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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

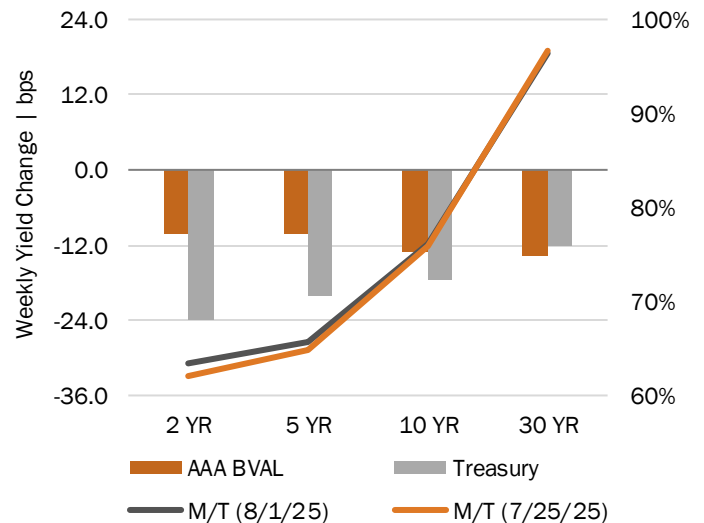
### Relative Performance

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.

### 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).

### MUNIS OUTPERFORM ACROSS THE CURVE



Data as of August 1, 2025.  
Spot Muni, Spot AA rates  
Source: 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 MARKETS

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%

Data as of August 1, 2025.  
 Source: Bloomberg

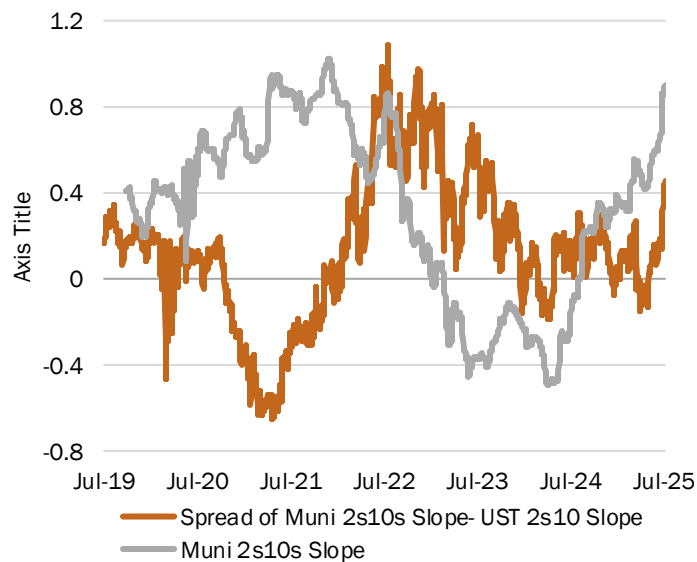
### Movin on Up . . . in Slope

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 NORMAL



Data as of August 1, 2025.  
 Source: Bloomberg

## RATIOS ANALYSIS FLAGS SLOPE METRICS

	RECENT	LAST WEEK	LAST MONTH	LAST YEAR-END	5 YR AVG
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%

Data as of August 1, 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?

**A** 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.

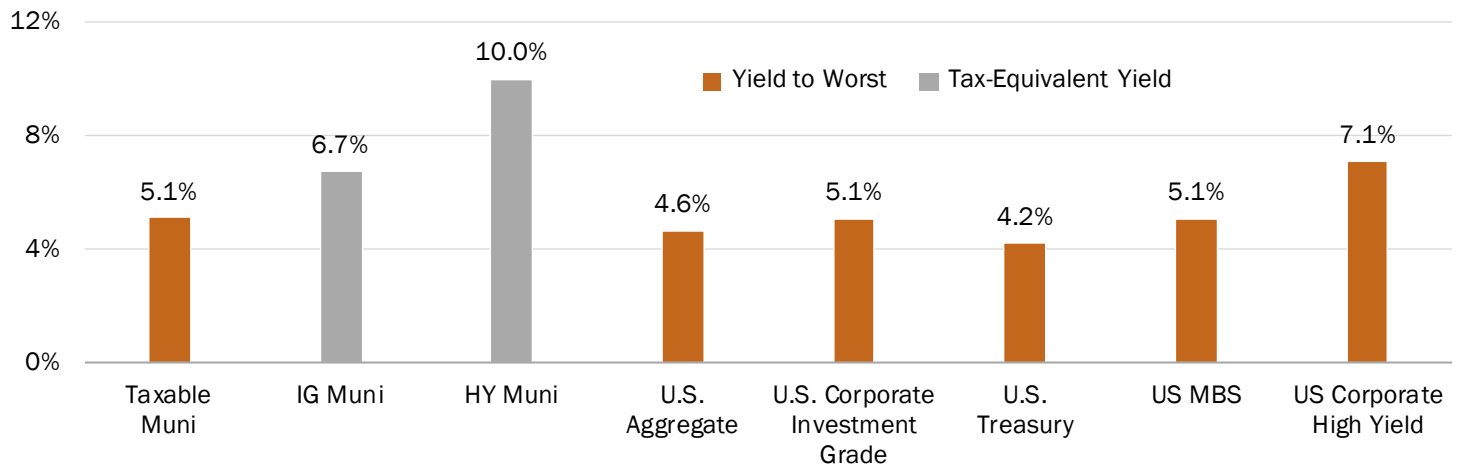
### DEFINITIONS

**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

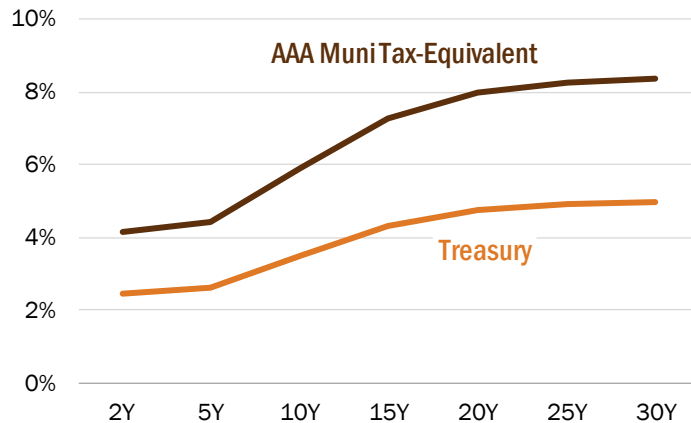


Data as of August 4, 2025.

1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

Source: Bloomberg, UBS

## AAA MUNI TAX-EQUIVALENT YIELD CURVE

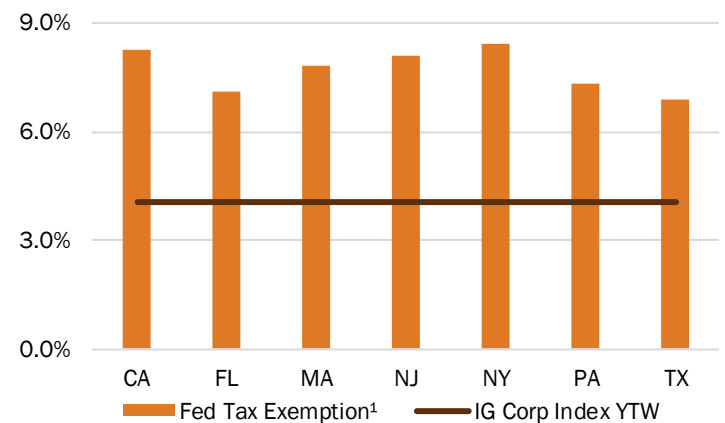


Data as of August 4, 2025.

Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

Source: Bloomberg, UBS

## IN-STATE MUNI TAX-EQUIVALENT YTW

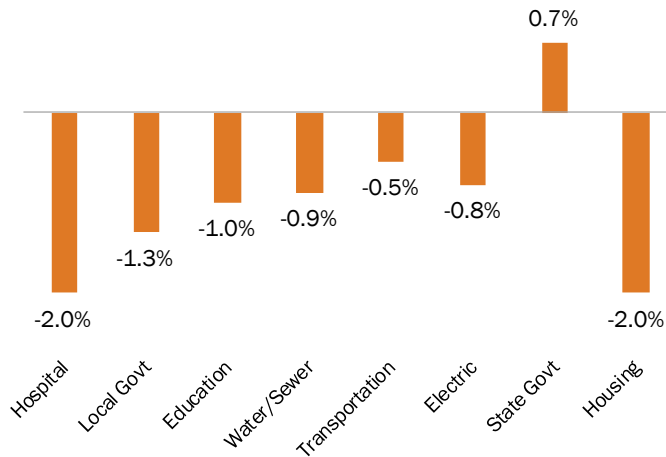


Data as of August 4, 2025.

Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

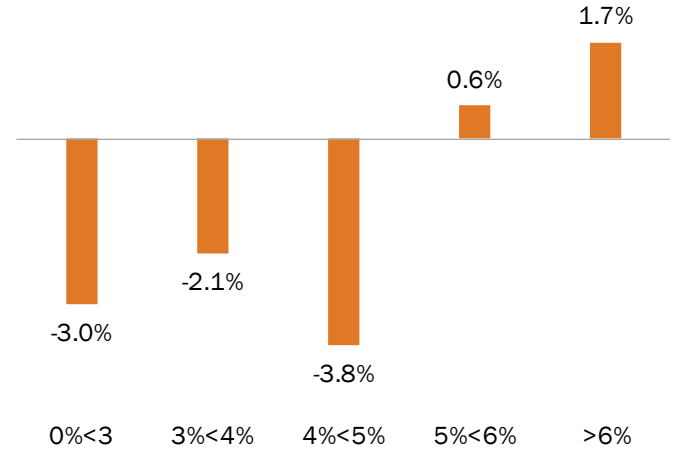
Source: Bloomberg, UBS

### YTD TOTAL RETURNS BY SECTOR



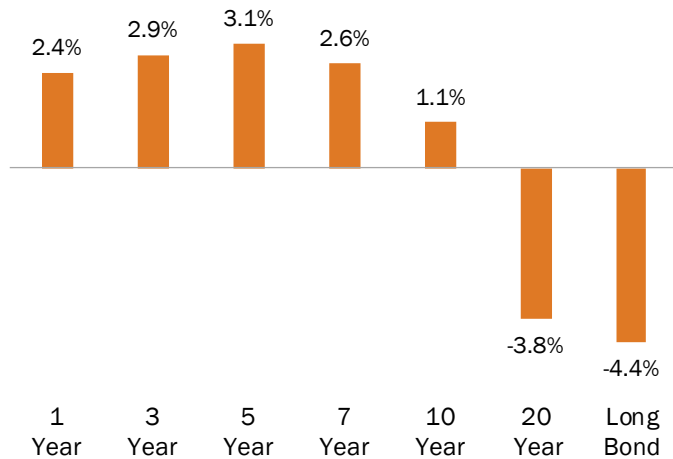
Data as of August 4, 2025.  
 Source: Bloomberg, UBS

### YTD TOTAL RETURNS BY COUPON



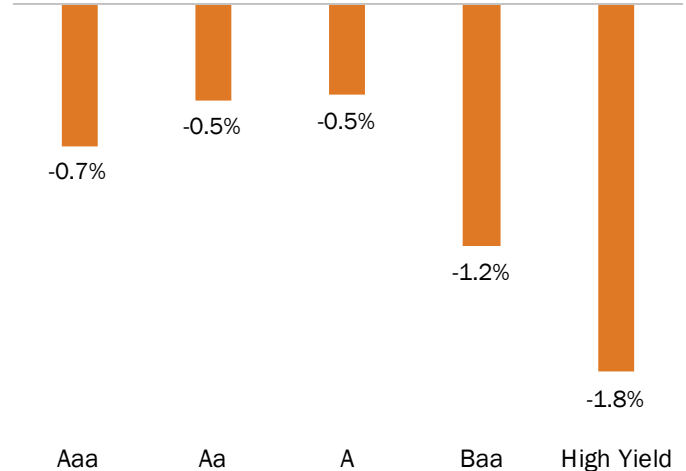
Data as of August 4, 2025.  
 Source: Bloomberg, UBS

### YTD TOTAL RETURNS BY MATURITY



Data as of August 4, 2025.  
 Source: Bloomberg, UBS

### YTD TOTAL RETURNS BY RATING CATEGORY



Data as of August 4, 2025.  
 Source: Bloomberg, UBS

## BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of August 1, 2025.

"Post GIFC Average" measures the period from 1/1/2010 - 7/4/2025

Source: Bloomberg

## MUNI YIELDS

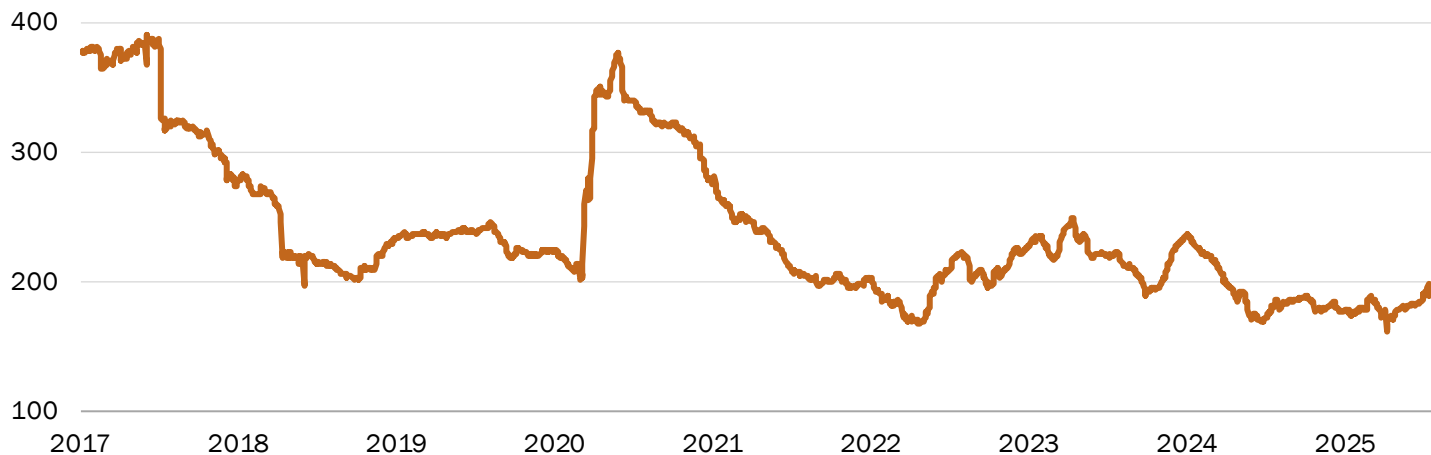
Tenor	7/25/2025	8/1/2025	Change (+/-)
<b>BLOOMBERG AAA MUNI KEY RATE YIELDS</b>			
2 YEAR	2.44%	2.33%	-0.10%
5 YEAR	2.57%	2.47%	-0.10%
10 YEAR	3.33%	3.20%	-0.13%
30 YEAR	4.77%	4.63%	-0.14%
<b>US TREASURY RATE YIELDS</b>			
2 YEAR	3.91%	3.69%	-0.22%
5 YEAR	3.95%	3.77%	-0.18%
10 YEAR	4.40%	4.23%	-0.17%
30 YEAR	4.92%	4.81%	-0.11%
<b>US TREASURY &amp; AAA MUNI CURVE SLOPES<sup>1</sup></b>			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 54 bps	+ 58 bps	+ 112 bps
AAA MUNI CURVE SLOPE	+ 87 bps	+ 143 bps	+ 230 bps

Data as of August 1, 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

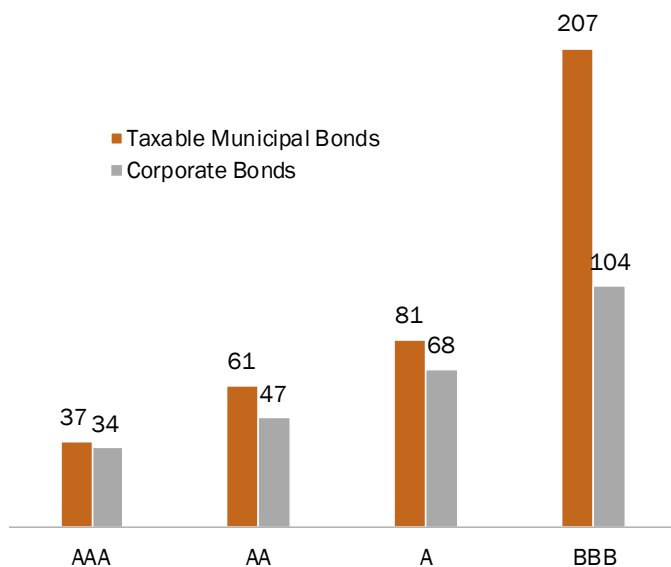
Source: Bloomberg

**BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL**



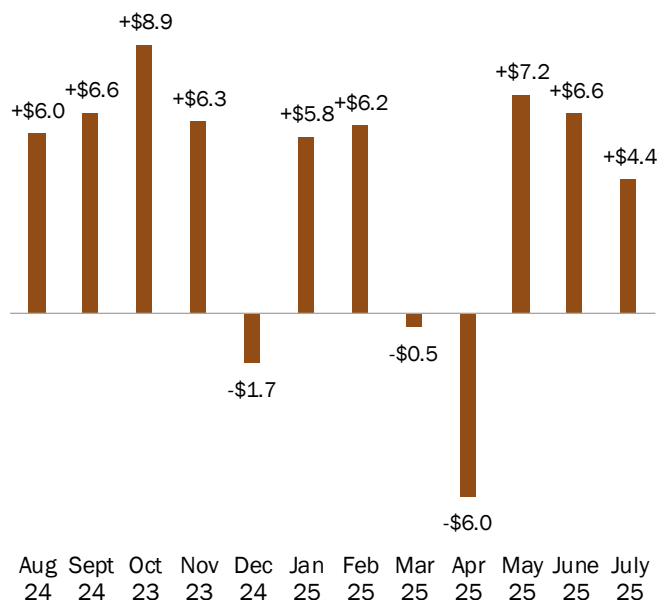
Data as of August 1, 2025.  
 Source: Bloomberg

**TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS**



Data as of August 1, 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 1, 2025.  
 Source: Investment Company Institute (ICI). <http://www.ici.org>.

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