Muni360

AUGUST 12, 2025

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.

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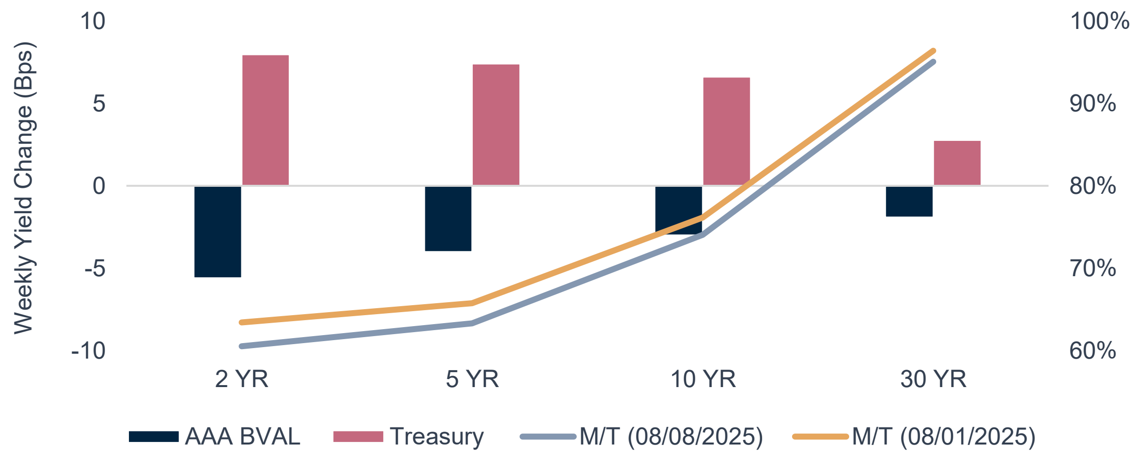
Talkin' taxes

- Munis and U.S. Treasury directions diverge
- With OBBBA completed, exemption uncertainty fades away
- Some Muni sectors have post act headwinds

Relative Performance

Over the past week, municipal bonds outperformed U.S. Treasuries across the curve, as evidenced by a notable divergence in yield movements. While Treasury yields increased between 2.8 to 8.0 basis points across maturities, AAA municipal yields declined by 1.9 to 5.6 basis points. This inverse movement led to a sharp decline in municipal-to-Treasury (M/T) ratios, signaling improved relative performance for tax-exempt bonds. The 30-year M/T ratio is still somewhat rangebound around 95%, down slightly from 96% in the prior week. The tightening of ratios across the yield curve speaks to heightened investor demand for longer-dated munis amid stable credit fundamentals and limited supply. Overall, the week highlighted municipals' resilience and appeal as a defensive allocation in a slowing economic environment.

MUNIS OUTPERFORM ACROSS THE CURVE[1]



1. Data as of August 8, 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.

New York Life Investments

Market Technicals

This week is less technically driven in nature and more macro focused, as we look at the One Big Beautiful Tax Bill Act, and how that will/will not impact the municipal market. The one key takeaway is that we have seen top line volatility from U.S. Treasury rates come down since the passage of the bill, a fact which will help reduce headwinds to municipal performance going forward. Prior to the passage, 30-day volatility for the Bloomberg U.S. Treasury index was subject to more frequent spikes, serving as a larger detractor to sustained periods of municipal bond positive performance throughout this year.

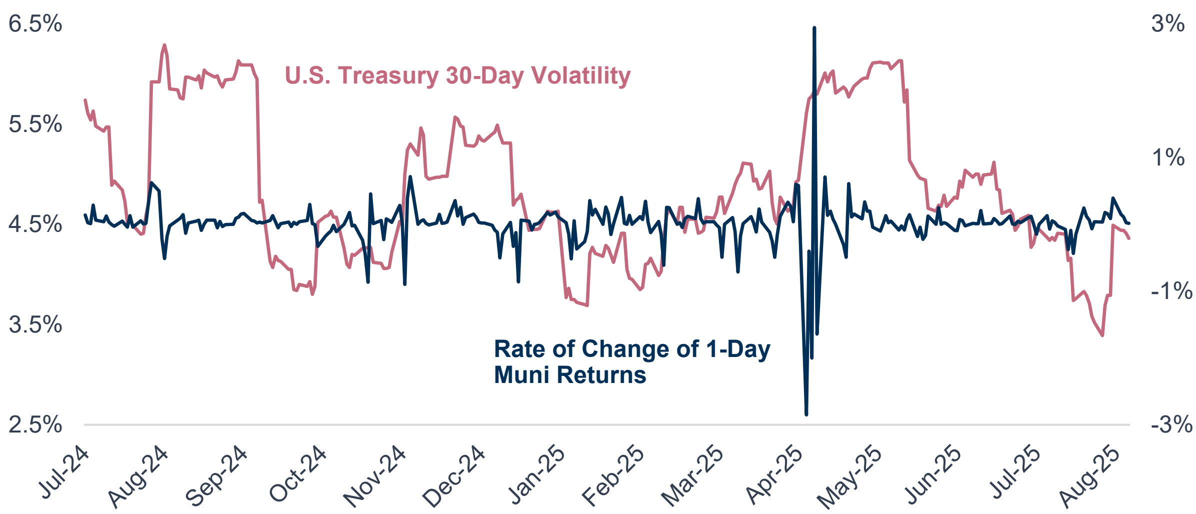
With the muni tax exemption preserved and some policy uncertainty reduced, municipal bonds remain a compelling asset class. Strong credit fundamentals, attractive tax-equivalent yields, and renewed institutional demand reinforce their role in diversified portfolios. As implementation of the One Big Beautiful Bill unfolds, we believe munis continue to offer stability, income, and long-term value.

Tax Exemption For Munis Preserved and Slightly Expanded

The One Big Beautiful Bill (OBBB) keeps the tax exemption for municipal bonds in place, which supports investor confidence. It also adds spaceports (a possible future infrastructure facility) (Source: Nixon Peabody) as a new eligible issuer, slightly expanding the market.

Our broader thoughts on this subject matter are summarized below and our most recent webinar on this topic can be found here on MUNI360.com

BROADER RATE VOLATILITY TICKING LOWER; GOOD NEWS FOR MUNIS[2]



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

Boosted Relative Value Amid Stable Tax Policy

With no changes to individual or corporate tax rates, muni bonds remain attractive. High yields and clearer tax policy make them easier to plan around for long-term investors.

Increased Institutional Demand Expected

We have observed banks and insurance companies are returning to the muni market. Tax-equivalent yields are now higher than similarly rated corporates, especially on longer maturities, boosting appeal.

Healthcare Sector Faces Credit Headwinds

Changes to Medicaid and ACA rules may pressure nonprofit healthcare issuers. While not a broad crisis, investors should watch credit quality closely.

Strong Credit Backdrop For State And Local Issuers

It is our view that states and cities are in a strong position with healthy reserves and revenue growth. Even with reduced federal funding, most general obligation issuers remain stable.

Implementation And Rulemaking Pose Medium-term Risks

The bill’s full impact depends on future rules from the Treasury and IRS. States must also manage changes to programs like Medicaid and SNAP, which could create credit and operational risks over the next one to two years.

FEDERAL POLICY IMPACT[3]

Maturity	Expected municipal Market impact	Description
Tax Exemption	**Neutral (Marketwide):** Market structure faces no negative changes.	The law preserves the federal tax exemption for municipal bond interest and makes permanent the 37% top marginal income tax rate. No restrictions were imposed on tax-exempt issuance, including Private Activity Bonds. The law expands eligibility by adding spaceports to PAB categories and lowering the tax-exempt financing threshold for 4% Low-Income Housing Tax Credit deals from 50% to 25%.
Other Tax Policy – SALT and AMT	**Neutral (Demand):** Demand for tax-exempts preserved **Positive (State and local GO):** GO credit slightly helped	The SALT deduction cap was raised to $40,000 for joint filers earning up to $500,000. The cap remains unchanged for higher earners, who comprise the majority of municipal bondholders. Thus, the incentive to seek tax-exempt income remains largely intact, while the increased cap for most filers could alleviate opposition to new state and local taxes, helping GO credits. The law also permanently extends elevated AMT exemption thresholds, further reducing the number of investors affected. This supports demand for AMT-exposed bonds, including certain housing and transportation credits.
Medicaid and ACA Funding	**Neutral (State GO):** State governments can pass cuts through their budgets **Negative (Healthcare):** Credit pressure for healthcare providers	Kaiser Family Foundation estimates that the Senate reconciliation bill would reduce federal Medicaid spending by $1 trillion over ten years, with additional cuts to ACA subsidies. The cuts include new work requirements and redetermination rules expected to reduce coverage by 8–11 million people. This is likely to increase uncompensated care burdens on hospitals, especially rural and safety-net providers, elevating credit risk in the healthcare sector. States are expected to reduce program scope to avoid backfilling with general funds. Additionally, Managed Care Organization taxes face new limits. Those taxes are small, but they are beneficial to both state governments and healthcare providers.
Higher Education Endowment Tax	**Neutral (Higher Ed):** A small list of universities will face higher taxes, but all have high credit quality and ample liquidity	The Act raises the endowment excise tax on wealthy private universities from 1.4% to a graduated scale topping out at 8%, based on per-student endowment size. Institutions are only subject to the tax if they enroll at least 3,000 tuition-paying students, at least half of whom must reside in the U.S. (former minimum was 500 students).
Puerto Rico and U.S. Virgin Islands – Rum Cover-Over	**Positive (Excise Tax Revenue):** Increased stability for Rum Tax Bonds	The law makes permanent the federal “cover-over” payments of $13.25 per proof gallon of distilled spirits to Puerto Rico and the U.S. Virgin Islands. These payments, previously subject to periodic reauthorization, are now a stable revenue source. The change improves fiscal predictability and supports credit quality for the two territories, particularly the U.S. Virgin Islands, where debt service capacity has been closely tied to this revenue stream.
SNAP – Supplemental Nutrition Assistance Program	**Neutral (State GO):** Reduction in federal aid to states can be avoided. If not avoided, impact would be manageable.	The law modifies SNAP by imposing financial penalties on states with persistently high payment error rates, creating a modest cost shift. While the program remains primarily federally funded, these changes could increase state exposure in some cases. However, states have two years to improve their systems to avoid penalties. If they cannot avoid penalties, the scale of potential state liabilities is small relative to general fund budgets in most states, and state governments would be expected to absorb these costs without significant fiscal strain.

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

Questions from the Field

Q. Given the recent steepening of the AAA municipal benchmark curve and the Fed's rate cut expectations, how are you positioning portfolios across the curve, and what's your outlook for long-duration munis in the face of elevated issuance and tariff-driven inflation risk?

The steepening of the AAA muni curve—now showing a 230bps spread between 2-year and 30-year maturities—has opened up compelling opportunities in the intermediate and long ends of the curve. We're selectively adding duration where credit fundamentals are strong and spreads justify the risk.

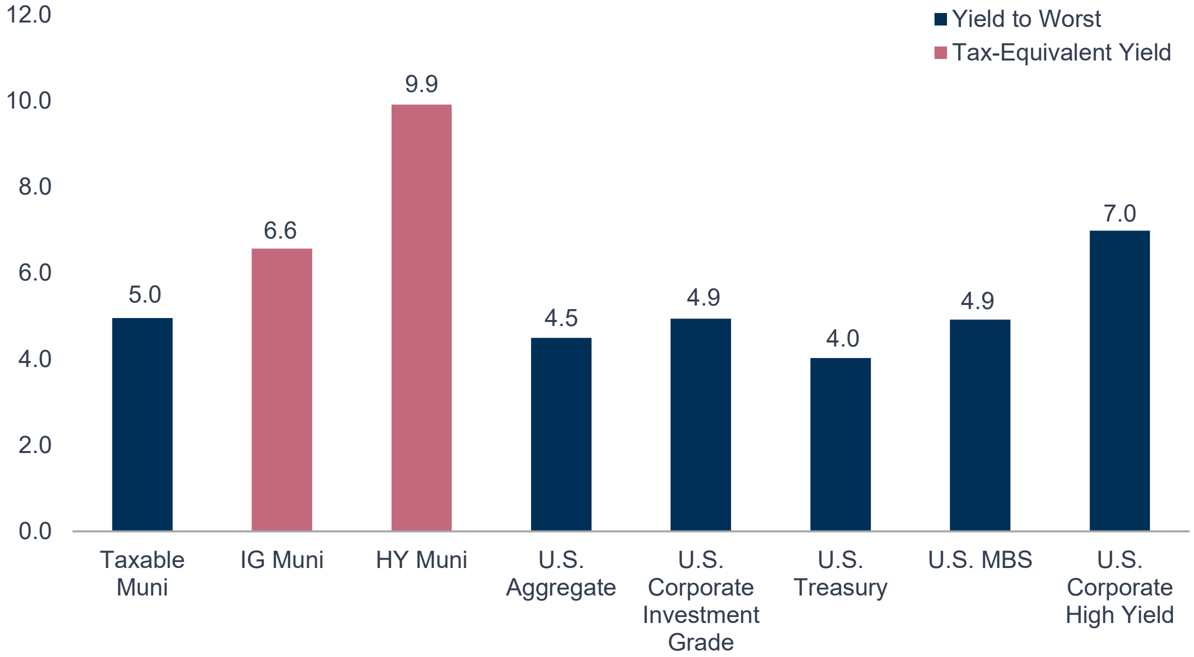
With the Fed signaling a potential rate cut in September, we anticipate a supportive environment for longer-duration munis. However, we remain cautious given the elevated issuance—July alone saw $50B in new supply—and the potential inflationary effects of tariff uncertainty. These factors could pressure yields and widen bid-ask spreads, especially in the secondary market.

To manage this, we are:

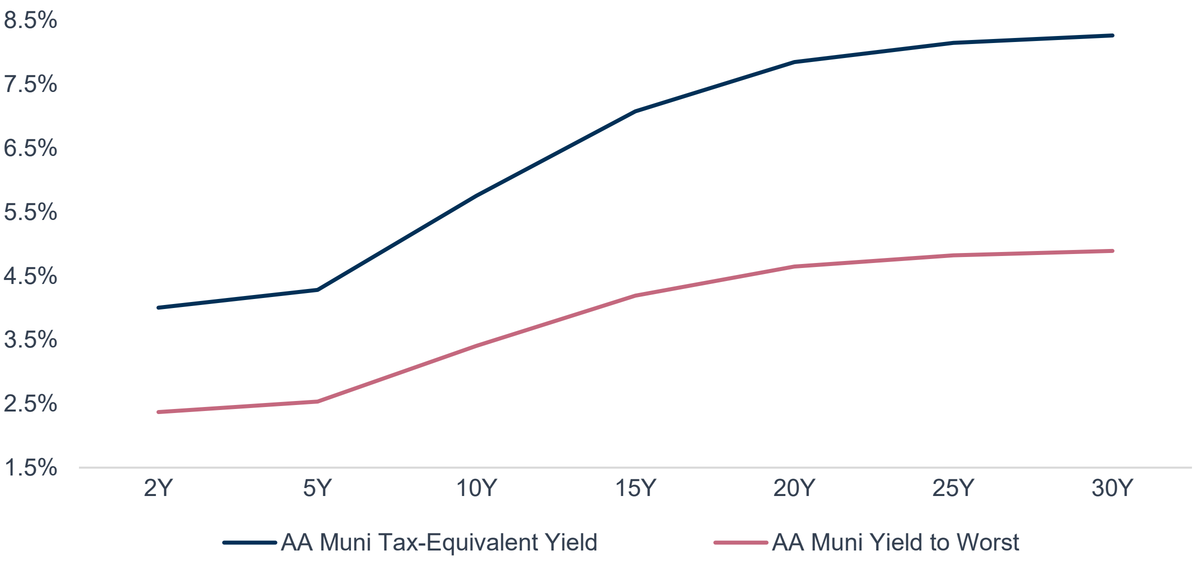
- Prioritizing liquidity by focusing on larger, more actively traded names and
- Monitoring credit closely.

Overall, we see long-duration munis as attractive, but we're being tactical—leaning into credits with strong cash flows while avoiding overexposure to sectors vulnerable to unforeseen policy shocks.

INDEX YIELDS (in %)[4]



AA MUNI TAX-EQUIVALENT YIELD CURVE[5]



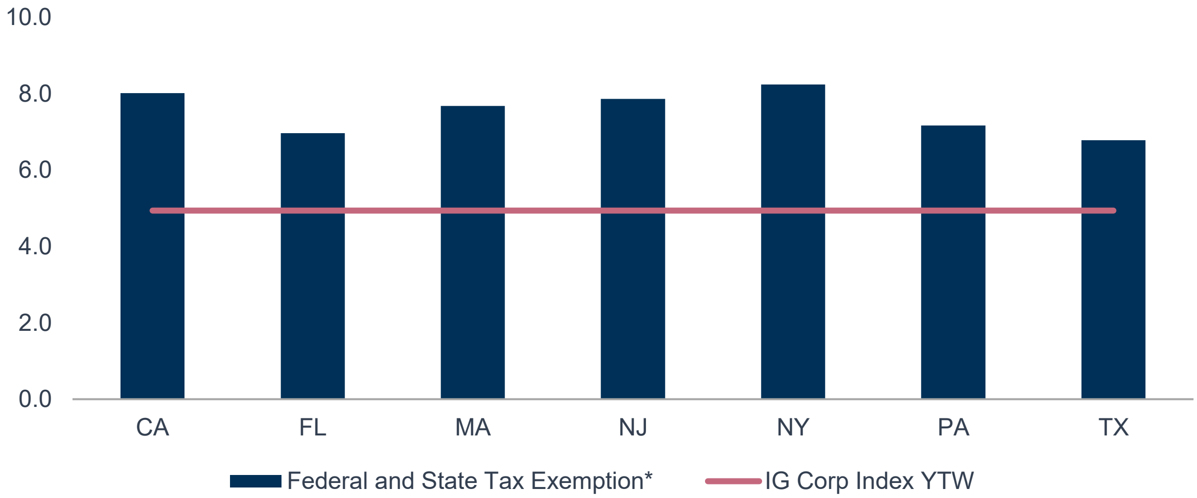
Data as of 08/08/2025.

4. 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.

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

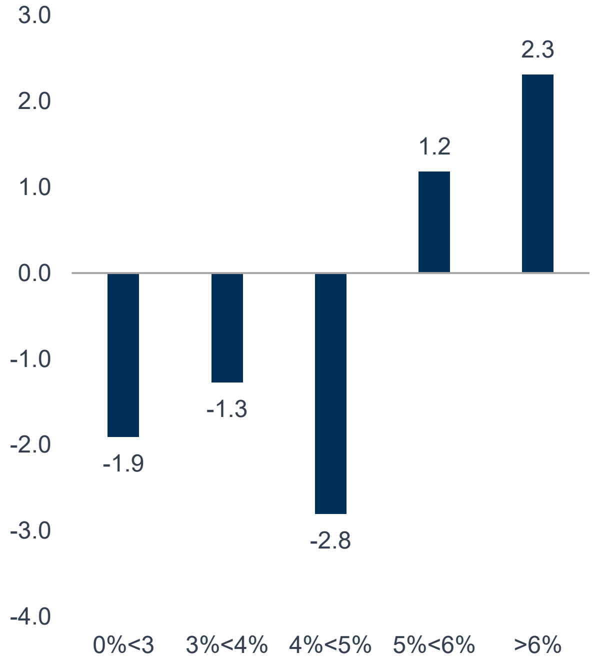
Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.

IN-STATE MUNI TAX-EQUIVALENT YTW (in %)[6]



YTD TOTAL RETURNS BY SECTOR (in %)[7]

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



Data as of 08/08/2025.

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

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

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

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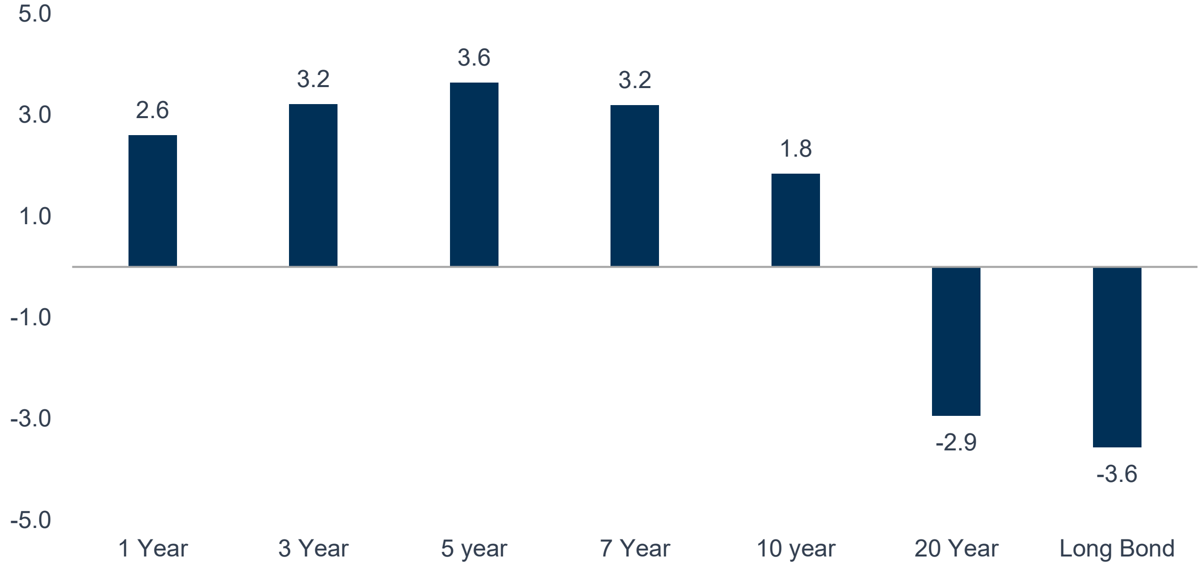
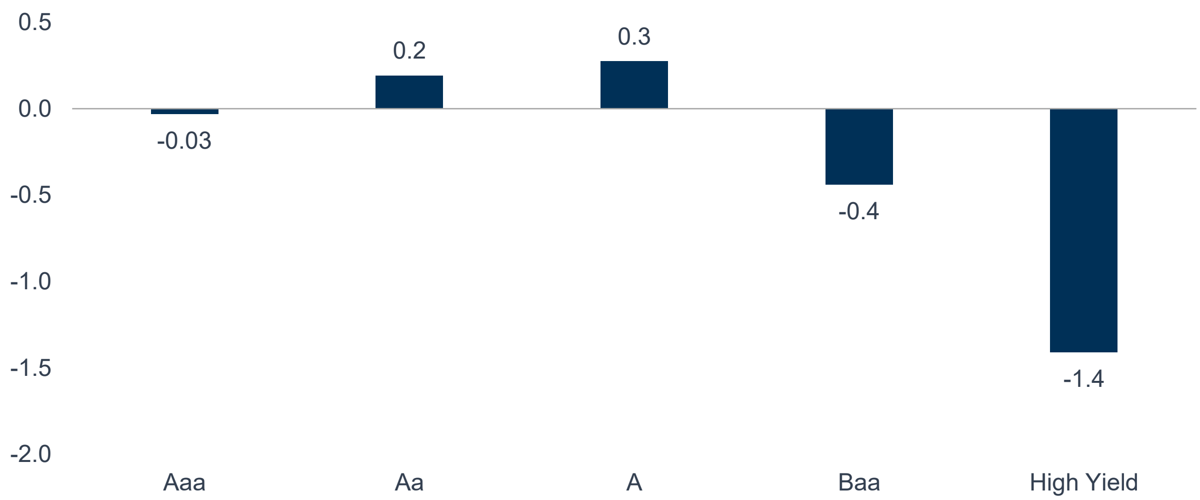
YTD TOTAL RETURNS BY MATURITY (in %)[9]



YTD TOTAL RETURNS BY RATING CATEGORY (in %)[10]



Data as of 08/08/2025.

9. Source: Bloomberg.

10. Source: Bloomberg.

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BLOOMBERG MUNICIPAL YIELD-TO-WORST[11] (YTW)

MUNI YIELDS

Tenor	08/01/2025	08/08/2025	Change (+/–)
Bloomberg AAA Muni Key Rate Yields[12]			
2-year	2.33%	2.28%	-0.06%
5-year	2.47%	2.43%	-0.04%
10-year	3.20%	3.17%	-0.03%
30-year	4.63%	4.61%	-0.02%
U.S. Treasury Key Rate Yields[12]			
2-year	3.69%	3.76%	0.07%
5-year	3.77%	3.84%	0.07%
10-year	4.23%	4.27%	0.04%
30-year	4.81%	4.85%	0.04%
U.S. Treasury & AAA Muni Curve Slopes[13]			
	2s10s	**10s30s**	**2s30s**
U.S. Treasury Curve Slope	+51 bps	+58 bps	+109 bps
AAA Muni Curve Slope	+87 bps	+143 bps	+230 bps

Data as of 08/08/2025.

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

12. Source: Bloomberg.

13. 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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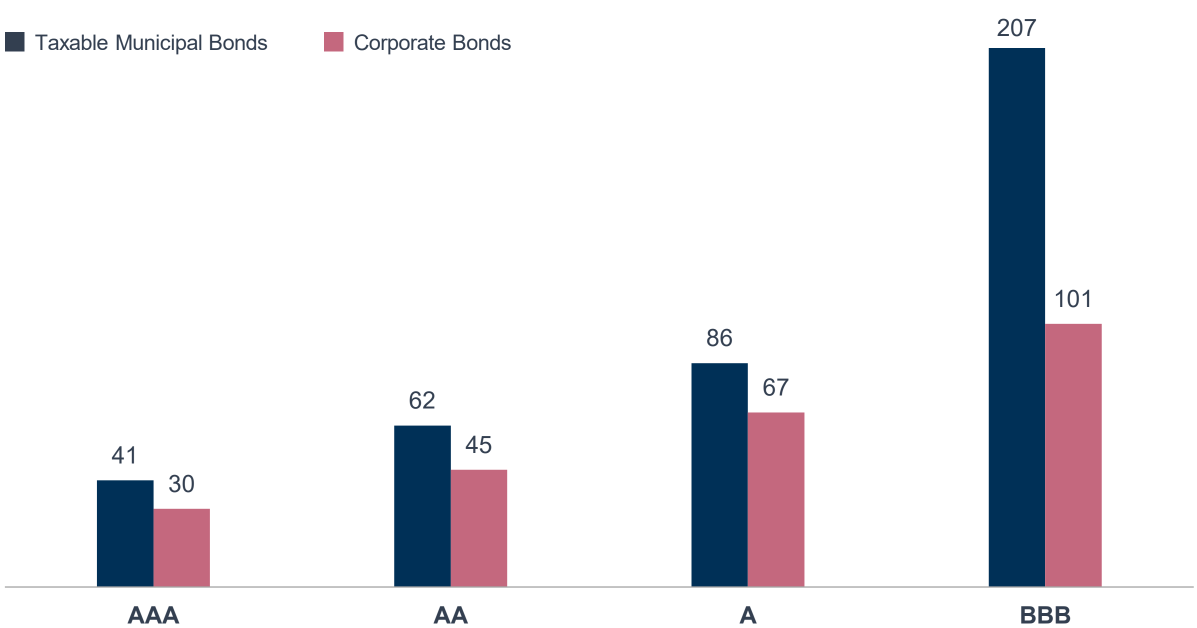
BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL[14]

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS[15]



Data as of 08/08/2025.

14. Source: Bloomberg.

15. 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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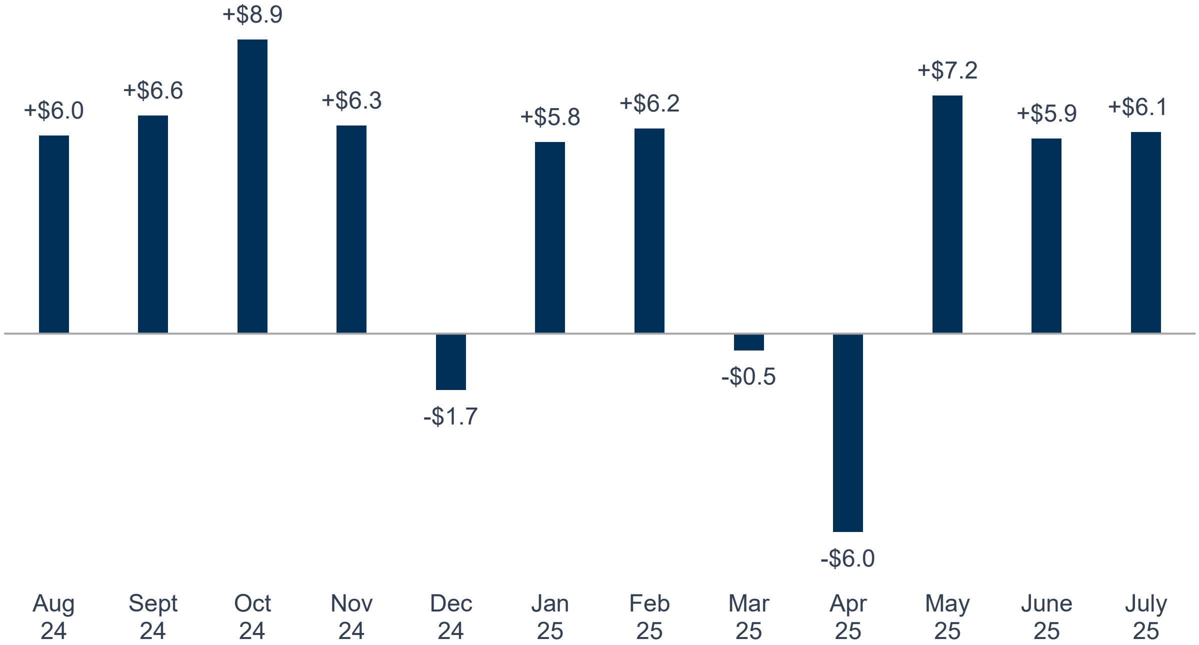
LONG TERM FUND FLOWS[16] (USD BILLION)



Data as of 08/08/2025.

16. 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.

NEW YORK LIFE INVESTMENTS

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