

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...



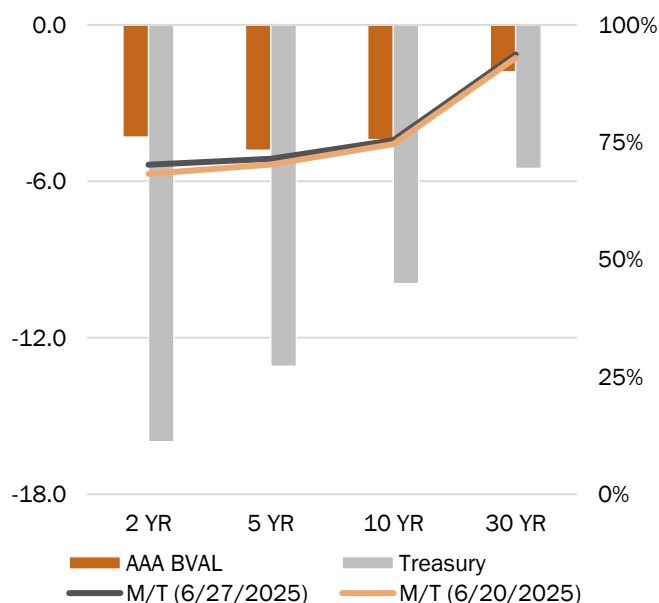
Rate Rally Rolls On, Despite Muni Lag

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 (OB BB), 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 OB BB 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.

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.

Weekly Yield Change¹



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

Muni Technicals Hit Overdrive (Cont'd)

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.

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

2025 Monthly Reinvestment¹ | \$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

In State Tax-Advantage of Munis at Various Tax Rates²

	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 AZ EXEMPT YIELD	3.18%	2.50%	3.01%	2.93%	+25	4.25%	2.68%	+50	5.26% ASSUMES 37% FED & 2.5% STATE
UTAH UT EXEMPT YIELD	3.56%	4.55%	3.01%	2.87%	+69	4.25%	2.68%	+88	6.09% ASSUMES 37% FED & 4.55% STATE
OREGON OR EXEMPT YIELD	3.51%	9.90%	3.01%	2.71%	+80	4.25%	2.68%	+83	6.61% ASSUMES 37% FED & 9.9% STATE

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

2. 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?”

A 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 Returns¹ | %

	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/TSY RATIO¹			
2 YEAR	68.3	70.2	70.5
5 YEAR	70.2	71.5	67.9
10 YEAR	74.6	75.4	74.7
30 YEAR	93.0	93.7	90.0
AA MUNI/CORP RATIO²			
2 YEAR	64.8	65.9	61.4
5 YEAR	66.1	67.1	59.4
10 YEAR	69.7	70.3	63.3
30 YEAR	84.9	85.5	74.0

Data as of 6/27/2025.

1. Source: Bloomberg

2. 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-Worst¹ | YTW



Muni Yields | %

TENOR	6/20/2025	6/27/2025	CHANGE (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS²			
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 YIELDS²			
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 SLOPES³			
	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.

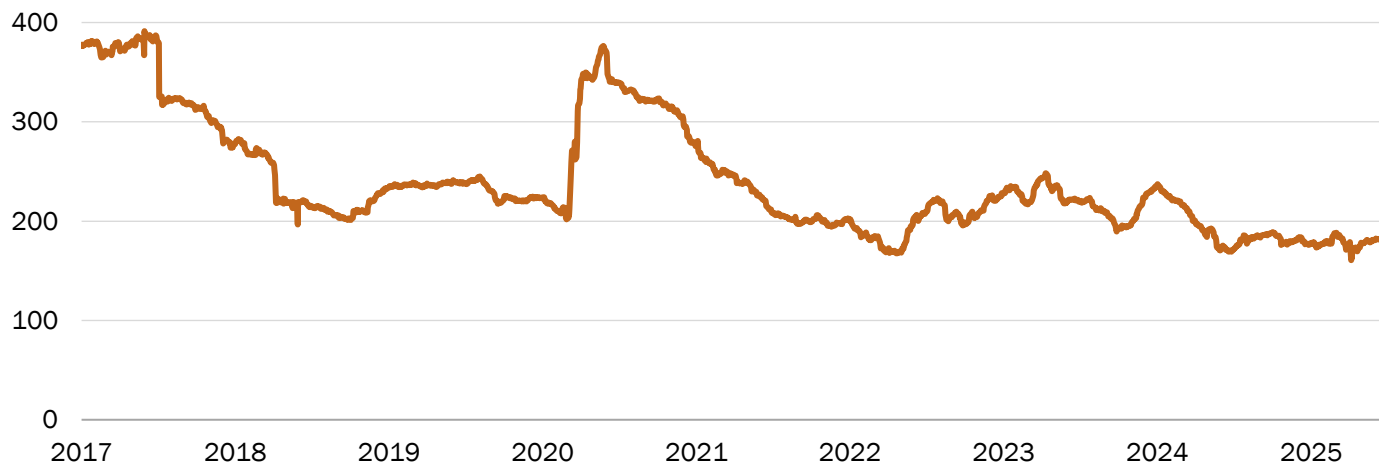
1. Source: Bloomberg. "Post GIFC Average" measures the period from 1/1/2010 – 6/27/2025.

2. Source: Bloomberg.

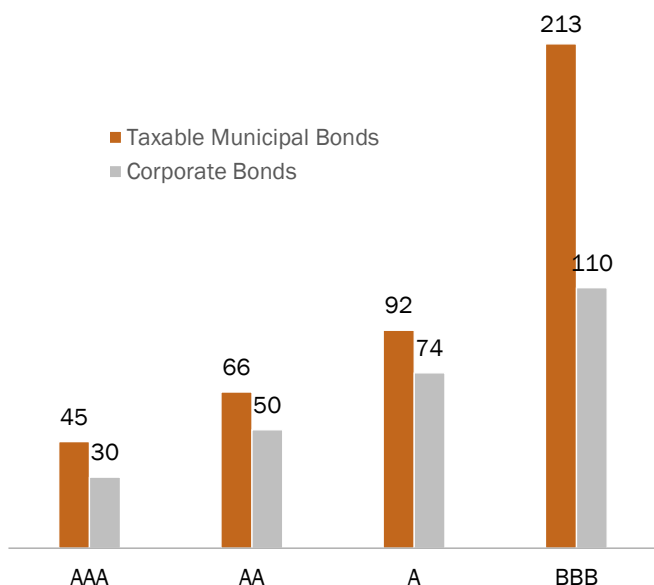
3. Source: Bloomberg. 2s10s – is spread between 10yr and 2yr yield; 10s30s – refers to spread between 30yr and 10yr yield; 2s30s – refers to spread between 30yr and 2yr yield.

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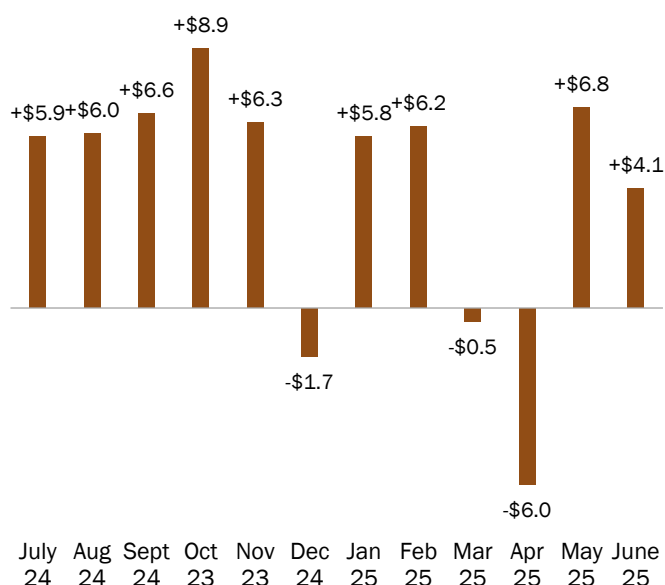
Bloomberg Municipal High Yield¹ | IG Yield Differential



Taxable Municipal and Corporate Credit Spreads²



Long Term Fund Flows³ | \$USD Billion



Data as of 6/27/2025.

1. Source: Bloomberg.

2. 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.

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

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IN STATE TAX-ADVANTAGE ANALYSIS ON PAGE 2

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.