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### Twos the Week Before Christmas . . .

- Munis finish another week on better relative footing
- Diving deep on how our 2025 insights played out
- 10-year curve spot loses luster

### Relative Performance

Munis continued to build on their strong late-year tone, extending their run of relative outperformance versus Treasuries. For context, The Bloomberg Municipal bond Index is down 10bps MTD compared to the Bloomberg US Treasury Index which has December losses of 54bps. Across the curve, AAA BVAL yields moved modestly lower on the week, while Treasury yields pushed higher. The result: tighter muni/Treasury (M/T) ratios and another leg of relative strength for tax-exempts (See Figure 1).

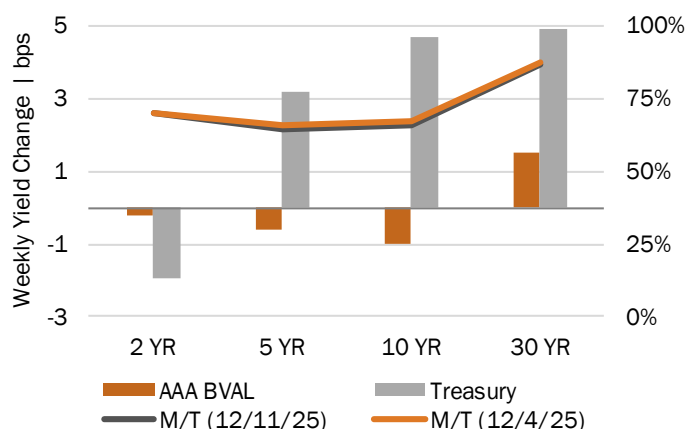
Looking across tenors, the 2YR portion of the curve was the only area where munis had softer relative performance, driven by the Fed action that came mid, last week. Ratios were largely unchanged in this area of the curve.

Further along the curve is where more notable divergence occurred with not much movement on the muni side and notable weakening from Treasuries. The 10-year M/T ratio slipped just over 1 point to 66.15%, while the 30-year ratio fell to 86.9. Taken together, this week's moves highlight how the muni market continues to grind tighter even as Treasury volatility resurfaces. With seasonal reinvestment flows still looking for a re-homing and limited new issuance, municipals remain well-positioned to finish 2025 on firm footing.

### Technicals

With 2025 drawing to a close, we find it useful to return to the moment where the year began: the release of our 2025 Top Five Insights. The municipal market delivered a year marked by meaningful dispersion and shifting technical currents, making it all the more important to evaluate which elements of

FIGURE 1: MUNI'S SHOW RELATIVE STRENGTH



Data as of December 12, 2025. Spot Muni, Spot AA rates  
Source: Bloomberg

our outlooks proved accurate and where the landscape evolved differently than expected. This honest appraisal not only completes the arc of our 2025 story, but also sharpens our thinking as we begin crafting our perspective for 2026.

### 1. TRADITIONAL TAX-EXEMPTION PERSISTS, AND WE BELIEVE IT'S AS ATTRACTIVE AS EVER

With persistent noise around the future of tax-exemption — and speculation that the municipal market could become a casualty of the One Big Beautiful Bill — we felt it was important to take a clear stance. From the outset, we believed the tax exemption would remain intact. Ultimately, providing affordable financing for the essential services and infrastructure that anchor our communities is a policy objective that should command bipartisan support.

That said, the debate itself was not without consequence. As bill details were negotiated throughout the first half of the year, uncertainty created meaningful dislocations across the municipal landscape. A retreat in demand from banks and insurance companies, in particular, pushed the long end of the muni curve to extraordinarily cheap levels relative to both history and taxable alternatives.

Rather than viewing this as a structural threat, we interpreted it as a valuation reset — one that opened large pockets of opportunity across the market in 2025. Although affecting performance, those incrementally cheaper valuations allowed us to deploy capital into high-quality, long-dated bonds at deeply attractive entry points. This environment played directly to our strengths as active managers: identifying dislocations, leaning into them with conviction, and harvesting the long-term value created when technical pressure overshadows fundamental strength.

In short, while the narrative surrounding tax-exemption was loud, the opportunities it created were even louder — and we believe our proactive stance allowed us to capitalize meaningfully.

## 2. CAPITALIZING ON THE SUPPLY WAVE WILL REQUIRE SEIZING INITIATIVE IN MULTIPLE WAYS

While we do not publish formal supply forecasts, it was difficult to ignore the clear signals that the heavy pace of new-issue sales would persist into 2025. The economics alone pointed in that direction: materials and labor costs remained well above pre-pandemic levels, and the rates at which public and public-private projects are financed are meaningfully higher. Against that backdrop, issuers have strong incentive to enter the market, and they did — in scale.

Our insight centered not just on the volume of supply, but on its implications. A supply-heavy environment historically tends to overwhelm the large cohort of passive strategies in the municipal space, which by design are confined to the most standardized structures and benchmark-eligible credits. This dynamic creates fertile ground for active managers who can step off the beaten path — both structurally and from a credit-selection standpoint — and capitalize on areas of the market that passive strategies cannot effectively access.

The success of this insight is best measured by how our performance compares with non-active or less-active peers. Passive approaches, by construction, overlook nearly 25% of the investment opportunities available in the municipal market.<sup>1</sup> In a year defined by abundant supply and elevated

dispersion, that gap mattered. Our ability to source value across the full breadth of the market validated the thesis: a

FIGURE 2: DRILLING DOWN ON INSIGHT 3

	Forecast	Reality
BUDGETS NORMALIZE; CREDIT DIVERGENCE EMERGES	✓	Ongoing fiscal pressures with regional/issuer divergence
VOLATILITY & CREDIT SELECTION MATTER	✓	True; spreads and credit trends varied by rating and sector
ACTIVE MANAGEMENT YIELDS ALPHA	✓	Technicals + credit work benefited selective allocation
PREPAID GAS & HOUSING OPPORTUNITIES	✓	Housing well supported; gas/utility sectors noted as value
SLOWER RATING UPGRADES	✓	Upgrade pace weakened into 2025

supply-rich backdrop favors managers equipped to navigate beyond index confines and harvest the opportunities others simply can't reach.

## 3. SELECTION COMES TO THE FORE OF THE INVESTMENT GRADE MARKET

This insight was never meant as a single prediction, but rather as a set of interconnected themes best evaluated individually. At the macro level, we anticipated that state and local governments would return to a more normal budget environment as pandemic-era aid dried up — and they have, with many now facing pressures from reduced federal support. Periods of forced mean reversion naturally introduce volatility. While that word can unsettle some investors, it is welcome for active managers, as it creates opportunity sets.

This environment aligned well with our view that identifying pockets of technical or fundamental dislocation is where active management can add the most value. We also highlighted specific sectors — including prepaid gas and housing bonds — that offered compelling relative value. Both areas ultimately generated meaningful alpha and reinforced our broader point: MacKay believes it excels at uncovering opportunities in less-traveled parts of the municipal market. (See Figure 2)

## 4. THE HIGH YIELD MARKET IS LIKELY TO OUTPERFORM INVESTMENT GRADES AGAIN, DESPITE HISTORICALLY TIGHT SPREADS

Our original insight anticipated that, although certain issuers might hit inflection points in their credit cycles, the high yield

<sup>1</sup> Source: Bloomberg

municipal sector overall would remain supported by solid fundamentals and constrained new-issue supply. We expected these dynamics to keep a lid on spreads and allow the sector to benefit from yield-driven outperformance, provided managers maintained discipline and avoided structurally weak deals.

In practice, high yield spreads continued to tighten through mid-year before reversing course and widening more recently. Using Bloomberg indices as a benchmark, the Muni Aggregate Index <sup>2</sup>—representing investment-grade credits — has returned roughly 4% year-to-date in 2025, while high yield municipals<sup>3</sup> have delivered approximately 2.48%. The relative drag in high yield was driven in part by index-heavy names that created meaningful headwinds for benchmark performance.

While our broader call for high yield municipals to outperform did not materialize at the index level, it is important to distinguish between the generic high yield universe and the way MacKay constructs and executes high yield portfolios. Our brand of municipal high yield — grounded in rigorous research, structural discipline, and selective credit exposure — outperformed both the high yield municipal index and many peers. This underscores the core of our original thesis: in an environment where fundamentals are sound but dispersion is meaningful, prudently sourced high yield exposure and disciplined credit selection matter more than ever.

In that sense, the directional call on broad-market high yield took a backseat to the underlying insight regarding the importance of research-driven allocation proved correct — and we believe directly contributed to MacKay’s ability to generate relative outperformance within the sector.

##### 5. THE FRONT END OF THE MUNICIPAL YIELD CURVE SHOULD OUTPERFORM CASH-LIKE INSTRUMENTS

In revisiting our original insight on the value of short-duration municipal exposure, the 2025 market environment has reinforced the substance of our view. With investors able to earn over 4% in government money market funds — the [Vanguard Federal Money Market Fund](#) returned 4.01% year-to-date — the hurdle for taking any duration or credit risk was unusually high.

Yet in that same environment, the [NYLI MacKay Short Term Municipal Fund](#) delivered a 4.49% return, while maintaining a modest two-year duration and providing tax-exempt income. This underscores the effectiveness of disciplined, active management in the short end of the muni curve.

<sup>2</sup> Bloomberg Municipal Bond Index

<sup>3</sup> Bloomberg Municipal Bond High Yield Index

**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](http://www.newyorklifeinvestments.com) for the most recent month-end performance.**

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The comparison also highlights an important forward-looking consideration:

Investors sitting in cash, money markets, or rolling T-bill ladders increasingly face reinvestment risk as the Fed continues to cut rates. These vehicles reset almost immediately to lower yields, which can meaningfully erode income.

Actively managed short-duration muni portfolios, by contrast, can provide a degree of yield stability because they are less reactive to day-to-day rate movements and can lock in attractive tax-exempt yields through careful security selection. This dynamic validates two key elements of our original thesis:

- Short-duration munis remain a compelling alternative to cash, especially for investors in higher tax brackets.
- Active management helps mitigate reinvestment risk, offering a more stable income profile as short-term rates decline.

In a year when cash yields were unusually competitive, the fund’s ability to outperform a leading taxable money market — while providing tax-exempt income and limited rate risk — affirms both the durability of our original insight and the strength of MacKay’s approach in the short-term municipal space.

All in all, with these insights being a healthy combination of both art and science, we feel that 2025 was a year where we

got more right than we did wrong. In the one insight that could be taken as off the mark, it really comes down to nuance and context in that our brand of active investing performed in a manner we expected to be reflected in the broader market. That being said, we will take the wins where we can and turn our eye ahead.

For those looking for our 2026 Top 5 Insights, they will be available the second week of January when we return to our normal publishing schedule. For now we wish you and yours a Happy Holiday Season and Happy Muni Investing!

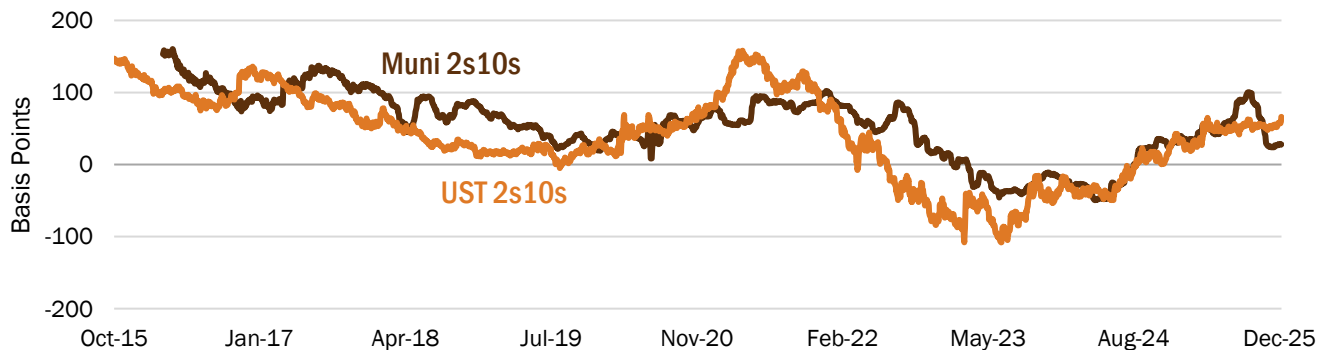
### Questions from the Field

**Q** Where does MacKay think some of the richer areas of the curve are currently?

**A** The 10-year part of the muni curve remains the most pressured segment, now trading significantly richer than earlier this year and relative to longer-duration alternatives. The erosion in value is clear in the Muni-Treasury ratio: after peaking in the mid-80% range this past spring, the 10-year ratio has compressed to roughly 66%, as noted above. This richening reflects not only the broader rally in rates but also a shift in buyer behavior, as laddered and more passive strategies have extended out the curve in search of incremental yield.

Another way to see the diminished value in the 10-year spot is through the 2s10s slope of the muni curve versus Treasuries. As highlighted, the muni curve has flattened meaningfully, reducing the available roll-down potential—an additional headwind for investors targeting this part of the curve.

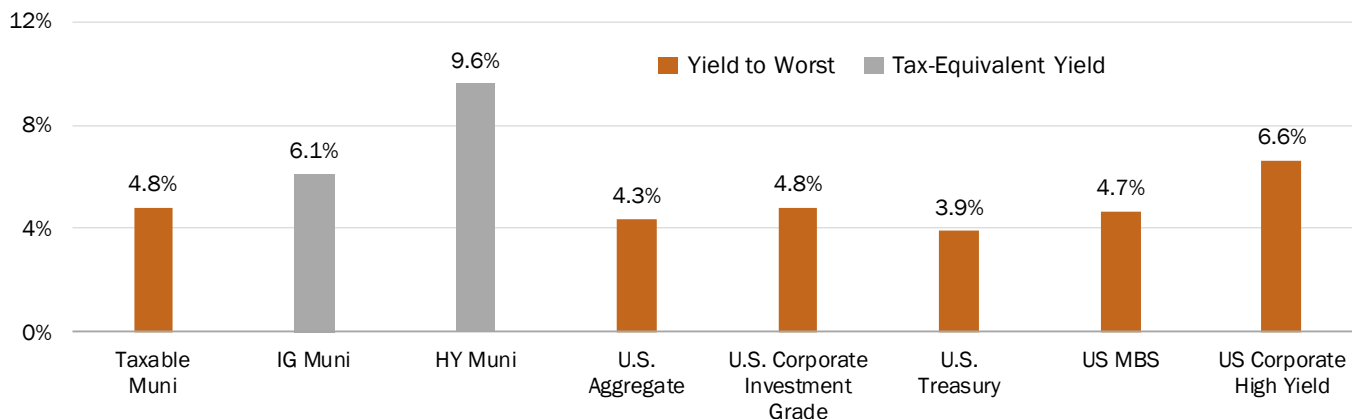
**FIGURE 2: MUNI VS TREASURY CURVE SLOPES**



Data as of December 12, 2025

Source: Bloomberg

## INDEX YIELDS

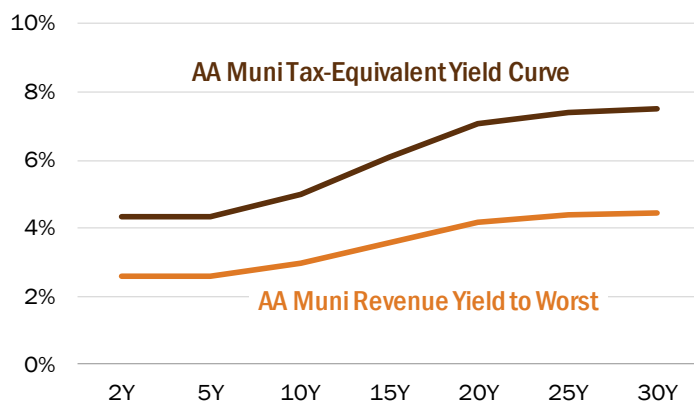


Data as of December 12, 2025.

1. Tax Equivalent Yield is using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.

Source: Bloomberg

## AA MUNI TAX-EQUIVALENT YIELD CURVE

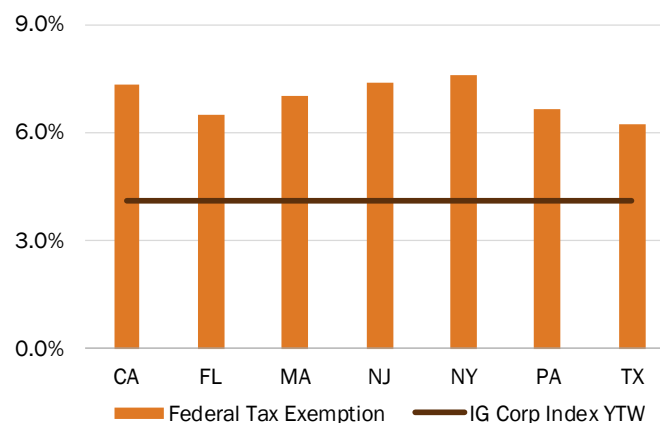


Data as of December 12, 2025.

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

Source: Bloomberg

## IN-STATE MUNI TAX-EQUIVALENT YTW

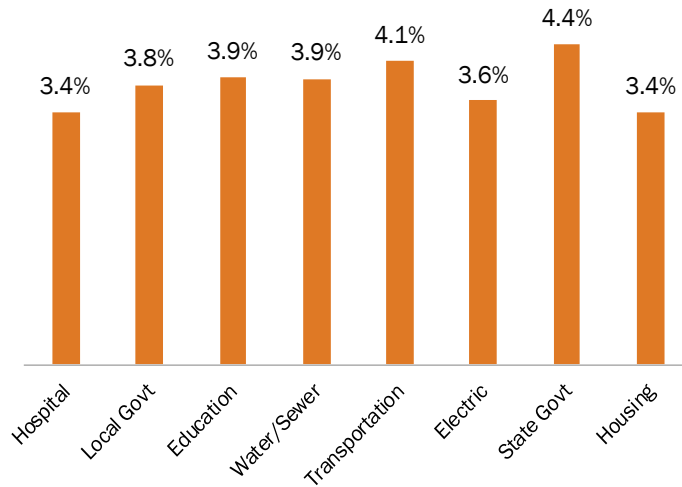


Data as of December 12, 2025.

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

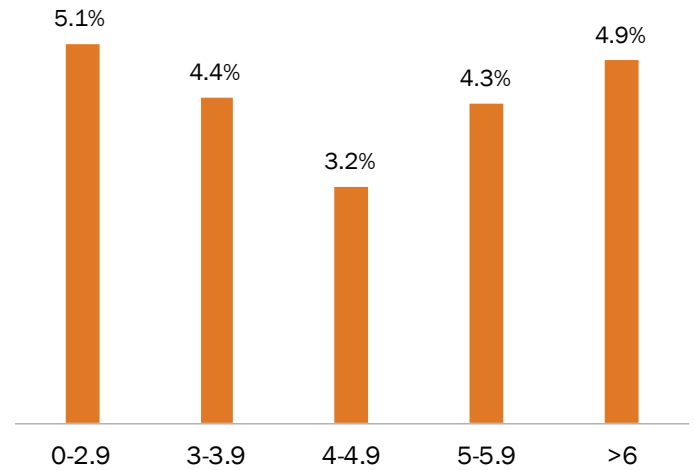
Source: Bloomberg

## YTD TOTAL RETURNS BY SECTOR



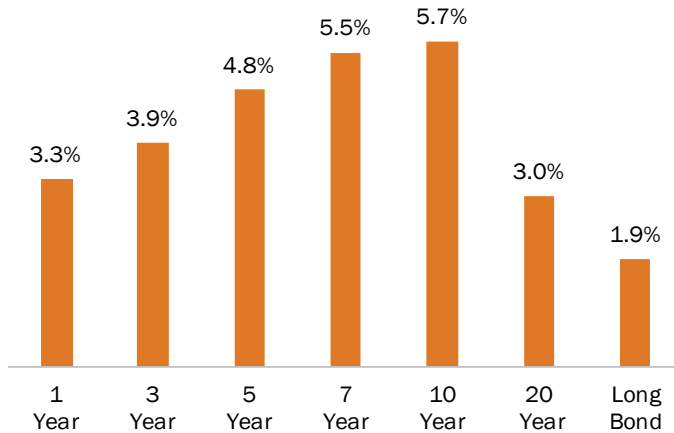
Data as of December 12, 2025.  
Source: Bloomberg

## YTD TOTAL RETURNS BY COUPON



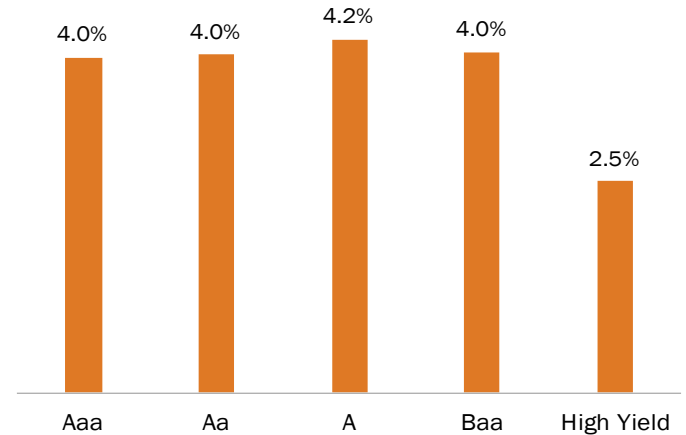
Data as of December 12, 2025.  
Source: Bloomberg

## YTD TOTAL RETURNS BY MATURITY



Data as of December 12, 2025.  
Source: Bloomberg

## YTD TOTAL RETURNS BY RATING CATEGORY



Data as of December 12, 2025.  
Source: Bloomberg

## BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of December 11, 2025.

"Post GFC Average" measures the period from 1/1/2010 – 12/11/2025

Source: Bloomberg

## MUNI YIELDS

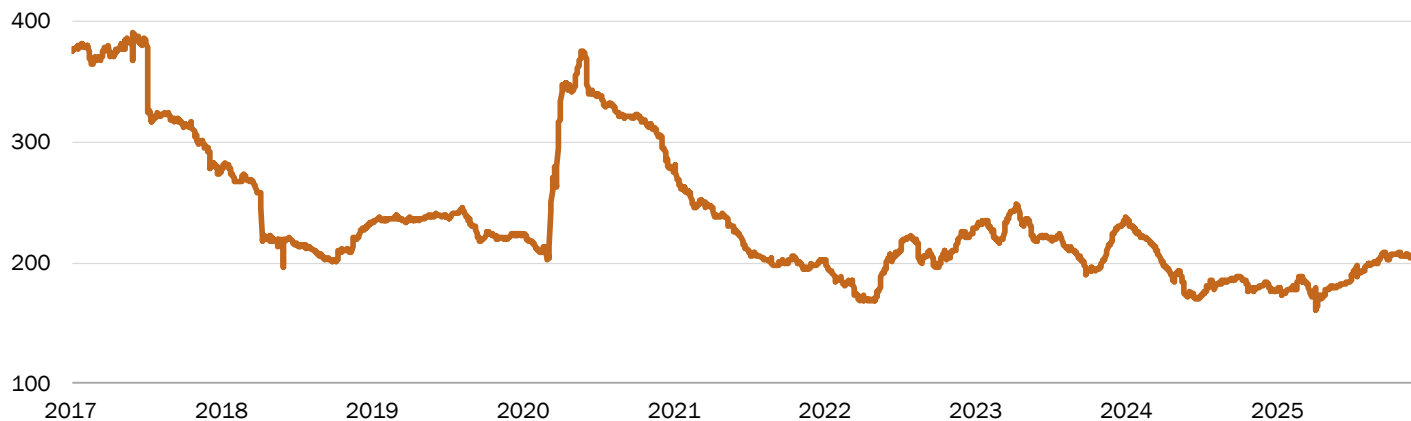
Tenor	12/11/2025	12/4/2025	Change (+/-)
<b>BLOOMBERG AAA MUNI KEY RATE YIELDS</b>			
2 YEAR	2.47%	2.47%	0.00%
5 YEAR	2.41%	2.41%	-0.01%
10 YEAR	2.74%	2.75%	-0.01%
30 YEAR	4.17%	4.15%	0.02%
<b>US TREASURY RATE YIELDS</b>			
2 YEAR	3.52%	3.52%	0.00%
5 YEAR	3.72%	3.68%	0.04%
10 YEAR	4.14%	4.11%	0.03%
30 YEAR	4.79%	4.76%	0.03%
<b>US TREASURY &amp; AAA MUNI CURVE SLOPES<sup>1</sup></b>			
	<b>2s10s</b>	<b>10s30s</b>	<b>2s30s</b>
US TREASURY CURVE SLOPE	+ 62 bps	+ 65 bps	+ 127 bps
AAA MUNI CURVE SLOPE	+ 28 bps	+ 142 bps	+ 170 bps

Data as of December 11, 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

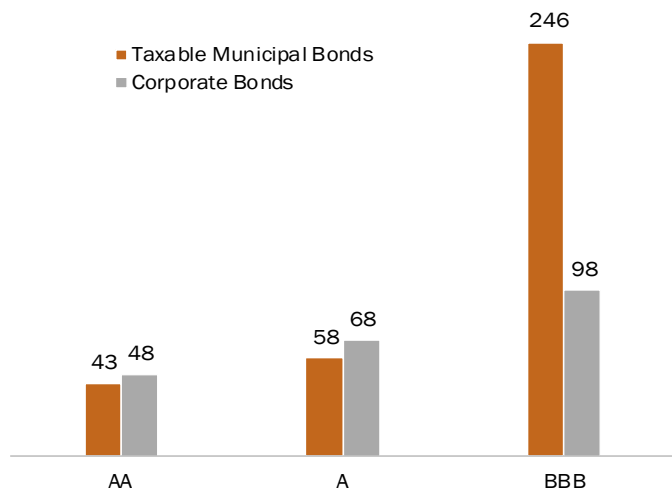
Source: Bloomberg

## BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of December 11, 2025.  
Source: Bloomberg

## TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS

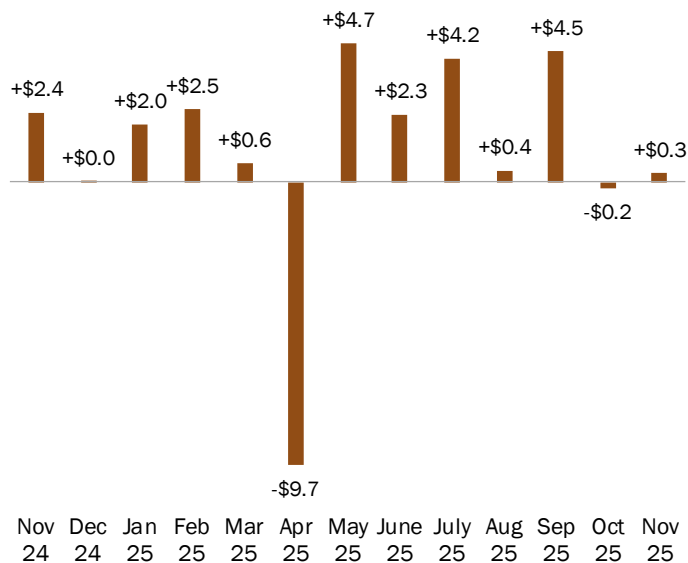


Data as of December 11, 2025.

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: Bloomberg

## LONG TERM FUND FLOWS | USD \$BN



Data as of December 11, 2025.

Source: Bloomberg





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## DEFINITION OF TERMS

### Option-Adjusted Spread

The option-adjusted spread (OAS) measures the spread between a bond's rate and the risk-free rate, while adjusting for any embedded options like callables or mortgage-backed securities.

### Standard Deviation

Standard deviation is a statistical measurement that looks at how far discrete points in a dataset are dispersed from the mean of that set. It is calculated as the square root of the variance.

### Tax Equivalent Yield

The tax-equivalent yield is the return a taxable bond needs to equal the yield on a comparable tax-exempt municipal bond. Investors use this calculation to compare the returns between a tax-free investment and a taxable alternative.

### Tax Equivalent Yield to Worst

Tax Equivalent YTW is calculated by dividing the tax-exempt yield by one minus the marginal income tax. this is used to compare YTW on a tax-exempt investment to a taxable investment.

### Volatility

Volatility is a measurement of how varied the returns of a given security or market index are over time. It is often measured from either the standard deviation or variance between those returns. In most cases, the higher the volatility, the riskier the security.

**Yield to Worst**

Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract. It is a type of yield that is referenced when a bond has provisions that would allow the issuer to close it out before it matures. YTW helps investors manage risks and ensure that specific income requirements will still be met even in the worst scenarios.

**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 AMT index**

The Bloomberg Municipal AMT index refers to a specific Bloomberg municipal bond index that includes bonds subject to the Alternative Minimum Tax (AMT). Unlike most municipal bond indices, which exclude AMT-subject securities, these indices contain bonds that typically offer higher yields to individuals who are subject to the AMT.

**Muni IG AMT ex Territories Index**

The Muni IG ex. AMT and ex Territories Index is the Bloomberg Municipal Bond Index excluding AMT and US. Territory exposure.

**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 5-Year Muni Index**

The Bloomberg 5 Year Municipal Bond Index is a capitalization weighted bond index created by Bloomberg intended to be representative of major municipal bonds of all quality ratings with an average maturity of approximately five years.

**Bloomberg Municipal 1-10 Year Blend 1-12 Year Index**

The Bloomberg Municipal 1-10 Year Blend 1-12 Year Index measures the performance of short and intermediate components of the Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment grade, tax-exempt bond market.

**Bloomberg Municipal Long Bond 22+ Index**

The Bloomberg Municipal Long Bond 22+ Index (often referred to as the Bloomberg Long-Term Municipal Bond Index) tracks the performance of long-term, tax-exempt U.S. municipal bonds with maturities of 22 years or longer. This index serves as a benchmark for high-quality municipal debt and covers various sectors, including general obligation, revenue, insured, and pre-refunded bonds.

**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.

**Bloomberg Global Aggregate Bond Index**

The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-seven local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

**Bloomberg Securitized Bond Index**

The Bloomberg U.S. Securitized: MBS, ABS, and CMBS Index tracks all USD-denominated, investment grade, securitized issues within the “Parent Index”. MBS must have a weighted average maturity of at least one year. CMBS and ABS must have a remaining average life of at least one year.

**Bloomberg US Municipal Bond Index Total Return Index Value Unhedged**

The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds

**Bloomberg US Aggregate Total Return Value Unhedged**

The Bloomberg US Aggregate Total Return Value Unhedged Index (LBUSTRUU:IND) is a benchmark that measures the performance of the U.S. investment-grade, fixed-rate, taxable bond market, excluding any currency hedging. It tracks a broad universe of U.S. dollar-denominated securities, including U.S. Treasuries, government-related debt, corporate bonds, mortgage-backed securities (MBS), and asset-backed securities (ABS).

**Bloomberg US Treasury Total Return Unhedged**

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.