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Munis Look to Be December Stocking Stuffers

- Munis miss sleigh ride while treasuries dash through snow
- Munis looking for redemption song in December
- Climate thoughts on muni investments

Relative Performance

If this week's market were a holiday party, Treasuries showed up in full festive gear, while munis were still looking for their ugly sweater. The Treasury curve rallied hard—10-year yields dropped a frosty 5 bps, and the long end wasn't far behind at 4.87 bps. Municipals? They barely jingled, trimming just 0.50–0.60 bps across maturities.

WHY TREASURIES GOT THE HOLIDAY CHEER?

The Fed played Santa early it seems, with dovish tones stuffing the market's stocking. Add in weaker consumer confidence and a slowing labor market, and investors were reaching for the safety of Treasuries like kids grabbing candy canes.

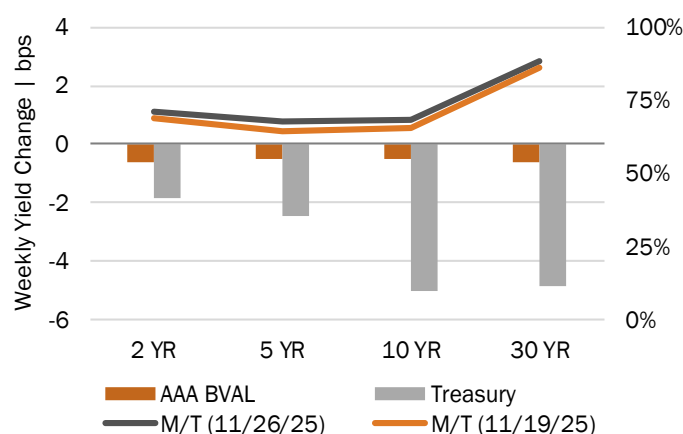
However, we observe that munis are not exactly on the naughty list, despite the relative underperformance. Over the past week, Muni-to-Treasury ratios widened, meaning munis got cheaper relative to Treasuries. For those hunting bargains, this widening might feel like a Black Friday deal that is waiting for buyers to be back at their seats this week.

Looking at month end performance for municipals, November closed out on a more modest tone, despite the expectations the asset class had heading in.

November total returns were +0.23%, well below the 20-year average of +.80%. Compare that to recent years and the performance looks underwhelming¹:

2024	2023	2022
+1.73%	+6.35%	+4.68
SANTA DELIVERED BIG THAT YEAR!		

FIGURE 1: MUNIS UNDERPERFORM



Data as of November 28, 2025. Spot Muni, Spot AA rates
Source: Bloomberg

While November didn't bring the usual seasonal sparkle, there is still lots of time on the 2025 clock and we believe relative value indicators are heading in the right direction for buyers....maybe they'll catch the holiday spirit in December.

Technicals

MUNIS RING IN THE HOLIDAYS WITH RECORDS, REINVESTMENT, AND A CHANCE FOR REDEMPTION

If Santa's sleigh feels heavy this year, blame the muni market. Year-to-date issuance has soared to \$589 billion,¹ pacing another new record and proving that 2025 wasn't shy about stuffing the stockings. And the gifts keep coming—another \$16+ billion sits on the 30-day visible calendar, pushing us toward an 18% YoY growth rate. That's not just festive—it's historic.

1. Source: Bloomberg

But the surprises under the tree don't stop there²:

- Not Rated Issuance: At \$53 billion, this segment hit an all-time high.
- Traditional High Yield: Sales of \$7.5 billion mark another high-water mark.

Clearly, investors weren't afraid to add a little spice to their holiday portfolios.

DECEMBER: THE SEASON OF GIVING (AND A CHANCE TO SHINE)

Historically, December isn't the biggest rally month for munis, averaging +0.40%, but this year the market is hoping to reverse last December's -1.46% loss and bring some holiday cheer back to performance tables. With reinvestment flows and seasonal technicals lining up, the stage is hopefully set for a modest but meaningful rebound.

And the cash? It's flowing like eggnog at a holiday party

- \$47 billion in principal and interest redemptions are headed back to investors.²
- Of that, \$30.6 billion is principal (\$27B tax-exempt, \$3.6B taxable).

Add in strong muni flows across different funding vehicles,² and December feels like a market ready to spread some holiday cheer—even as ratios and curve dynamics keep investors selective.

VALUE UNDER THE TREE

Here's where we believe munis really sparkle:

- Long muni rates at the highest tax brackets deliver a tax-equivalent yield of 7.61%.²

- Compare that to like-duration corporates²:

- BBB corporates: 5.07%
- BB corporates: 6.10%

For investors in top brackets, that's a gift worth unwrapping—munis offering more after-tax value than many corporate alternatives.

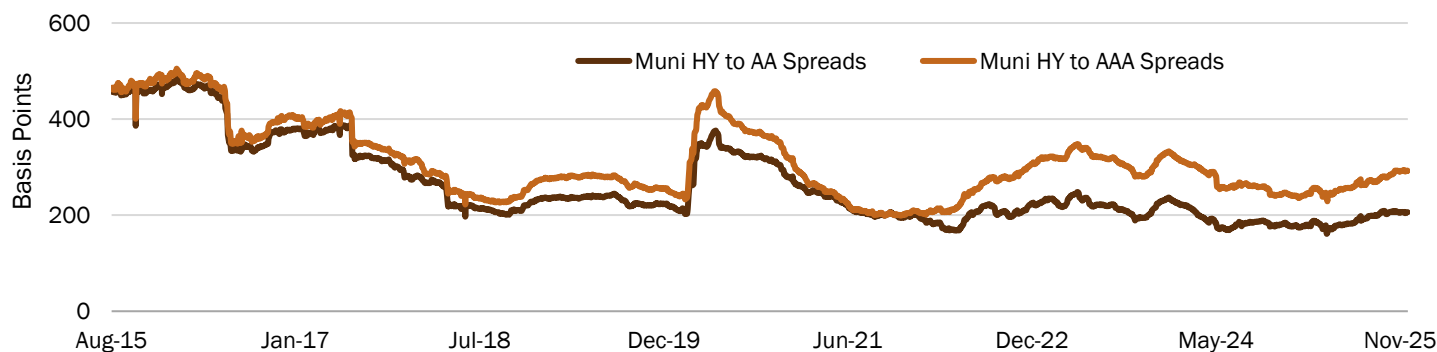
HIGH-YIELD SPREADS: THE GRINCHES HEART GROWS?

While the above compared Investment Grade ("IG") muni yields, we would be remiss not to highlight a more important trend worth watching as we sip our holiday cocoa: high-yield muni spreads relative to AAA and AA exempts are widening back above long-term averages. After years of shrinking spreads acting like the grinch for high yield muni buyers, the gap is starting to stretch again, signaling a shift in risk appetite and pricing dynamics. For opportunistic buyers, this could mean more attractive entry points in High Yield ("HY") credits—but it also underscores the need for careful credit work as volatility creeps back into the picture.

BOTTOM LINE

December in munis feels like a holiday market: record issuance, reinvestment cheer, widening HY spreads, and compelling relative value for those in the highest tax brackets. With performance historically modest but poised for a rebound from last year's loss, this season might be more about cozy carry than dramatic rallies. So grab your cocoa, hang your ratios by the chimney with care, and remember: in muni land, patience is typically the best present.

FIGURE 2: MUNI HIGH YIELD SPREADS WIDEN



Data as of November 28, 2025
Source: Bloomberg

2. Source: Bloomberg



Questions from the Field

Q

How is the MacKay Muni Team thinking about the tremendous growth in the muni ETF Space

A

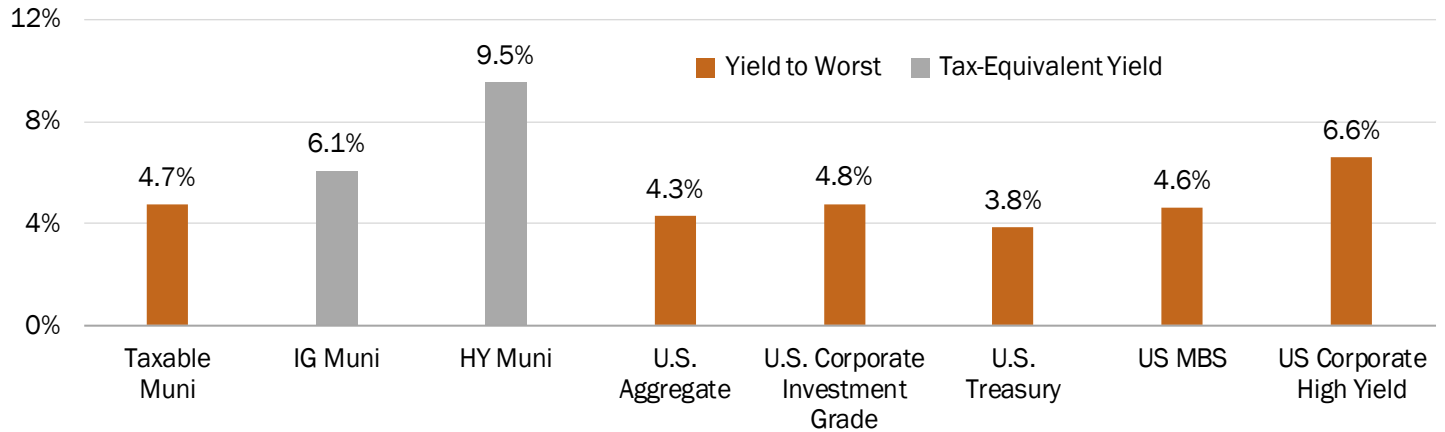
According to Eric Blachunas, at Bloomberg Intelligence “There have been 2,440 ETF launches globally this year, that's over 10 new ETFs a day. Basically every 45 minutes a new ETF is born somewhere in the world.”

We agree, the product growth has been incredible and will continue at a pace many do not fully appreciate. It is not just equity and taxable products who have seen an explosion in ETF growth. When it comes to muni focused ETFs we are seeing an equally robust growth rate with the space growing by 20% (by amount of products) in 2025 alone, and a 36% growth rate since January 1, 2024.³ Most interesting is that the majority of new exempt product launches in each of these years has been on the active side of the business versus passive.

As active managers, seeing the pendulum swing back away from passive (at least on a product creation basis) this is very exciting and signals a return to a time where investors truly care about total return. We think that the growing delta between active and passive ETF products in terms of returns will eventually signal a broader shift in terms of fund flows as well going forward.

3. Source: Bloomberg

INDEX YIELDS

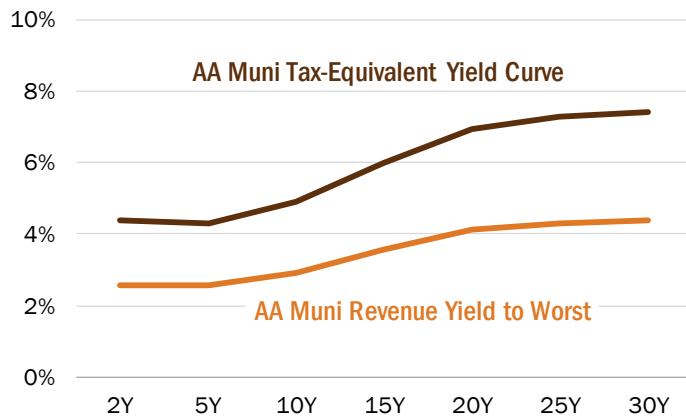


Data as of November 28, 2025.

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

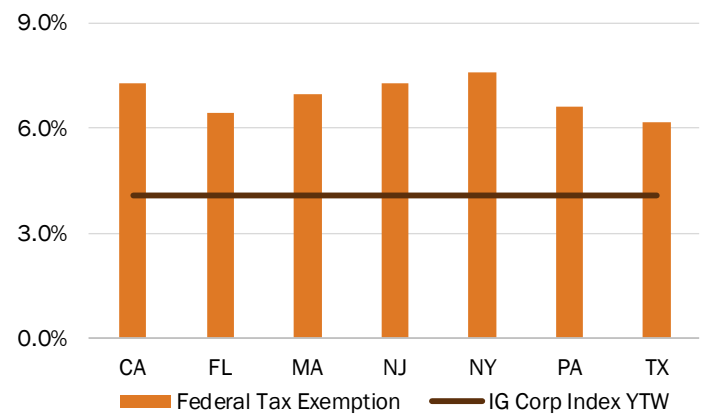


Data as of November 28, 2025.

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

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW

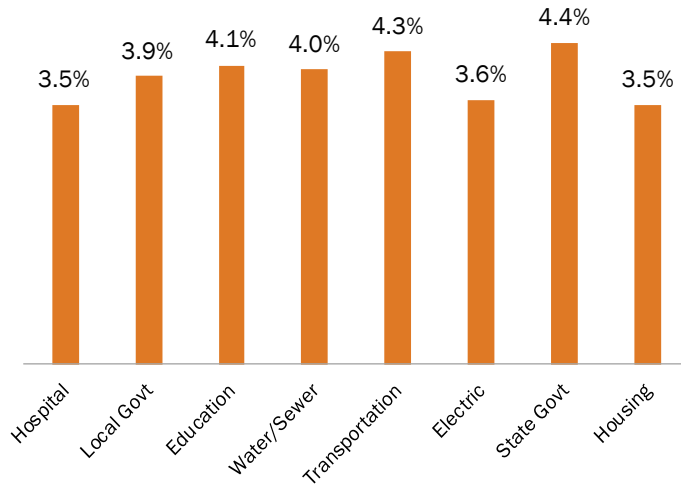


Data as of November 28, 2025.

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

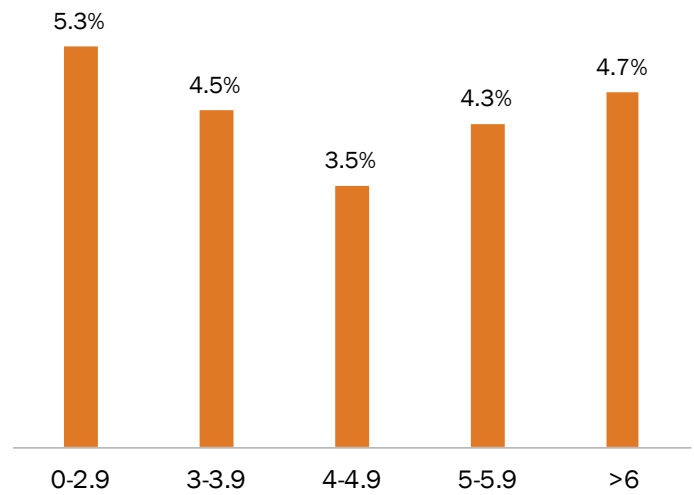
Source: Bloomberg

YTD TOTAL RETURNS BY SECTOR



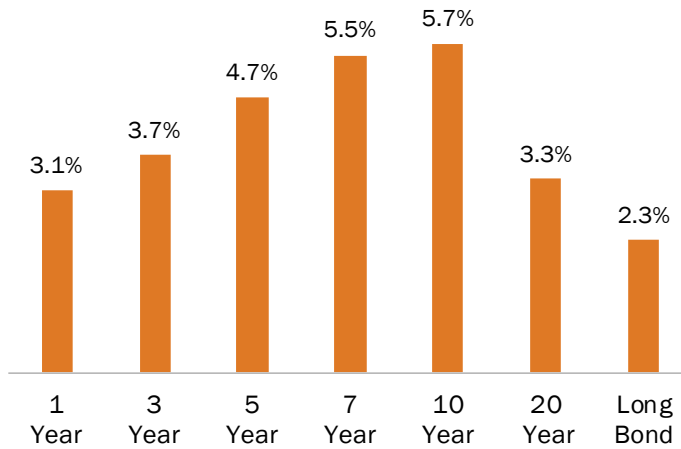
Data as of November 28, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



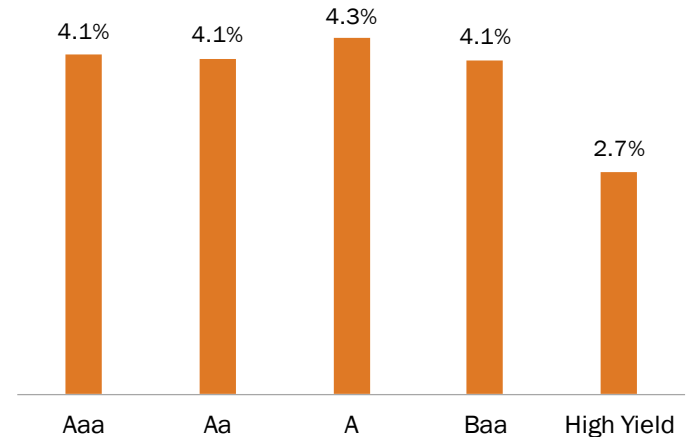
Data as of November 28, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of November 28, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of November 28, 2025.
Source: Bloomberg

BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of November 28, 2025.

"Post GFC Average" measures the period from 1/1/2010 – 11/28/2025

Source: Bloomberg

MUNI YIELDS

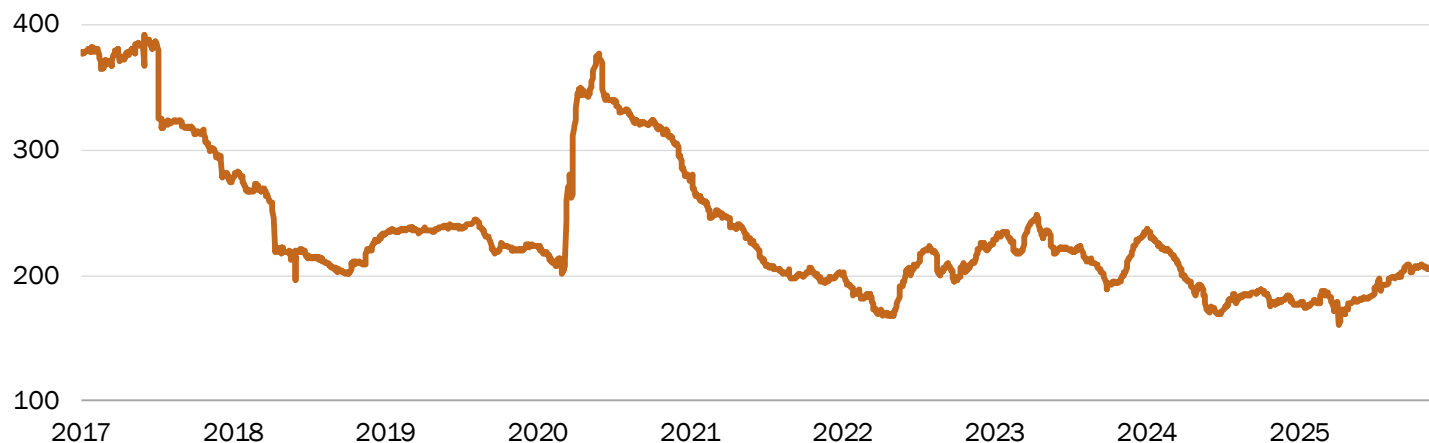
Tenor	11/21/2025	11/28/2025	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.48%	2.47%	-0.01%
5 YEAR	2.41%	2.41%	-0.01%
10 YEAR	2.74%	2.74%	0.00%
30 YEAR	4.11%	4.11%	-0.01%
US TREASURY RATE YIELDS			
2 YEAR	3.51%	3.47%	-0.04%
5 YEAR	3.62%	3.59%	-0.03%
10 YEAR	4.06%	4.02%	-0.04%
30 YEAR	4.71%	4.67%	-0.04%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 55 bps	+ 65 bps	+ 120 bps
AAA MUNI CURVE SLOPE	+ 26 bps	+ 137 bps	+ 163 bps

Data as of November 28, 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

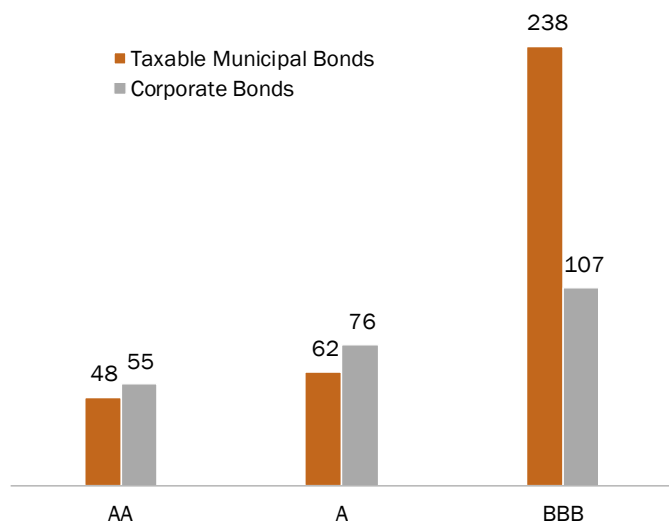
Source: Bloomberg

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of November 28, 2025.
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS

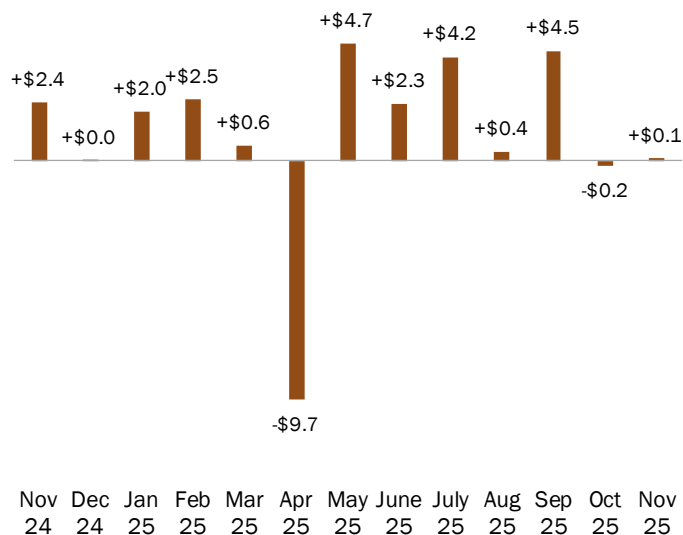


Data as of November 28, 2025.

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 November 28, 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.