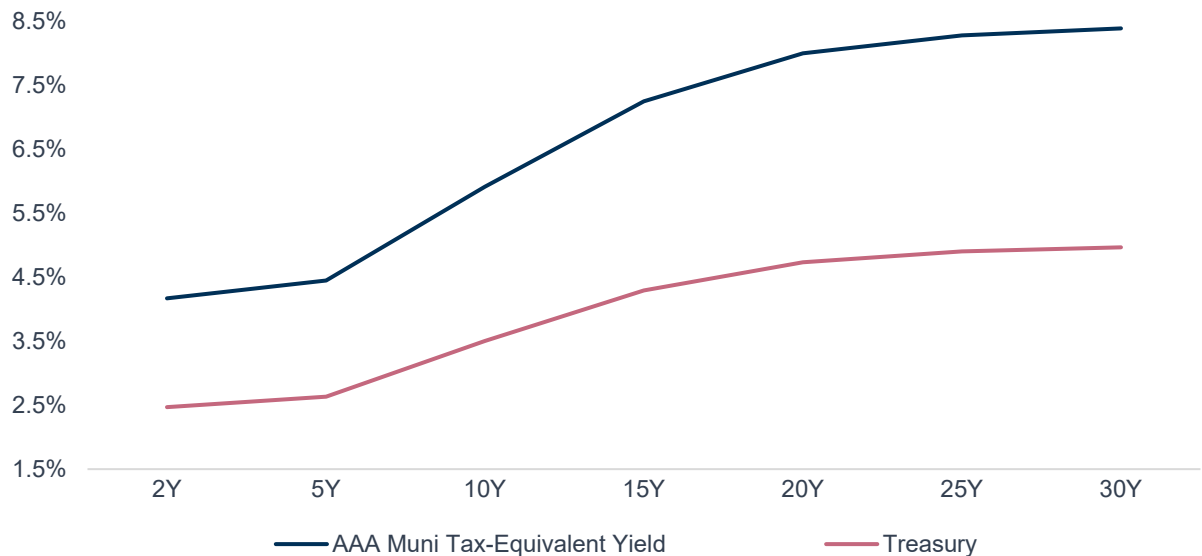
Yield to Maturity - Yield to Maturity is expressed as an annual rate and is the estimated total return a bond will generate if it is held to maturity.

Current Yield - Current yield is an investment's annual income (interest or dividends) divided by the current price of the security.

INDEX YIELDS (in %)⁵



AAA MUNI TAX-EQUIVALENT YIELD CURVE⁶



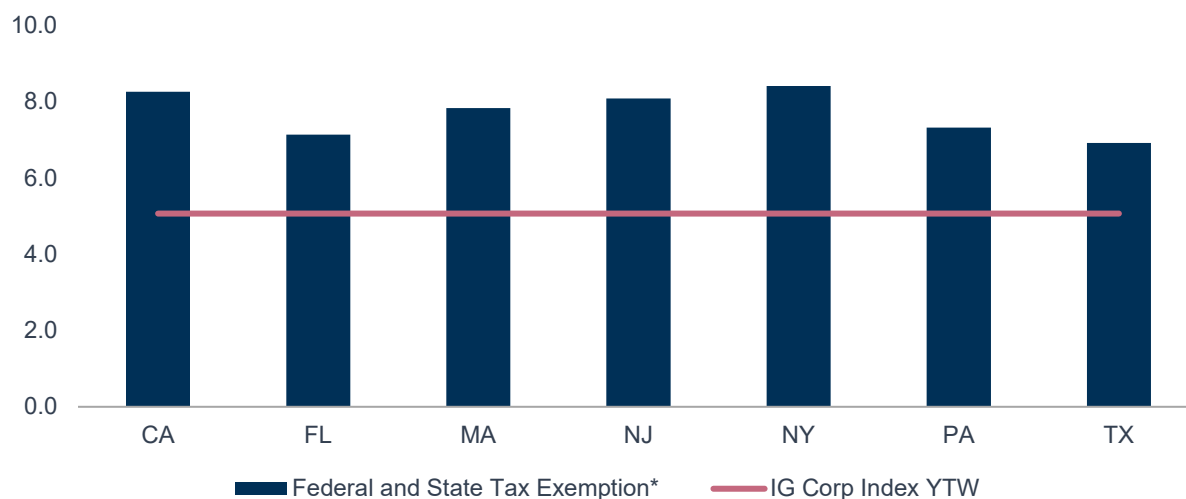
Data as of 08/04/2025.

5. Source: Bloomberg. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Taxable Muni: Bloomberg Taxable Municipal Bond Index; IG Muni: Bloomberg Taxable Municipal Bond Index; HY Muni: Bloomberg High Yield Municipal Bond Index; U.S. Aggregate: Bloomberg U.S. Aggregate Bond Index; U.S. Corporate Investment Grade: Bloomberg U.S. Corporate Investment Grade Index; U.S. Treasury: Bloomberg U.S. Treasury Index; U.S. MBS: Bloomberg U.S. Mortgage-Backed Securities Index; U.S. Corporate High Yield: Bloomberg U.S. Corporate High Yield Index.

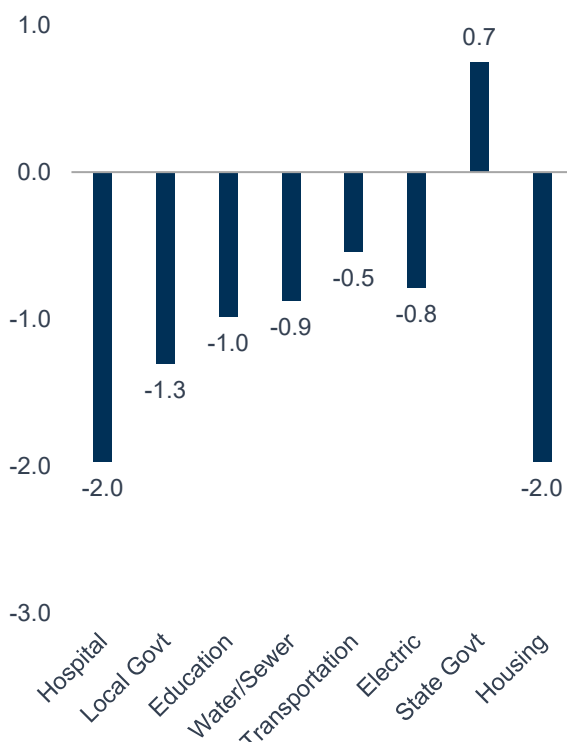
6. Source: Bloomberg. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

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

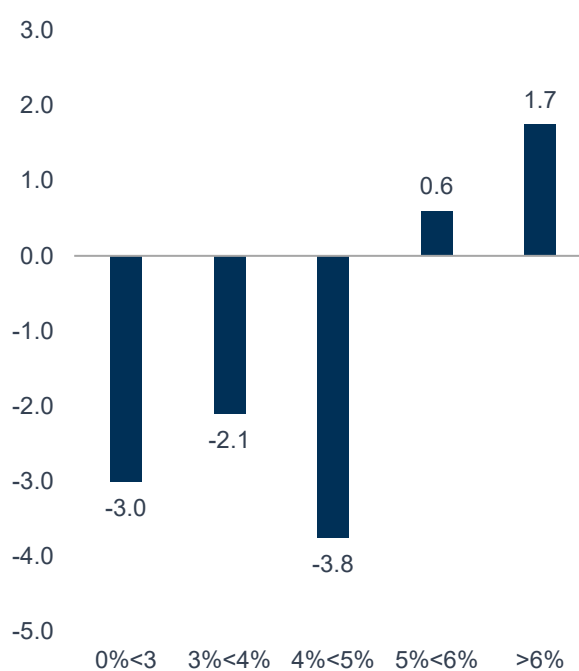
IN-STATE MUNI TAX-EQUIVALENT YTW (in %)⁷



YTD TOTAL RETURNS BY SECTOR (in %)⁸



YTD TOTAL RETURNS BY COUPON (in %)⁹



Data as of 08/04/2025.

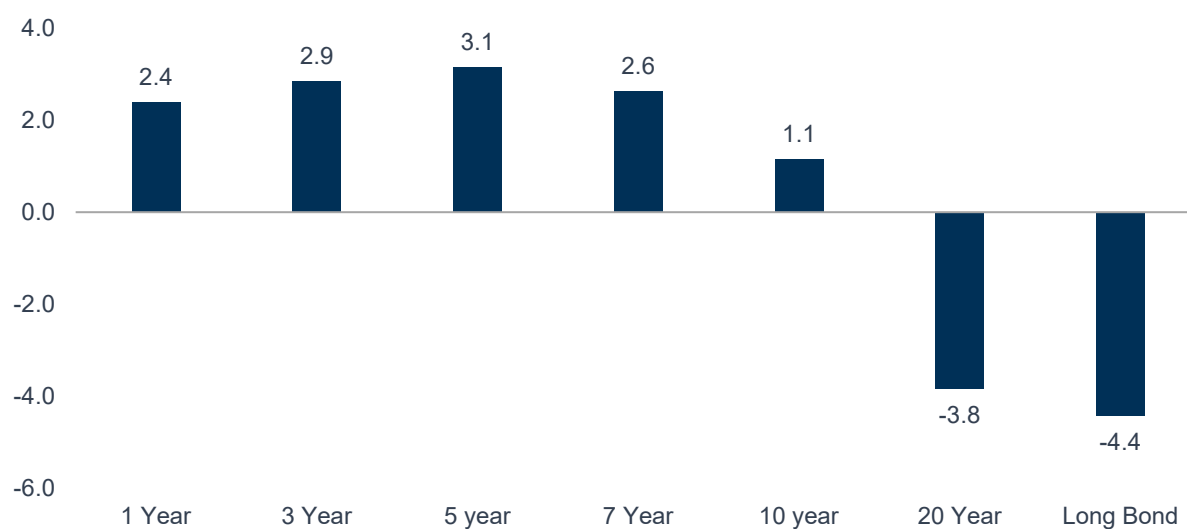
7. Source: Bloomberg. *Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Using respective maximum state income tax rate.

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

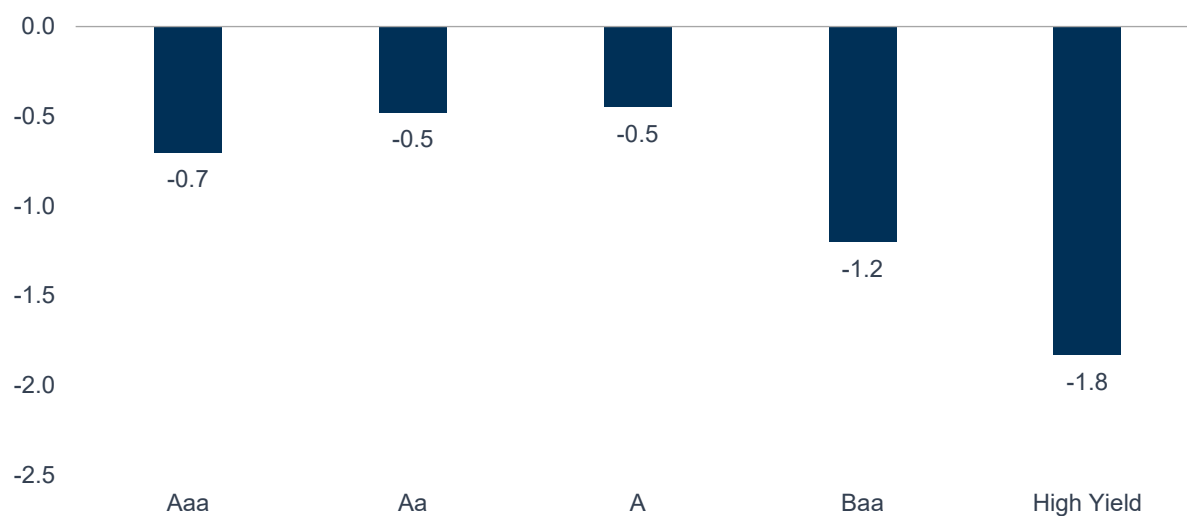
9. Source: Bloomberg. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

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YTD TOTAL RETURNS BY MATURITY (in %)¹⁰



YTD TOTAL RETURNS BY RATING CATEGORY (in %)¹¹



Data as of 08/04/2025.

10. Source: Bloomberg.

11. Source: Bloomberg.

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BLOOMBERG MUNICIPAL YIELD-TO-WORST¹² (YTW)



MUNI YIELDS

Tenor	07/25/2025	08/01/2025	Change (+/-)
Bloomberg AAA Muni Key Rate Yields¹³			
2-year	2.44%	2.33%	-0.10%
5-year	2.57%	2.47%	-0.10%
10-year	3.33%	3.20%	-0.13%
30-year	4.77%	4.63%	-0.14%
U.S. Treasury Key Rate Yields¹³			
2-year	3.91%	3.69%	-0.22%
5-year	3.95%	3.77%	-0.18%
10-year	4.40%	4.23%	-0.17%
30-year	4.92%	4.81%	-0.11%
U.S. Treasury & AAA Muni Curve Slopes¹⁴			
	2s10s	10s30s	2s30s
U.S. Treasury Curve Slope	+54 bps	+58 bps	+112 bps
AAA Muni Curve Slope	+87 bps	+143 bps	+230 bps

Data as of 08/01/2025.

12. Source: Bloomberg. "Post GIFC Average" measures the period from 01/01/2010–08/01/2025.

13. Source: Bloomberg.

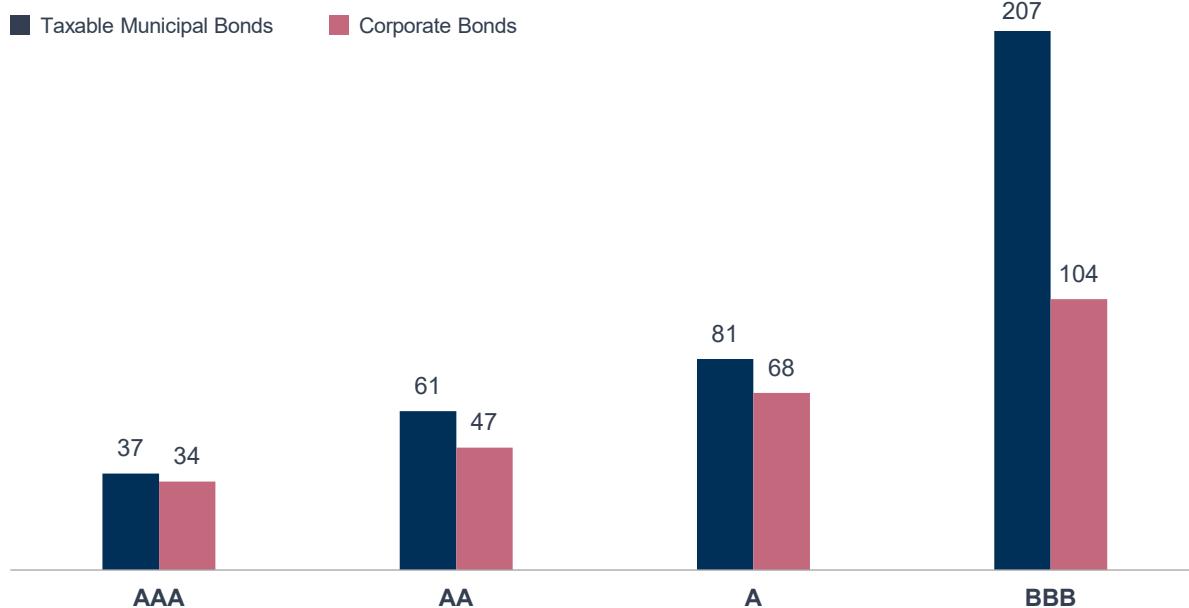
14. Source: Bloomberg. 2s10s—is spread between 10yr and 2yr yield; 10s30s—refers to spread between 30yr and 10yr yield; 2s30s—refers to spread between 30yr and 2yr yield.

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BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL¹⁵



TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS¹⁶



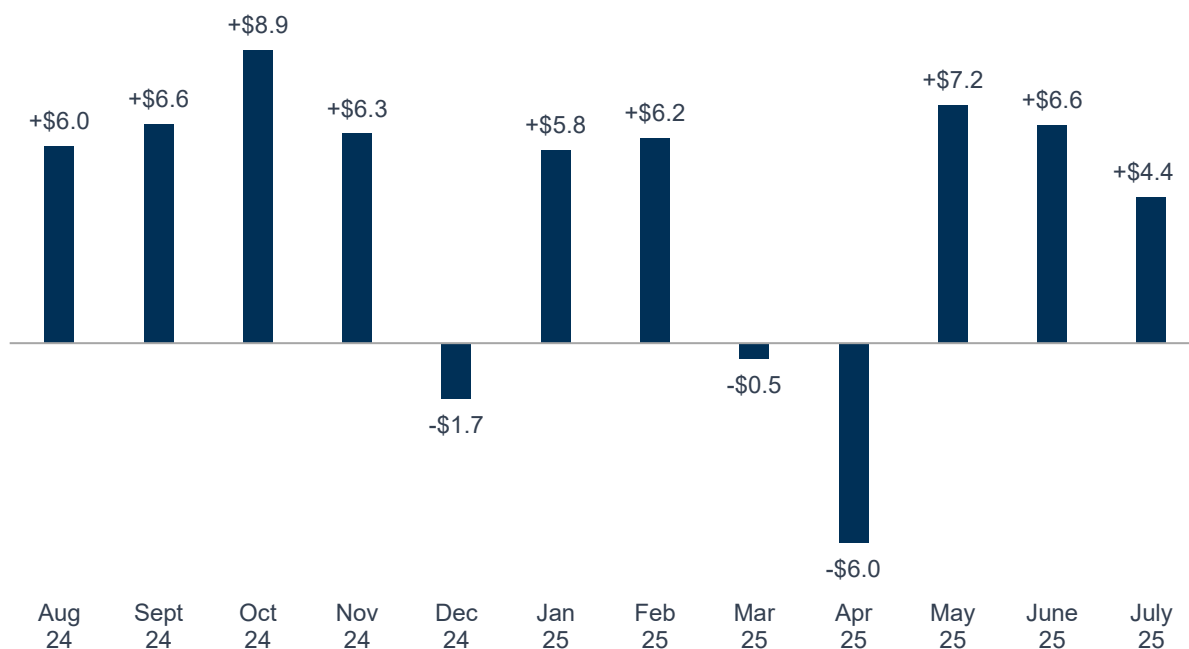
Data as of 08/01/2025.

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 FLOWS¹⁷ (USD BILLION)



Data as of 08/01/2025.

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

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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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INDEX DESCRIPTIONS

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.

Bloomberg Municipal Taxable 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. 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. 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. This index is the subindex that has been created based on 5–10 year maturity.

Bloomberg Municipal Bond 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.

Bloomberg High Yield Municipal Bond Index is a flagship measure of the U.S. municipal tax-exempt non-investment grade bond market. Included in the index are securities from all 50 U.S. 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. All bonds in the Municipal High Yield Bond Index are tax exempt and hence are not eligible for other indices that include taxable high yield bonds, such as the U.S. High Yield Index and EM USD Aggregate Index.

Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. Must have at least one year to final maturity regardless of call features. Must have at least \$300 million par amount outstanding. Must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Must be dollar-denominated and non-convertible.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

Bloomberg U.S. Treasury Index Public obligations of the U.S. Treasury with a remaining maturity of one year or more. Must be a U.S. Treasury security. Must have at least \$300 million par amount outstanding. Must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Must be fixed rate. Must be dollar-denominated and non-convertible.

Bloomberg U.S. Mortgage-Backed Securities Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). Must have a weighted average maturity (WAM) of at least one year. Must have at least \$300 million par amount outstanding. Must be fixed rate.

Bloomberg U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must have at least one year to final maturity regardless of call features. Must have at least \$150 million par amount outstanding. Must be rated high yield (Ba1/BB+ or lower) by at least two of the following ratings agencies: Moody's, S&P, Fitch. Must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule. Must be dollar-denominated and non-convertible. Must be publicly issued.



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