

Municipal Market Weekly Update

MACKAY MUNICIPAL MANAGERS.™ THE MINDS BEHIND MUNIS.



Scan code above to listen to the Muni 360 podcast to get the latest perspectives from MacKay Municipal Managers

Authors:

Eric Kazatsky
Client Portfolio
Manager

Eric Snyder, CFA
Client Portfolio
Manager

Muni Market Still Firmly a Retail Focus

- Muni performance is mixed along the curve
- \$20 trillion of cash/cash equivalents may need a home
- Muni market offer lists speaks to retail dominance

Relative Performance

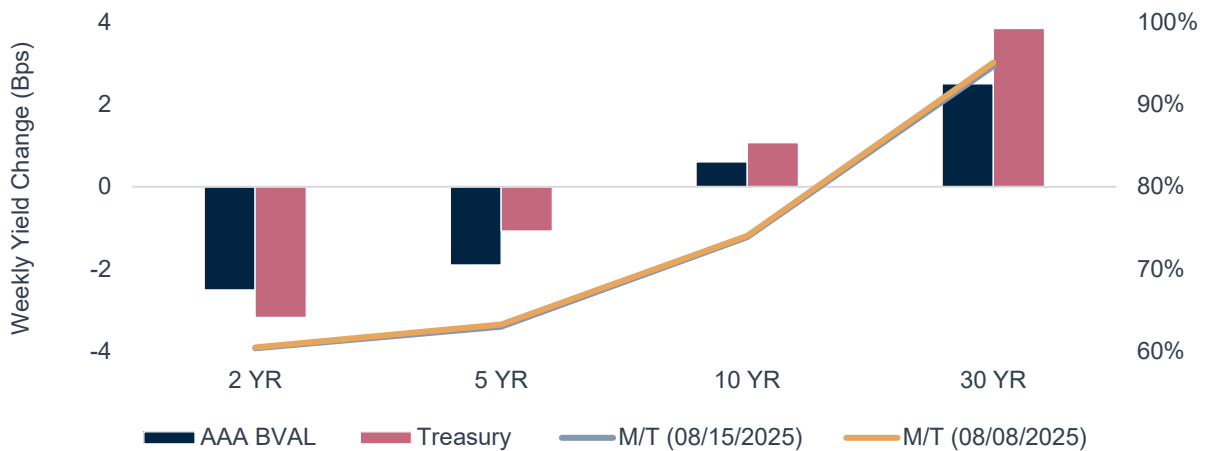
Over the past week, municipal bonds showed mixed performance relative to U.S. Treasuries. While both markets experienced yield declines in the short end, municipals underperformed Treasuries in the 2-year portion of the curve, with AAA muni yields falling by 2.5 bps compared to a 3.17 bps drop in Treasury yields. This smaller decline in muni yields contributed to a slight widening in the 2-year municipal-to-Treasury (M/T) ratio to 60.41.

Further out the curve, municipals held up better:

- 5-year AAA muni yields declined by 1.9 bps, while Treasuries dropped 1.07 bps, leading to a 0.24% tightening in the M/T ratio.
- 10-year yields rose modestly in both markets, with munis up 0.6 bps and Treasuries up 1.07 bps, resulting in a 0.12% decline in the M/T ratio.
- 30-year yields increased more sharply in Treasuries (+3.84 bps) than in munis (+2.5 bps), tightening the M/T ratio by 0.46%, from 95.07% to 94.62%.

This week's movements suggest that while longer-dated munis remain supported by investor demand and stable credit fundamentals, the front-end underperformance we attributed to a slight lag in following U.S. Treasury moves directionally. We believe there is still much noise in the market pertaining to the exact timing and amount of any Federal Reserve action and messaging from the administration could add to some near-term confusion on behalf of investors. What remains a certainty is that there are close to \$20 trillion in cash/cash equivalents in investor accounts (Bank of America). When, not IF, the Fed begins easing, these assets will quickly look to find a more stable yield base to move to.

MUNIS OUTPERFORM ACROSS THE CURVE¹



1. Data as of August 15, 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 municipal bond market is undergoing one of its most transformative periods in recent memory. While change in munis often feels glacial—like Sisyphus pushing a boulder uphill—the landscape in 2025 reflects a clear shift in investor behavior, product structure, and liquidity dynamics.

The most notable evolution is the gradual departure of traditional “mom and pop” investors from direct bond ownership. This trend, accelerated by the 2017 Tax Cuts and Jobs Act, has reshaped the tax-exempt market. As corporate tax rates declined, the appeal of municipals for banks and insurance companies waned, leading to a contraction in their holdings. Meanwhile, individual investors have increasingly turned to inefficient passive vehicles to a lesser extent, i.e. active mutual funds.

Despite these shifts, the muni market remains fundamentally “retail-driven”. This retail dominance presents a unique opportunity for active managers to capitalize on inefficiencies and fragmented liquidity. With over 1 million CUSIPs and 50,000 issuers, the muni market is anything but uniform, making it fertile ground for skilled credit analysis and tactical positioning.

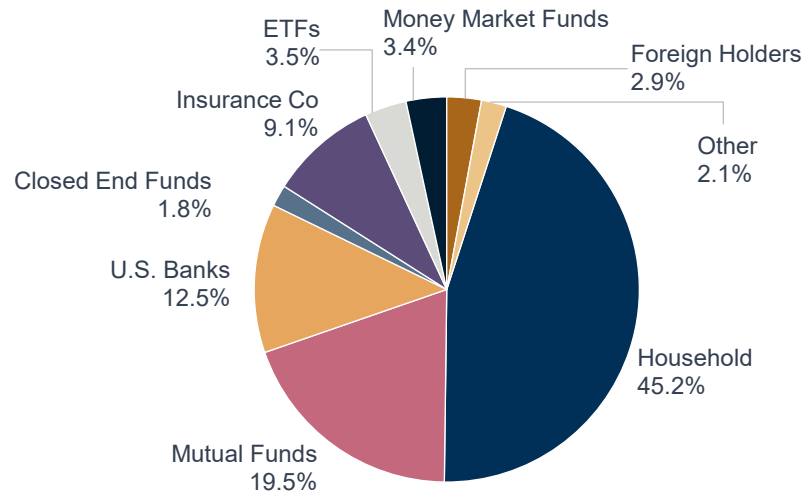
One of the most telling indicators of this retail flow is the Bloomberg Municipal Bid Wanted Items function in Bloomberg², which tracks bid-wanted activity (see graph below). The top panel of the index shows a steady rise in the number of bonds out for bid daily since 2020. However, the more revealing insight lies in the bottom panel: the ratio of par value to bid-wanted items has been declining. We believe this suggests that the secondary market is increasingly dominated by smaller, retail-sized odd lots—likely being sold from passive strategies.

Active managers are may be well positioned to leverage technology and their institutional relationships to seek to extract value through efficient execution. This approach allows them to potentially purchase at discounted prices and later exit at richer levels, effectively creating value through execution and scale.

Moreover, as insured bonds shrink and credit risk re-emerges, the need for in-depth credit analysis becomes even more critical. Further, active managers can dynamically manage duration, credit exposure, and liquidity—adjusting portfolios in real time to reflect market conditions and investor flows.

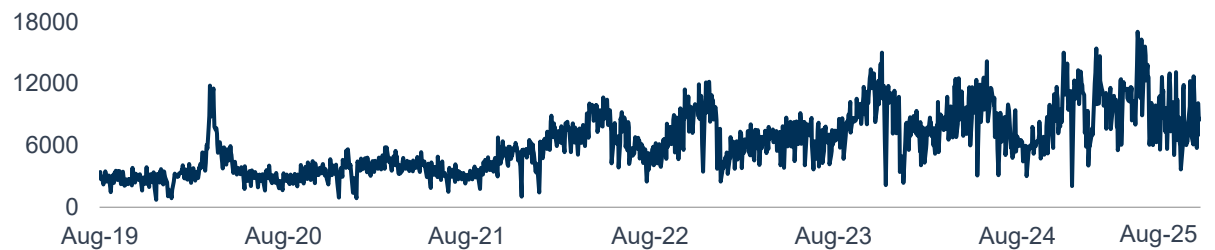
In summary, while passive strategies continue to gain traction, we believe the structural inefficiencies and retail-driven nature of the muni market ensures that active management remains not only relevant but essential. The ability to identify value, manage risk, and execute with precision gives active managers a distinct edge in today’s evolving Muniland.

INDIVIDUAL HOLDINGS ARE STILL DOMINANT AT 45%³

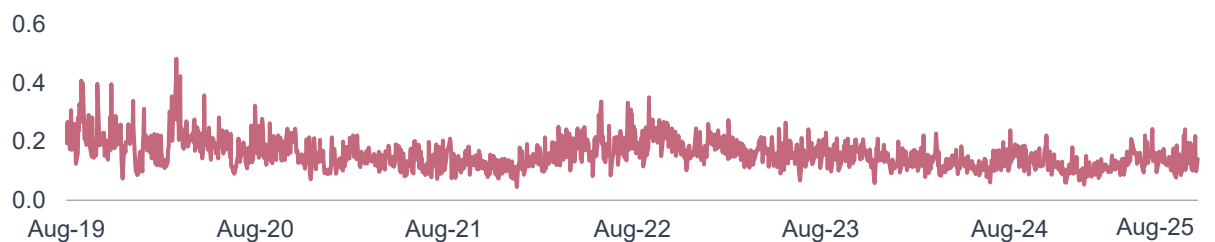


RETAIL STILL IN CONTROL⁴

BID WANTED ITEMS



RATIO OF BID WANTED PAR/ITEMS



2. The Municipal Bid Wanted Items function in Bloomberg represents the cumulative universe of municipal bonds seeking bids on a daily basis.

3. Data as of 03/31/2025. Source: Bloomberg.

4. Data as of 08/11/2025. Source: Bloomberg.

Questions from the Field

Q. Some investors have exposure to the muni market through national funds and national ETFs. What's the advantage of state-specific muni products?

In-state funds/ETFs offer double tax exemption, which may enhance after-tax income depending on state tax bracket and investor circumstances. In some high-tax states, the tax drag on national product yields can be meaningful. We look at an example for Utah, which has an in-state tax of 4.55% for top earners:

Fund	Distribution Yield	Tax treatment in Utah	After-tax yield for Utah resident
NYLI MacKay Utah Muni Class I	3.95%	Federal & Utah tax-exempt	3.95% (fully exempt)
iShares National Muni Bond ETF	3.21%	Utah taxable	$3.21\% \times (1 - 0.0455) = 3.06\%$
Vanguard Tax-exempt Bond ETF	3.38%	Utah taxable	$3.38\% \times (1 - 0.0455) = 3.22\%$

Source: Morningstar Direct. As of 7/31/25. To access the most up-to-date information about a specific fund, simply click on [UTAYX](#), [MUB](#), and [VTEB](#). 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 www.newyorklifeinvestments.com for the most recent month-end performance of NYLI MacKay Utah Muni Fund.

Distribution yield is calculated by annualizing the most recent distribution per share (with such annualizing based on dividing the number of calendar days during the year by the number of calendar days over which the most recent distribution accumulated) and dividing it by the NAV as of 7/31/25. The Fund currently intends to pay monthly distributions from net investment income.

The iShares National Muni Bond ETF and the Vanguard Tax-Exempt Bond Index Fund ETF were selected for comparison purposes as they are among the largest and most widely used national municipal bond ETFs, representing broadly diversified, passively managed approaches to the national muni market.

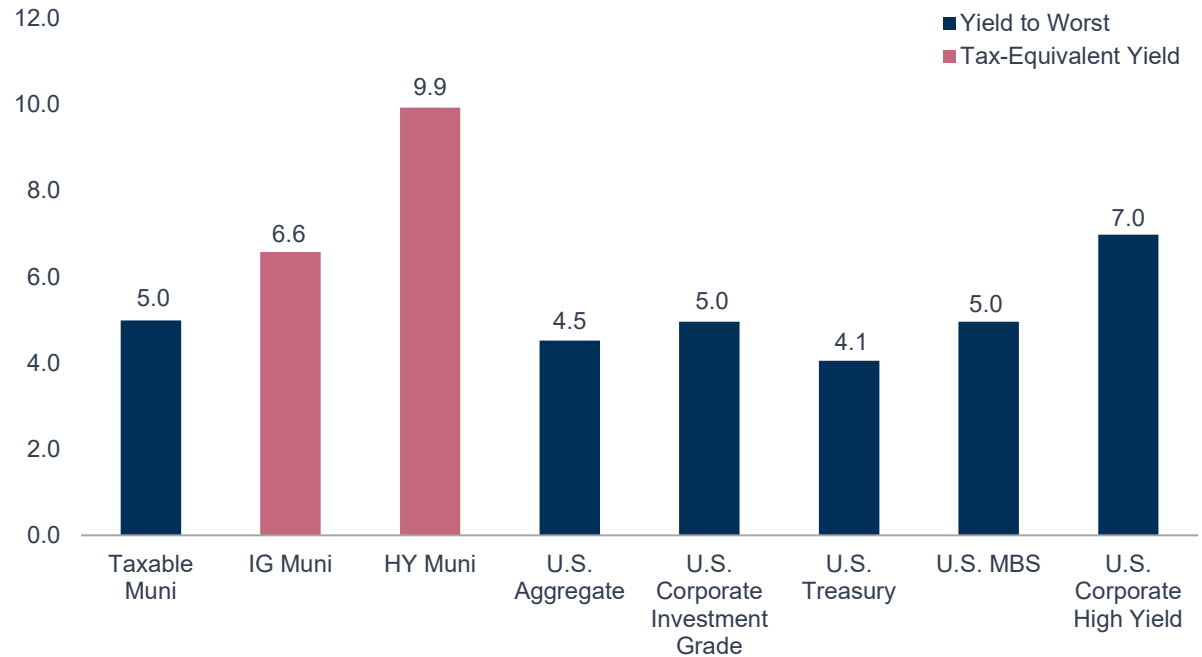
Material differences between Exchange Traded Funds (ETFs) and Mutual Funds (MF): Liquidity: ETFs offer intra-day liquidity, although there may be transaction fees involved. MFs offer daily liquidity, although there may be transaction fees involved. Account minimums and costs: ETFs have no account minimums and typically charge lower fees than MFs. MFs typically have low minimum accounts sizes and also carry sales charges. Holdings: ETF holdings are available on a daily basis. MFs report holdings periodically on a set schedule.

Yield Advantage for NYLI MacKay Utah Muni Class I (on a fully tax-exempt basis)

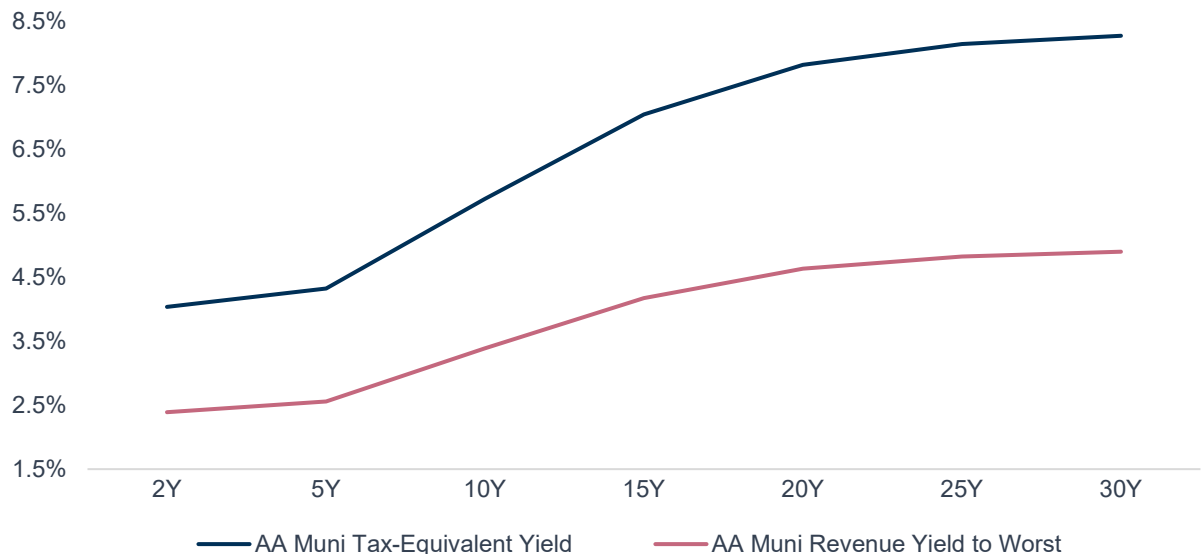
- +89bps over iShares National Muni Bond ETF.
- +73bps over Vanguard Tax-Exempt Bond Index Fund ETF.

There may have been other time periods where the NYLI MacKay Utah Muni Fund did not outperform.

INDEX YIELDS (in %)⁵



AA MUNI TAX-EQUIVALENT YIELD CURVE⁶



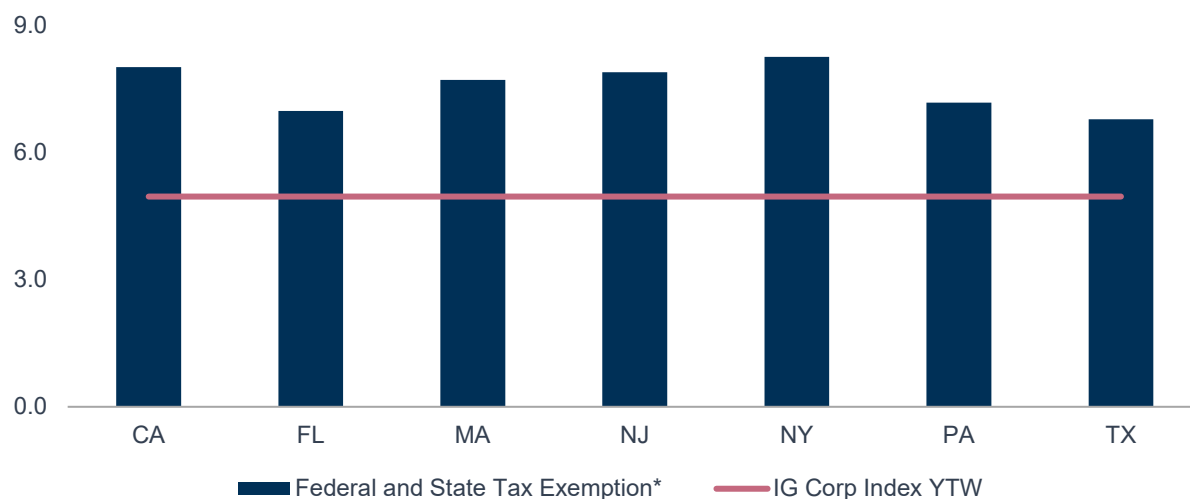
Data as of 08/15/2025.

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.

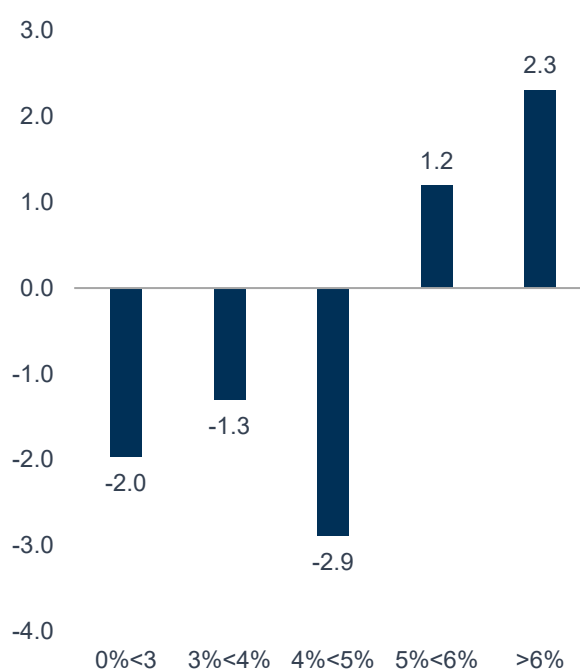
IN-STATE MUNI TAX-EQUIVALENT YTW (in %)⁷



YTD TOTAL RETURNS BY SECTOR (in %)⁸



YTD TOTAL RETURNS BY COUPON (in %)⁹



Data as of 08/15/2025.

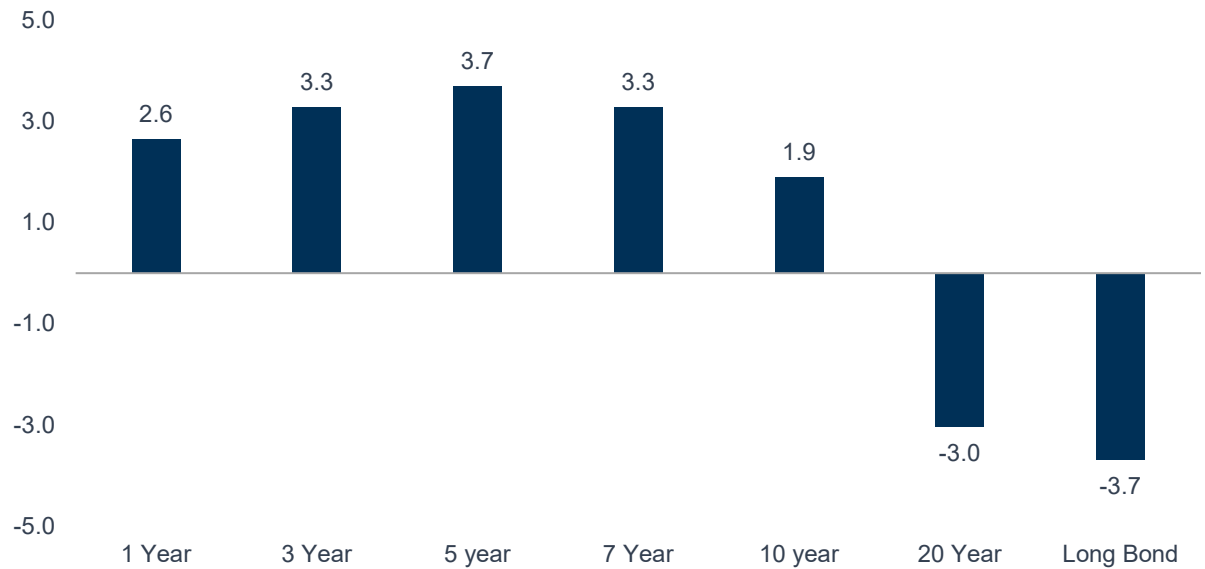
7. Source: Bloomberg. *Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. Using respective maximum state income tax rate.

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.

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

YTD TOTAL RETURNS BY MATURITY (in %)¹⁰



YTD TOTAL RETURNS BY RATING CATEGORY (in %)¹¹



Data as of 08/15/2025.

10. Source: Bloomberg.

11. Source: Bloomberg.

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-WORST¹² (YTW)



MUNI YIELDS

Tenor	08/08/2025	08/15/2025	Change (+/-)
Bloomberg AAA Muni Key Rate Yields¹³			
2-year	2.28%	2.26%	-0.02%
5-year	2.43%	2.41%	-0.01%
10-year	3.17%	3.19%	0.02%
30-year	4.61%	4.64%	0.03%
U.S. Treasury Key Rate Yields¹³			
2-year	3.76%	3.75%	-0.01%
5-year	3.84%	3.85%	0.01%
10-year	4.27%	4.33%	0.06%
30-year	4.85%	4.92%	0.07%
U.S. Treasury & AAA Muni Curve Slopes¹⁴			
	2s10s	10s30s	2s30s
U.S. Treasury Curve Slope	+58 bps	+59 bps	+117 bps
AAA Muni Curve Slope	+93 bps	+145 bps	+238 bps

Data as of 08/18/2025.

12. Source: Bloomberg. "Post GIFC Average" measures the period from 01/01/2010–08/18/2025.

13. Source: Bloomberg.

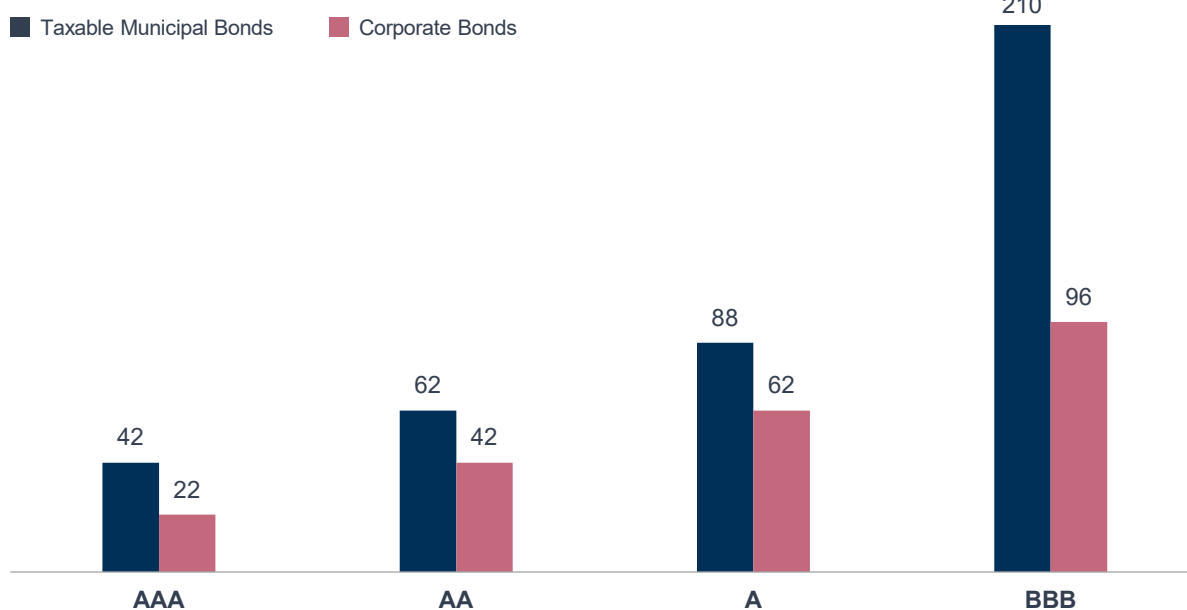
14. Source: Bloomberg. 2s10s—is spread between 10yr and 2yr yield; 10s30s—refers to spread between 30yr and 10yr yield; 2s30s—refers to spread between 30yr and 2yr yield.

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 | AAA YIELD DIFFERENTIAL¹⁵



TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS¹⁶



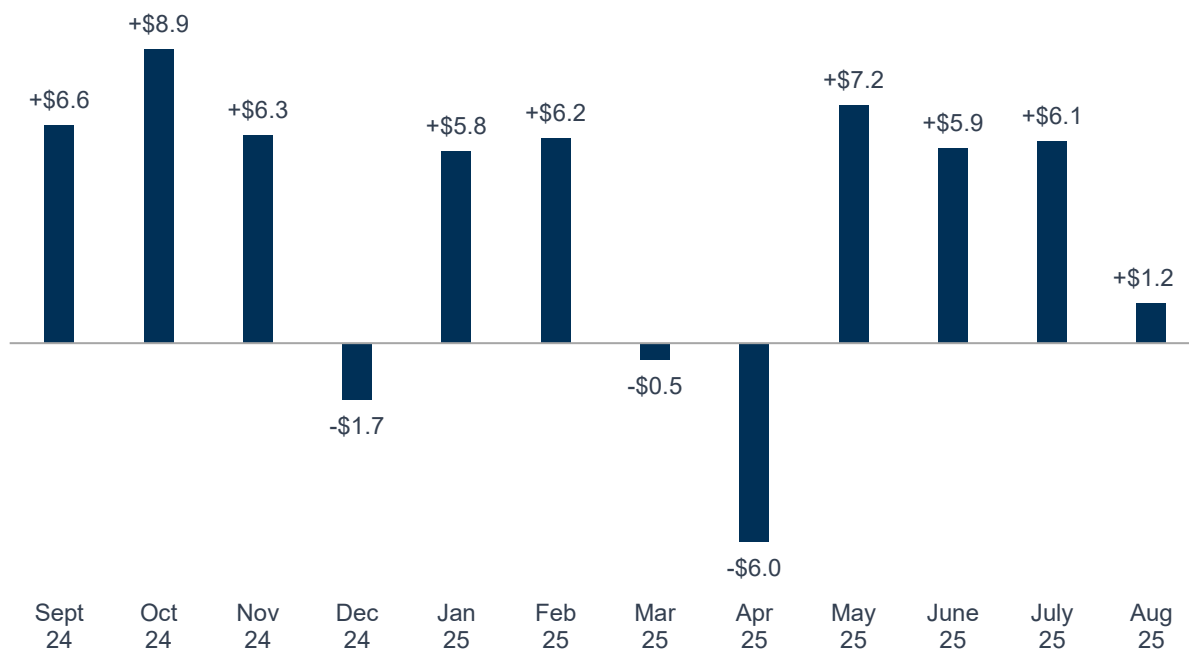
Data as of 08/18/2025.

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.

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

LONG TERM FUND FLOWS¹⁷ (USD BILLION)



Data as of 08/18/2025.

17. 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

About Risk - NYLI MacKay Utah Muni Fund - Before considering an investment in the Fund, you should understand that you could lose money

Municipal Bond risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes, which could affect the market for and value of municipal securities.

Bonds face interest-rate and credit risk. When interest rates rise, bond values can decrease, and there's a risk that the issuer may not pay interest or principal on time. High-yield or "junk bonds" are speculative due to their higher risk of loss compared to higher-quality securities.

Because the Fund invests in municipal bonds issued by or on behalf of the State of Utah, any deterioration of Utah's fiscal situation and economic situation of its municipalities could cause greater volatility. The Fund is non-diversified and the Fund's risk is increased because each investment has a greater effect on the Fund's performance.

Securities distributed by NYLIFE Distributors LLC, 30 Hudson Street, Jersey City, NJ 07302, Member FINRA/SIPC.

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.

©2025, MacKay Shields LLC. All Rights Reserved.

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.

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.

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 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 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 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 measures the performance of investment grade, U.S. dollar-denominated, fixed rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. It rolls up into other flagship indices, such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.

Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility, and financial issuers. The index is a component of the US Credit and US Aggregate Indices, and provided the necessary inclusion rules are met, US Corporate Index securities also contribute to the multi-currency Global Aggregate Index. The index includes securities with remaining maturity of at least one year.

Bloomberg U.S. Treasury Index measures the performance of public obligations of the U.S. Treasury, including securities that roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices.

Bloomberg U.S. Mortgage-Backed Securities Index is formed by grouping the universe of individual TBA-deliverable MBS pools into pool cohorts and then applying the index inclusion rules at the cohort level. Each cohort is a representation of its mapped individual pools and contributes their total amount outstanding to the U.S. MBS Index.

Bloomberg U.S. Corporate High Yield Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.



INVESTMENTS

"New York Life Investments" is both a service mark, and the common trade name, of certain investment advisors affiliated with New York Life Insurance Company. Securities are distributed by NYLIFE Distributors LLC, 30 Hudson Street, Jersey City, NJ 07302, a wholly owned subsidiary of New York Life Insurance Company. NYLIFE Distributors LLC is a Member FINRA/SIPC.