MacKay Municipal Managers™

MMM Weekly Monitor

AUGUST 26, 2025

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Munis Prove to Be Compelling Portfolio Addition for Back to School

- Munis appear attractive
- Relative spreads at decades wide levels
- Managing duration and call exposure, just as important as credit

Relative Performance

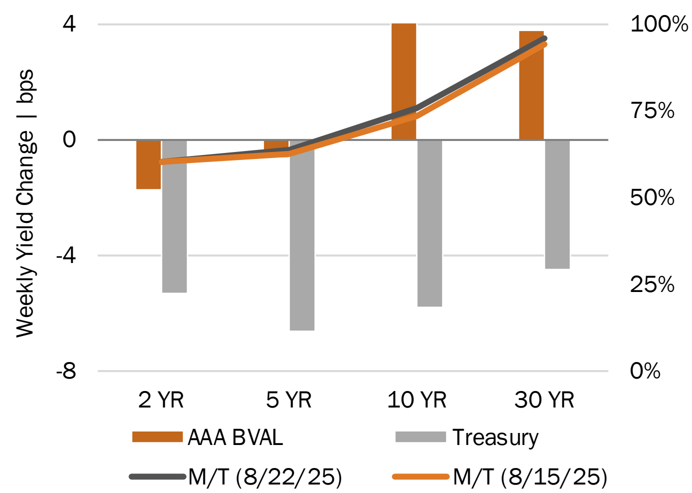
Over the past week, municipal bonds underperformed relative to U.S. Treasuries. While both markets experienced yield declines in the short end, municipals underperformed Treasuries in the 2-year portion of the curve, with AAA muni yields falling by 1.7 bps compared to a 5.3 bps drop in Treasury yields. This smaller decline in muni yields contributed to a slight widening in the 2-year municipal-to-Treasury (M/T) ratio to 60.6.

Further out the curve, municipals diverged more sharply:

- 5-year AAA muni yields declined by 0.6 bps, while Treasuries dropped 6.7 bps, leading to a 0.84% widening in the M/T ratio.
- 10-year muni yields rose and Treasuries dropped, with munis up 5.2 bps and Treasuries down 5.8 bps, resulting in a 1.92% increase in the M/T ratio.
- 30-year muni yields rose by 3.8 bps while Treasuries dropped by 2 bps, widening the M/T ratio by 1.17%, from 94.32% to 95.49%.

This week's moves reinforce that demand from price-insensitive buyers, particularly in the SMA channel, continues to anchor the front end and belly of the curve, even at relatively tighter ratios and yield levels. As highlighted in our prior weekly letter, the historically steep muni curve underscores the current opportunity for investors to capture more attractive absolute and relative value beyond the 10-year spot.

MUNIS LAGGED TREASURIES ACROSS THE CURVE



Data as of August 22, 2025.
Spot Muni, Spot AA rates
Source: Bloomberg

Market Technicals

As we approach Labor Day, the change of seasons comes into focus—football, falling leaves, back-to-school. It's also a natural time to reassess portfolios: looking to the months ahead and thinking about what areas of the market/portfolio may appear the most over-valued. We could point to equities at multiples well above their 5-year average or corporate bond spreads at a multi-decade tight level, as examples of this. Alternatively, we would propose eyeing your portfolio with a goal toward identifying areas that we view have become increasingly attractive as we all have been distracted with the summer season.

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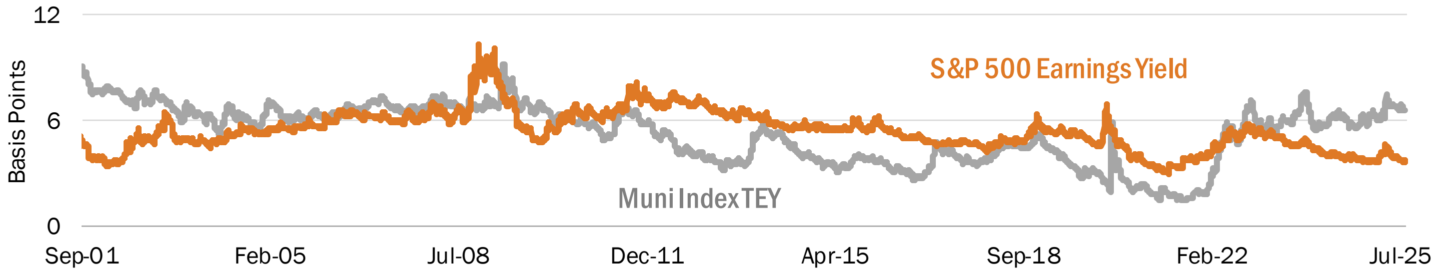
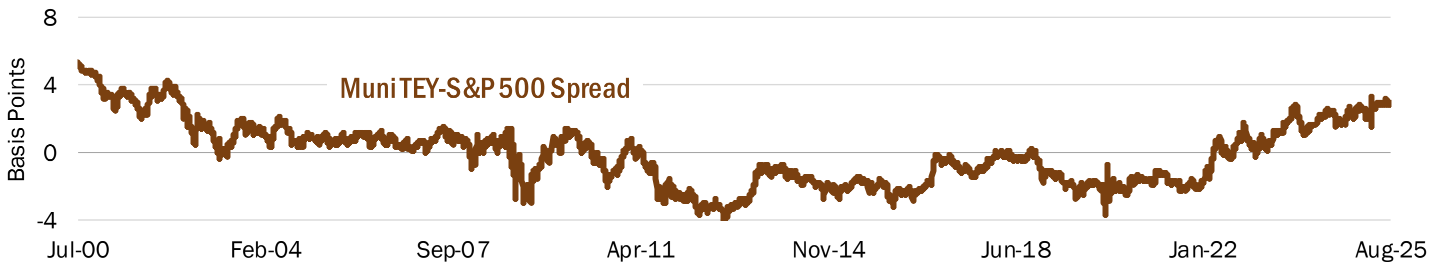
MUNI VS S&P 500

MUNI INDEX YIELD VS STOCK EARNINGS



MUNI'S BEATING STOCKS FOR INCOME



Data as of August 18, 2025.
Source: Bloomberg

Munis are historically cheap right now. Even compared to equities (see above.) That said, we recognize that such strong statements from an asset manager can sound self-serving. That's why this week we let the data do the talking—analyzing the tax-exempt market through both absolute and relative value lenses.

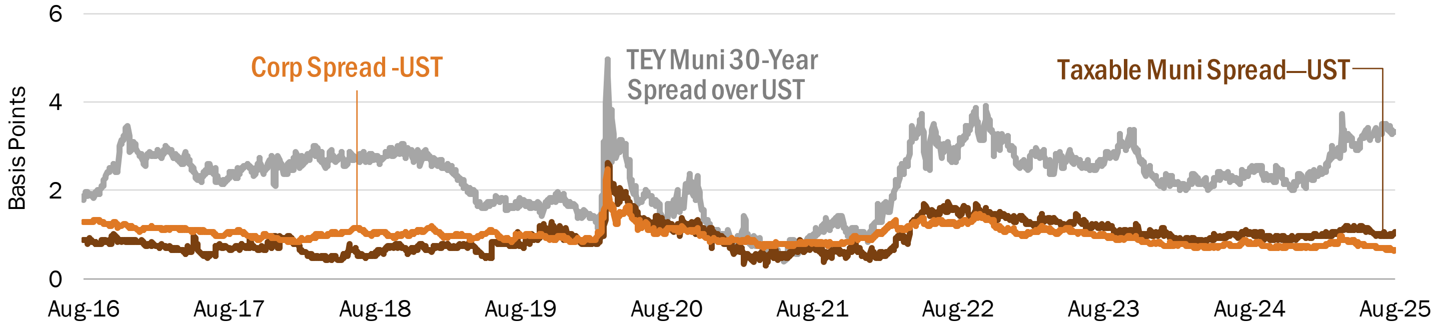
In the next two charts (see next page), we focus on the cross-over investor — those who may not traditionally buy munis and may be unaware of how wide the sector looks on a spread basis. By normalizing municipals to a taxable-equivalent yield and comparing them to a true risk-free baseline, the picture becomes clear.

Specifically, we take the taxable-equivalent yield[1] of tax-free munis and spread it against the corresponding point on the U.S. Treasury curve. Looking at the long end as an example, municipal bonds currently offer nearly 340 basis points over 30-year Treasuries[2]. While not unprecedented, outside of the pandemic-driven spike, this spread has only reached these levels twice in the past decade. The takeaway: municipals are offering historically attractive relative value versus risk-free rates.

Our second example moves to the 10-year point on the curve, where we have more comparative data across tax-free munis, taxable munis, and corporates. At this maturity, tax-free munis offer a 151 basis point spread over the 10-year Treasury — roughly half the level seen at the long end, but still compelling. The takeaway is clear: focusing on the second chart on the following page, municipals remain a strong choice on a spread basis and the most attractive from a relative value standpoint. Notably, taxable muni and corporate spreads have tightened sharply year-to-date, which only enhances the relative advantage of tax-frees.

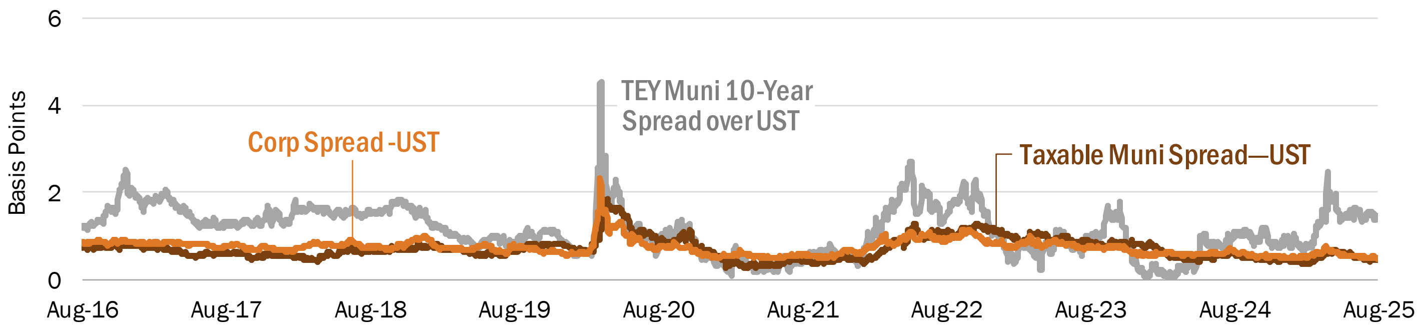
1. The tax-equivalent yield is the return a taxable bond needs to equal the yield on a comparable tax-exempt municipal bond. Calculation assumes the maximum federal tax rate of 37% plus the 3.8% net investment income tax.
2. Source: Bloomberg as of August 18, 2025.

30-YEAR TREASURY SPREADS



Data as of August 18, 2025.
Source: Bloomberg

10-YEAR TREASURY SPREADS



Data as of August 18, 2025.
Source: Bloomberg

Questions from the Field

Q Can you walk me through how duration and call risk interact in municipal bond funds, especially in a rising rate environment?

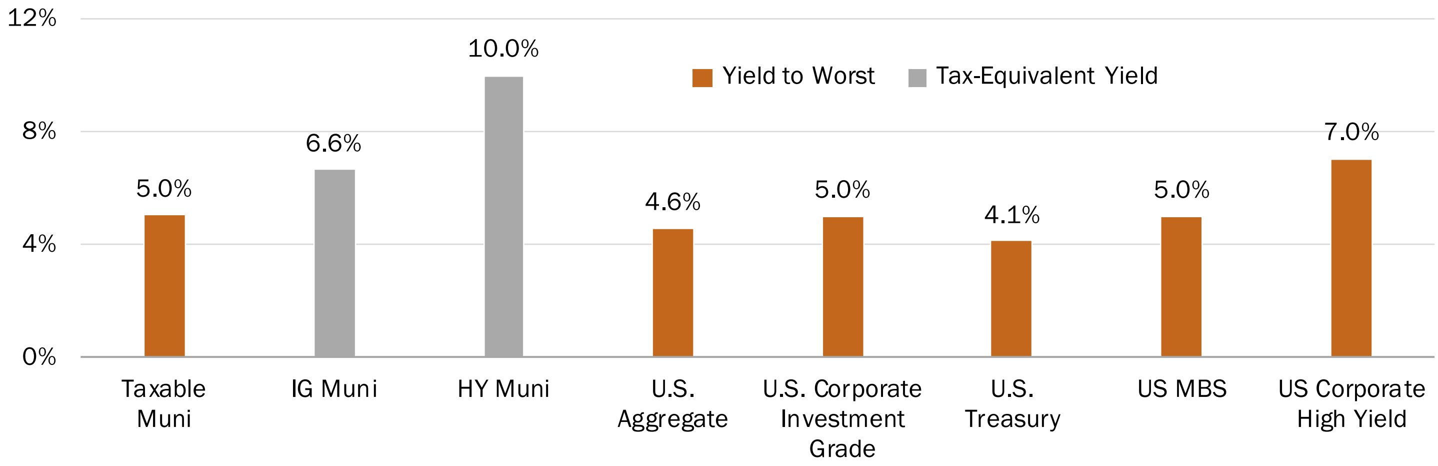
A Duration and call risk really go hand in hand in the municipal bond market, and they matter a lot more in a rising rate environment like we have been experiencing in the past several years.

Duration is simply a measure of a bond's sensitivity to interest rate changes. Unless positioned extremely short on the curve, the conclusion is that many municipal funds experience some price pressure when rates move higher or the curve meaningfully steepens. However, what's often overlooked is that rising rates also allow the fund to reinvest cash flows at much more attractive yields, which helps offset that initial impact over time.

On the call side, many municipal bonds come with a 10-year call provision. In periods of falling rates, that can be a real headwind because issuers will refinance their debt, call the bonds away, and force reinvestment at lower yields. But in today's environment, with rates moving higher, call risk is much less of a concern. Issuers have very little incentive to refinance into more expensive debt, so the income streams we're locking in are actually more predictable.

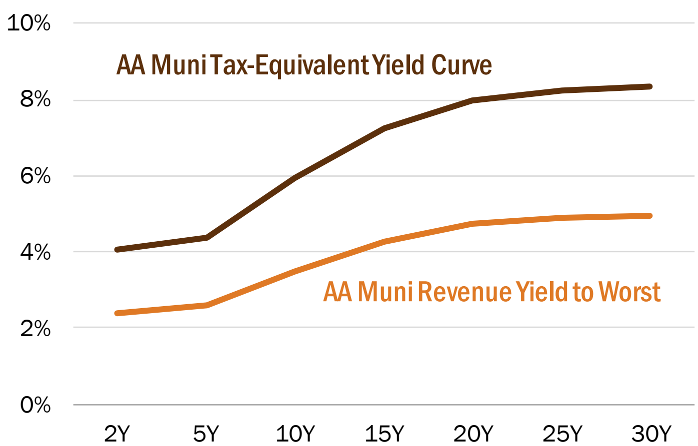
From a portfolio construction standpoint, we actively manage both duration and call exposure. That means diversifying across sectors and structures, targeting call-protected bonds where it makes sense, and structuring maturities to reduce the volatility that comes from big rate moves. The goal is to balance risk while still delivering consistent, tax-free income for clients.

INDEX YIELDS



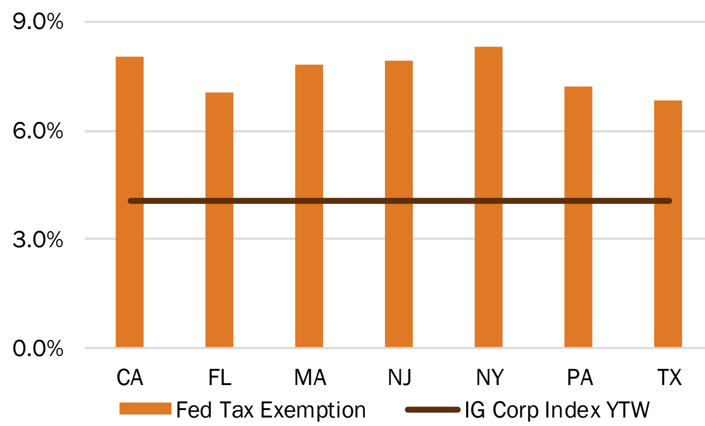
Data as of August 22, 2025.
1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

AAA MUNI TAX-EQUIVALENT YIELD CURVE



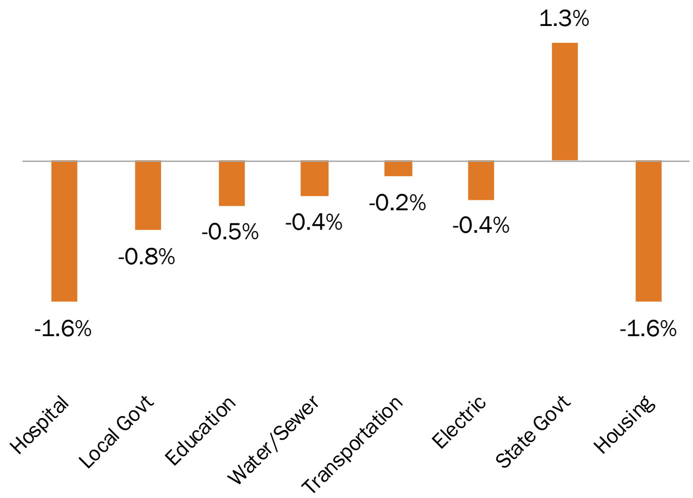
Data as of August 22, 2025.
Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

IN-STATE MUNI TAX=EQUIVALENT YTW



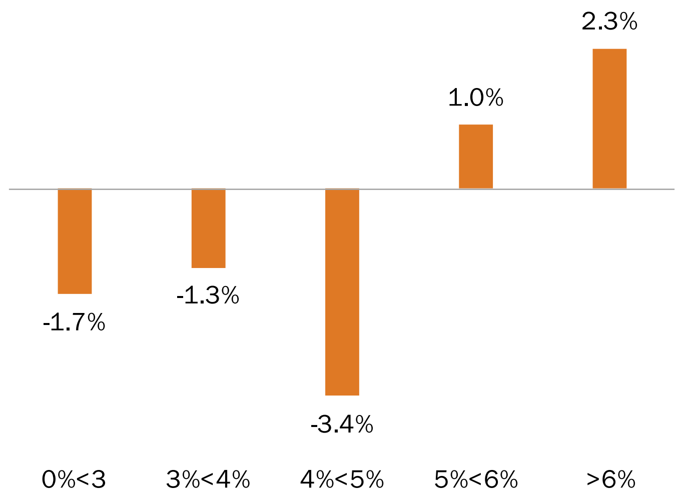
Data as of August 22, 2025.
Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

YTD TOTAL RETURNS BY SECTOR



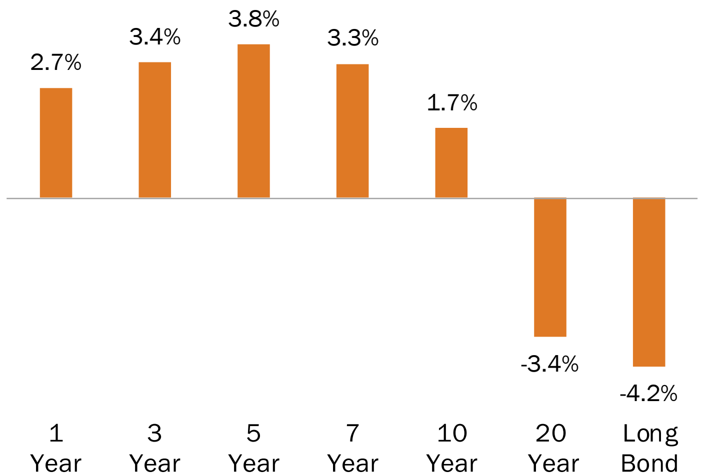
Data as of August 22, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



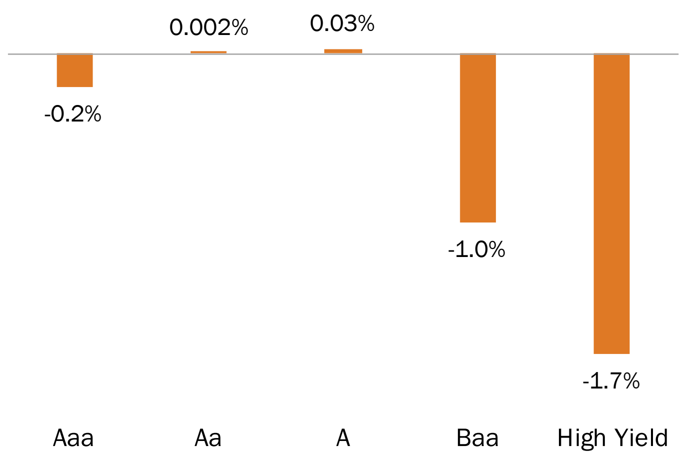
Data as of August 22, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



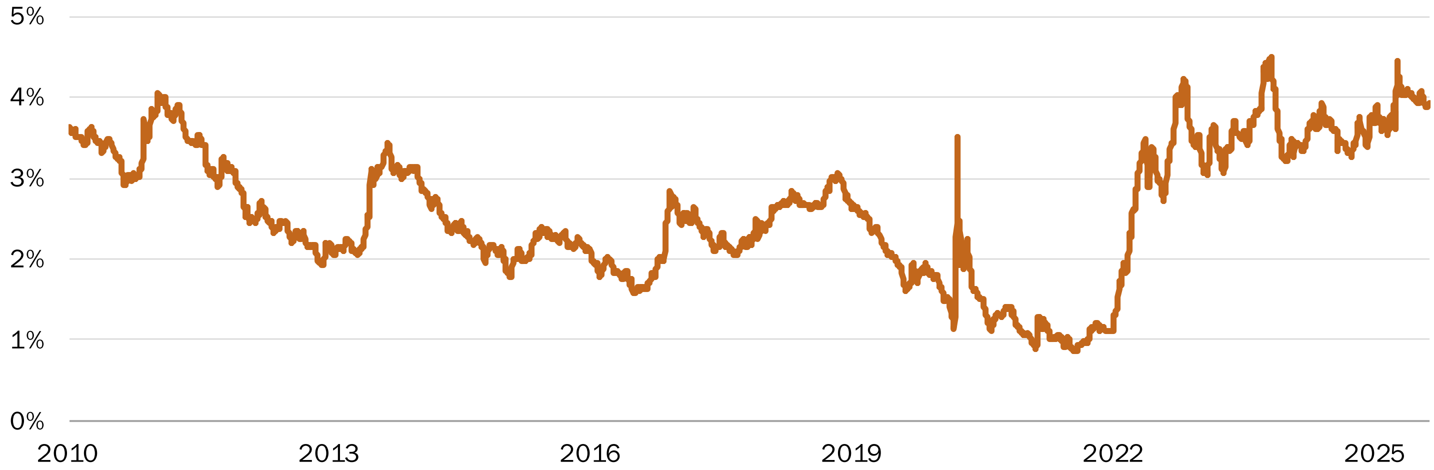
Data as of August 22, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of August 22, 2025.
Source: Bloomberg

BLOOMBERG MUNICIPAL YIELD-TO-WORST



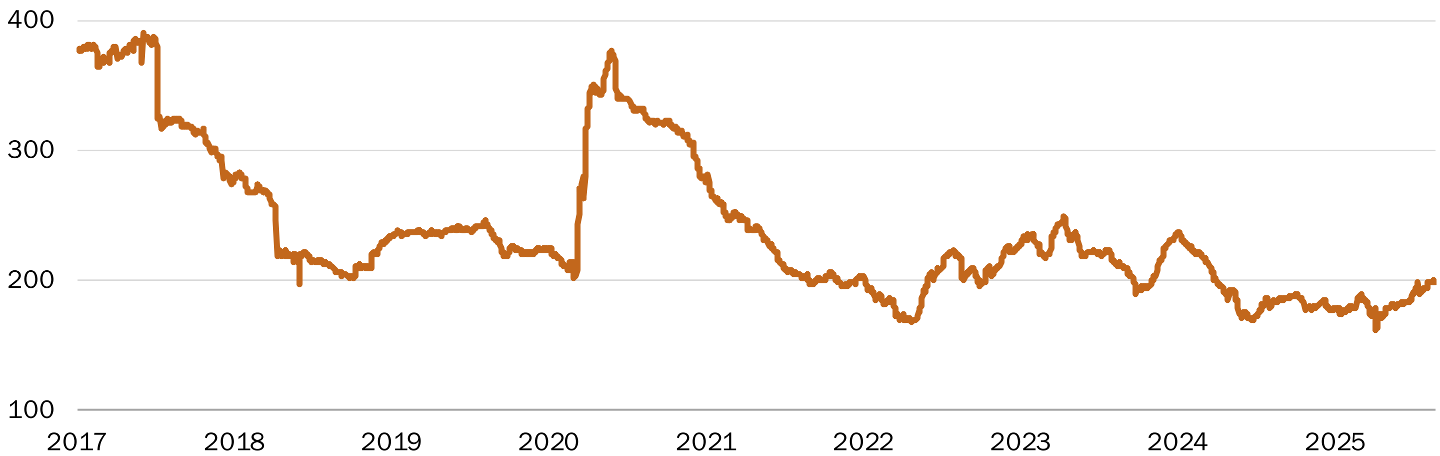
Data as of August 22, 2025.
"Post GIFC Average" measures the period from 1/1/2010 – 7/4/2025
Source: Bloomberg

MUNI YIELDS

Tenor	8/15/2025	8/22/2025	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.26%	2.22%	-0.04%
5 YEAR	2.41%	2.39%	-0.03%
10 YEAR	3.19%	3.22%	0.03%
30 YEAR	4.64%	4.66%	0.02%
US TREASURY RATE YIELDS			
2 YEAR	3.75%	3.68%	-0.07%
5 YEAR	3.85%	3.76%	-0.09%
10 YEAR	4.33%	4.26%	-0.07%
30 YEAR	4.92%	4.88%	-0.04%
US TREASURY & AAA MUNI CURVE SLOPES[1]			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 58 bps	+ 62 bps	+ 120 bps
AAA MUNI CURVE SLOPE	+ 100 bps	+ 144 bps	+ 244 bps

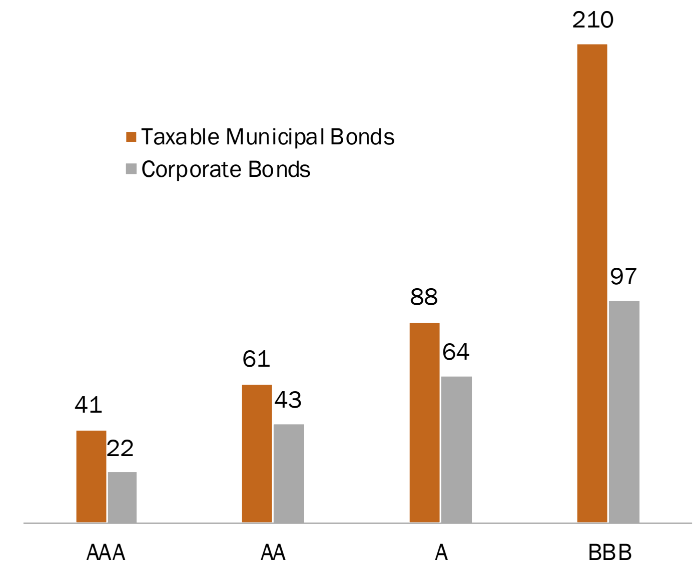
Data as of August 22, 2025.
1. 2s10s – is spread between 10yr and 2yr yield; 10s30s – refers to spread between 30yr and 10yr yield; 2s30s – refers to spread between 30yr and 2yr yield
Source: Bloomberg

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



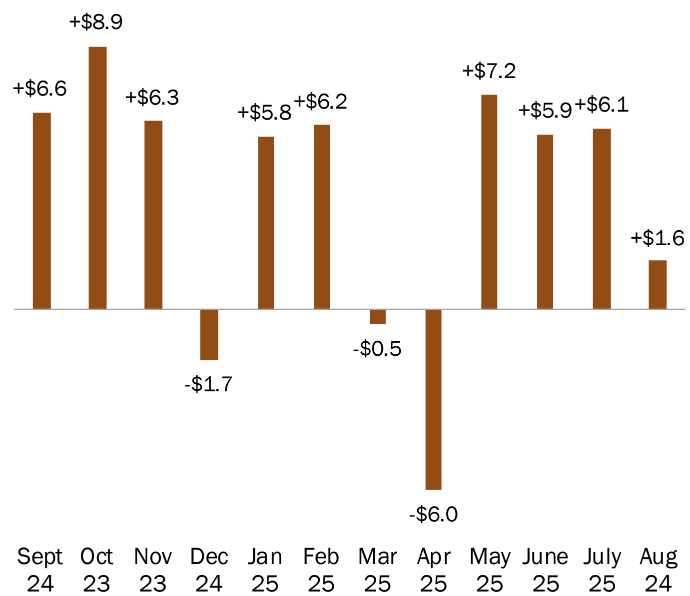
Data as of August 22, 2025.
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of August 22, 2025.
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.
Source: ICE Data

LONG TERM FUND FLOWS | USD $BN



Data as of August 22, 2025.
Source: Investment Company Institute (ICI). http://www.ici.org.

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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.

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INDEX DESCRIPTIONS

Bloomberg U.S. Taxable Municipal 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. 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 Municipal Bond High Yield Index

The 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 U.S. Aggregate Bond Index

The 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

The Bloomberg US Corporate 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

The 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 Security Index

The US MBS 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 US MBS Index.

Bloomberg U.S. Corporate High Yield Index

The Bloomberg US Corporate High Yield Bond 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.