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### When Your Yield Is Not Your Yield

- Munis outperform the competition to start the year
- Clearing the air on yield presentations
- A peek at 2026 muni cash flows

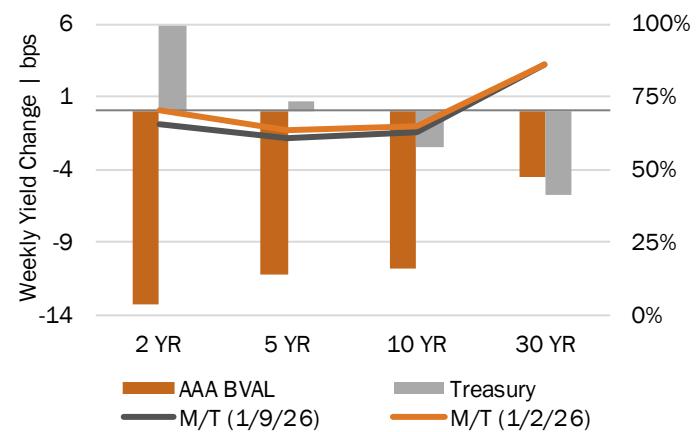
#### Relative Performance

Tax-exempt yields significantly outperformed Treasuries over the past week, with municipals rallying across most of the curve while Treasury yields were mixed to higher at the front end and modestly lower further out. AAA BVAL yields declined by roughly 13 bps in 2s, 11 bps in 5s, and just under 11 bps in 10s, while the long end lagged with yields down less than 5 bps in 30s. In contrast, Treasury yields rose nearly 6 bps in 2s and were modestly higher in 5s, before declining 2–6 bps in 10s and 30s (See Figure 1).

The divergence drove meaningful muni outperformance on a relative basis, particularly in the front and intermediate portions of the curve. Muni-to-Treasury ratios richened sharply, with the 2-year ratio falling nearly five points week-over-week to 65.2%, while 5-year ratios declined just over three points to 60.6%. The 10-year ratio also moved richer, down roughly two points to 62.8%. The long end was largely unchanged, with the 30-year ratio effectively flat at 86.0%.<sup>1</sup>

From a total return perspective, municipals are also starting the year on strong footing relative to broader fixed income markets. Through January 9, the Bloomberg Municipal Bond Index is up approximately 0.7% year-to-date, outperforming many domestic and global taxable benchmarks, including the U.S. Aggregate and Global Aggregate indices, which remain modestly negative to flat over the same period. Returns in municipals have also compared favorably with Treasuries, supported by still attractive tax-exempt yields and steady reinvestment-driven demand. Taken together, the early-year performance reinforces municipals' defensive profile and underscores their relative value appeal versus both domestic and global taxable fixed income alternatives as 2026 begins.

FIGURE 1: MUNIS OUTPERFORM



Data as of January 9, 2026. Spot Muni, Spot AA rates

Source: Bloomberg

#### Technicals

One of the most persistent problems in municipal investing today isn't market volatility—it's how yield is being marketed.

Investors are routinely shown yield figures that look compelling but have little connection to what they will actually earn. This is not a gray area. In the municipal market, the misuse of yield metrics—particularly current yield—has become a convenient marketing tool, especially within SMA platforms.

Current yield is simply coupon divided by price. It ignores pull-to-par, call risk, and reinvestment reality. As a result, it systematically overstates expected income and total return. Investors do not earn current yield in practice—yet it is often the headline number presented to them.

1. Source: Bloomberg

A recent market example makes this clear.



Coupon:	5 %
Maturity Date:	01/01/2028
Dated Date:	01/21/2026
Initial Offering Price/Yield:	105.221% / 2.24%
Principal Amount at Issuance:	\$36,915,000
Time of Formal Award:	01/08/2026 12:10 PM
Time of First Execution:	01/08/2026 03:00 PM

Most recently, a New York Thruway Authority bond came to market with a yield to maturity of 2.24%. Because of its coupon structure, however, the bond displayed a current yield of approximately 4.75%. An investor holding the bond to maturity would earn 2.24% annually—not 4.75%. The higher number is purely optical.<sup>2</sup>

**And yet, this is precisely the number that frequently gets emphasized.**

This is why SMA yield comparisons so often look attractive at first glance. Current yield is almost always inflated relative to realizable outcomes, particularly in callable municipal

portfolios. When spending decisions are made based on those inflated figures, investors may believe they are living off income—when in reality, they are quietly spending principal.

The municipal market has long recognized this risk, which is why yield to worst (YTW) is the accepted convention. YTW reflects the most conservative economic outcome and is the yield measure that drives open-end municipal fund distribution rates. It is not designed to impress—it is designed to be earned.

By contrast, marketing portfolios based on non-conventional yield metrics creates a disconnect between expectations and outcomes. That disconnect may not show up immediately, but over time it reveals itself through disappointing income, declining principal, or both.

This is also why Morningstar does not report current yield for municipal bond funds because it is not a meaningful indicator of expected returns. In fact, Morningstar considers trailing 12-month distribution rates<sup>3</sup> a more realistic and investor-relevant measure of income.

The takeaway is simple but uncomfortable:

Not all yield is created equal—and not all yield marketing is honest.

For municipal investors who depend on tax-exempt income, the question isn't which yield looks highest. It's which yield can actually be delivered without eroding capital. That answer has always been the same: yield to worst and realized distributions—not optical yield.

## Questions from the Field

**Q** How are muni cash flows to investors shaping up relative to 2025?

**A** While total annual reinvestment is only modestly lower in 2026 versus 2025 at \$433 billion versus \$438 billion<sup>4</sup>, the monthly profile breakdown is notably smoother. 2025 was more front-loaded, with January and February providing outsized cash flows that helped support early-year demand. By contrast, 2026 shows less January reinvestment but maintains consistently strong monthly P&L through the middle and back half of the year, with multiple months clustered in the mid-to high-\$40 billion range. This more balanced cash-flow profile should help sustain reinvestment demand beyond the first quarter and provide ongoing technical support for municipals as the year progresses.

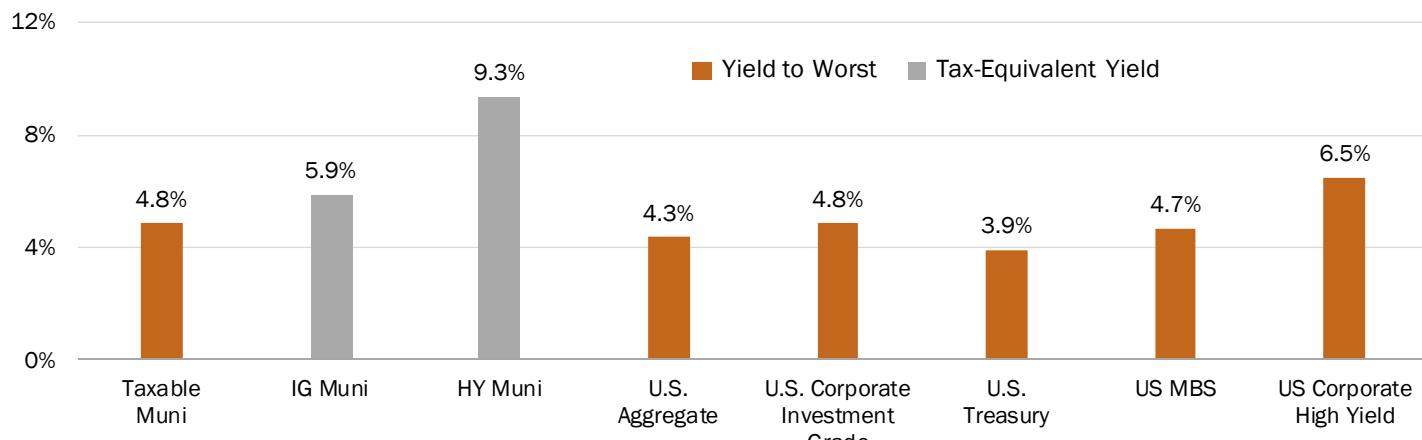
Importantly, the composition of 2026 cash flows remains constructive. Approximately \$262 billion of principal is scheduled to come due over the year, with a substantial portion returning to the tax-exempt market, ensuring that reinvestment demand from traditional municipal buyers remains significant.

2. At the time of writing, MacKay Shields LLC maintains investments in the securities, issuers and/or companies cited herein. References to such securities, issuers and/or companies are for educational and informational purposes only, and are intended to convey factual information and current market conditions. Such names are not intended, nor should they be construed as, a recommendation to buy and sell any individual security.

3. A 12-month distribution rate in fixed income shows the income an investor received over the past year as a percentage of the fund's value, calculated by summing the last 12 months' distributions and dividing by the ending Net Asset Value (NAV).

4. Source: Bloomberg

## INDEX YIELDS

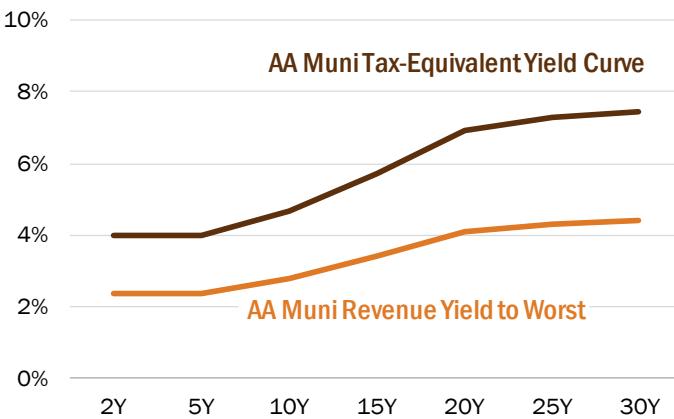


Data as of January 9, 2026.

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

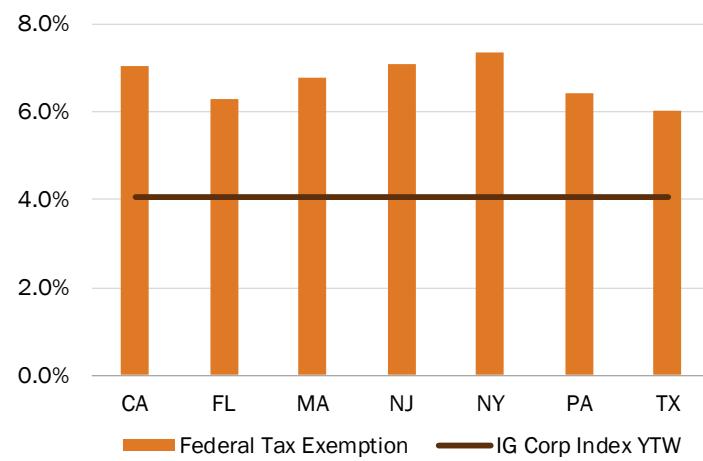


Data as of January 9, 2026.

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

Source: Bloomberg

## IN-STATE MUNI TAX-EQUIVALENT YTW

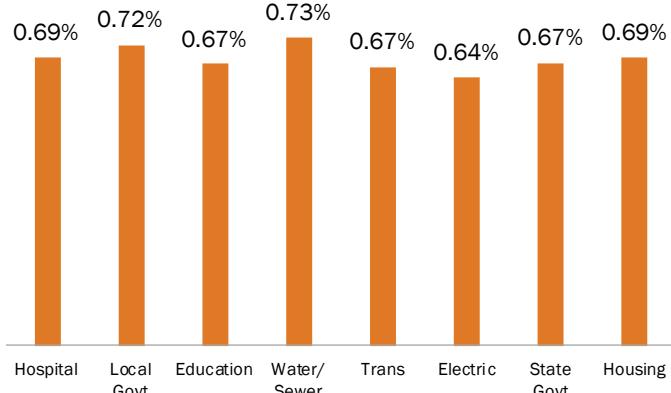


Data as of January 9, 2026.

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

Source: Bloomberg

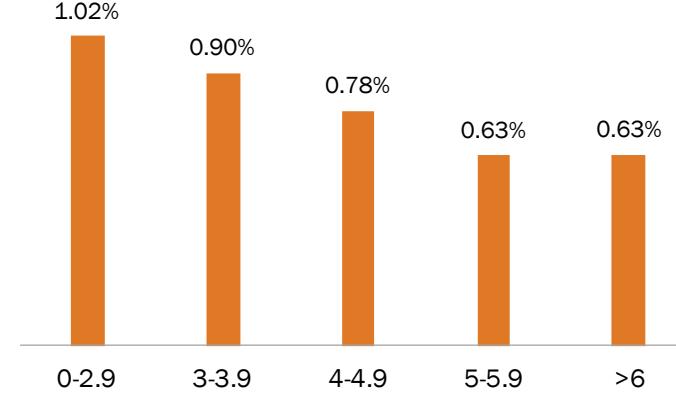
## YTD TOTAL RETURNS BY SECTOR



Data as of January 9, 2026.

Source: Bloomberg

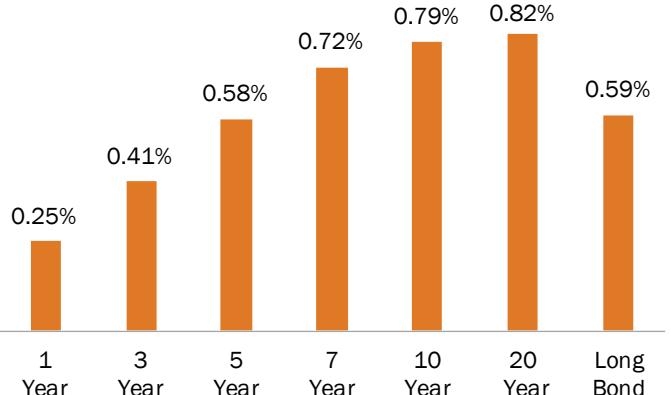
## YTD TOTAL RETURNS BY COUPON



Data as of January 9, 2026.

Source: Bloomberg

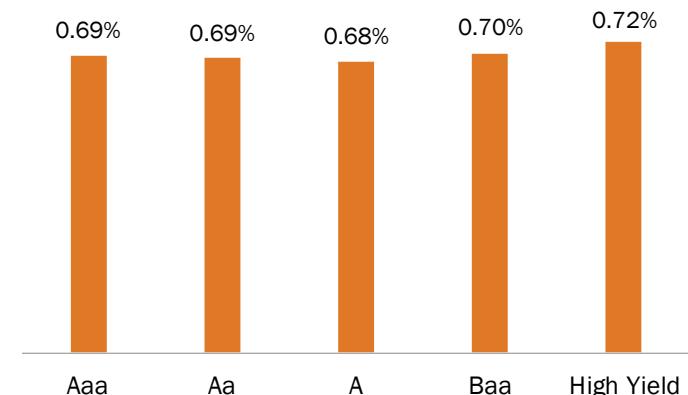
## YTD TOTAL RETURNS BY MATURITY



Data as of January 9, 2026.

Source: Bloomberg

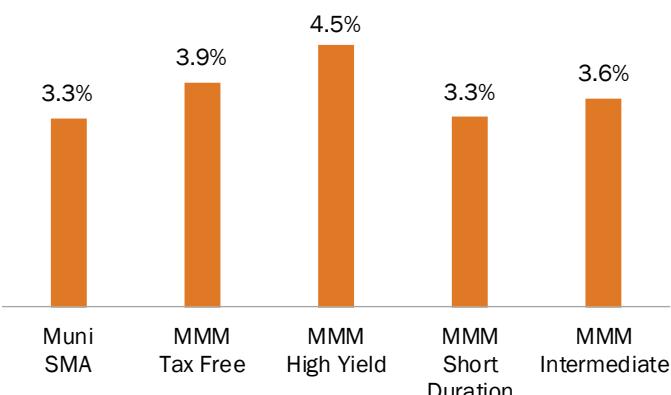
## YTD TOTAL RETURNS BY RATING CATEGORY



Data as of January 9, 2026.

Source: Bloomberg

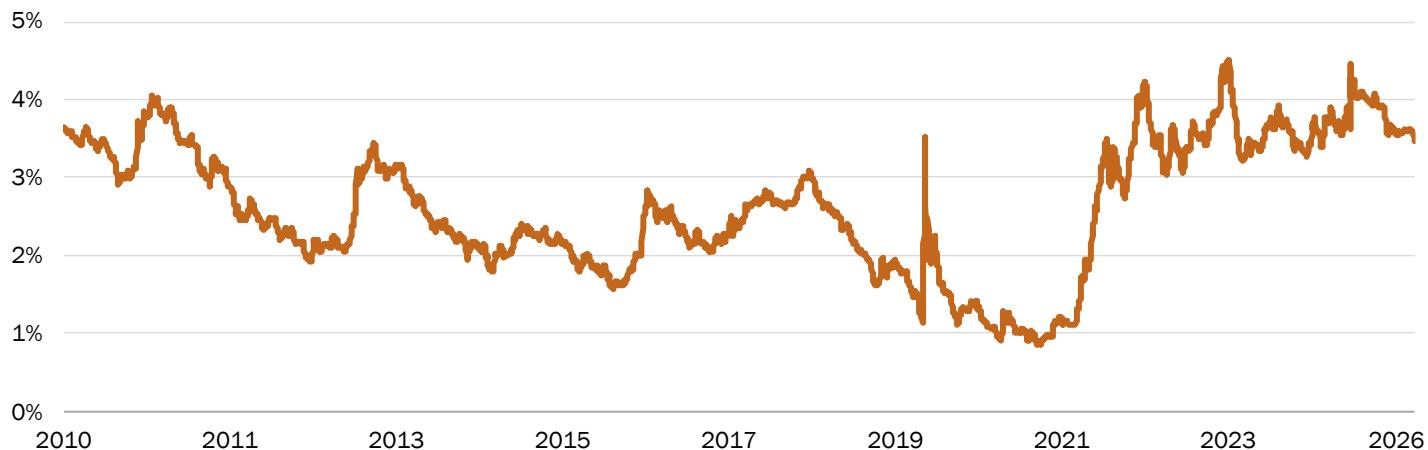
## COMPARATIVE YIELDS OF MUNI SMA VS MACKAY PRODUCTS



Data as of January 9, 2026.

Source: Bloomberg

## BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of January 9, 2026.

"Post GFC Average" measures the period from 1/1/2010 - 1/9/2026

Source: Bloomberg

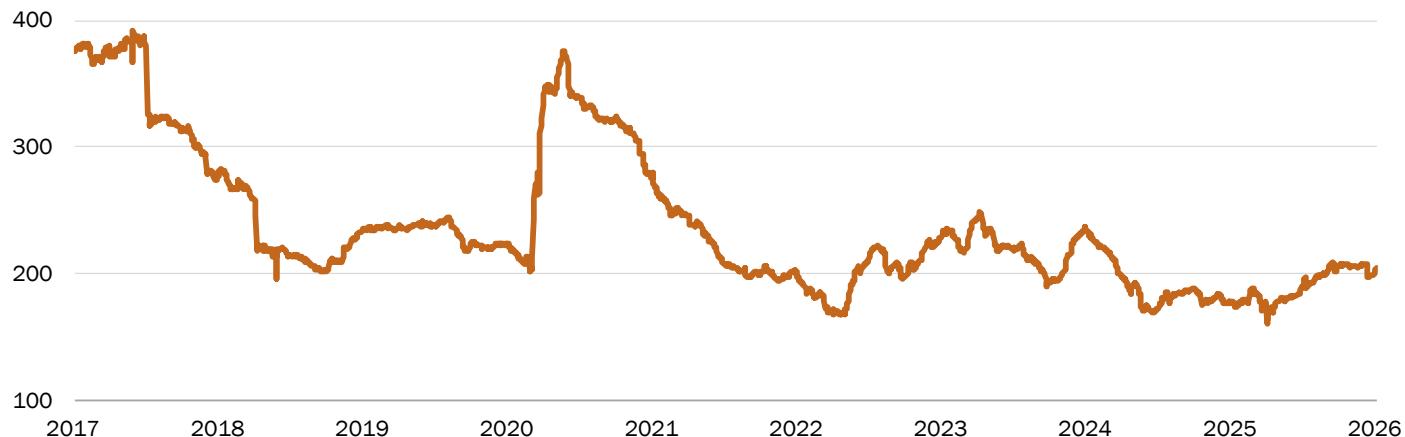
## MUNI YIELDS

Tenor	1/9/2026	1/2/2026	Change (+/-)
<b>BLOOMBERG AAA MUNI KEY RATE YIELDS</b>			
2 YEAR	2.30%	2.43%	-0.13%
5 YEAR	2.27%	2.38%	-0.11%
10 YEAR	2.61%	2.72%	-0.11%
30 YEAR	4.14%	4.19%	-0.05%
<b>US TREASURY RATE YIELDS</b>			
2 YEAR	3.54%	3.47%	0.07%
5 YEAR	3.75%	3.74%	0.01%
10 YEAR	4.18%	4.19%	-0.01%
30 YEAR	4.82%	4.86%	-0.04%
<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	+ 64 bps	+ 64 bps	+ 128 bps
AAA MUNI CURVE SLOPE	+ 31 bps	+ 153 bps	+ 184 bps

Data as of January 9, 2026.

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

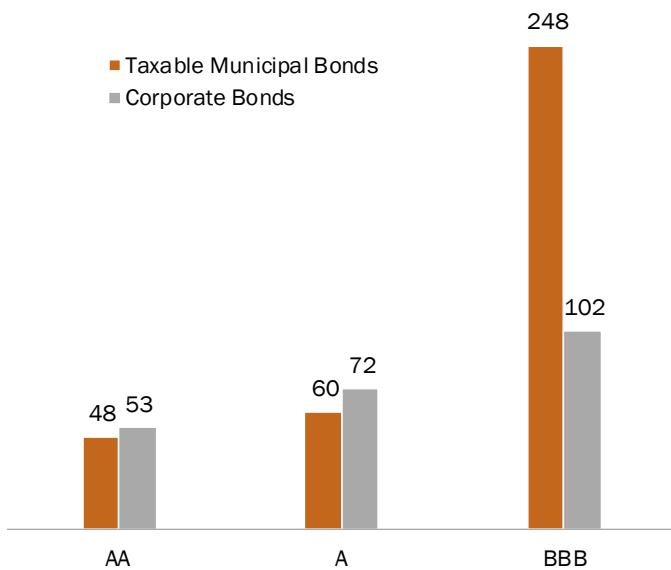
## BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of January 9, 2026.

Source: Bloomberg

## TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS

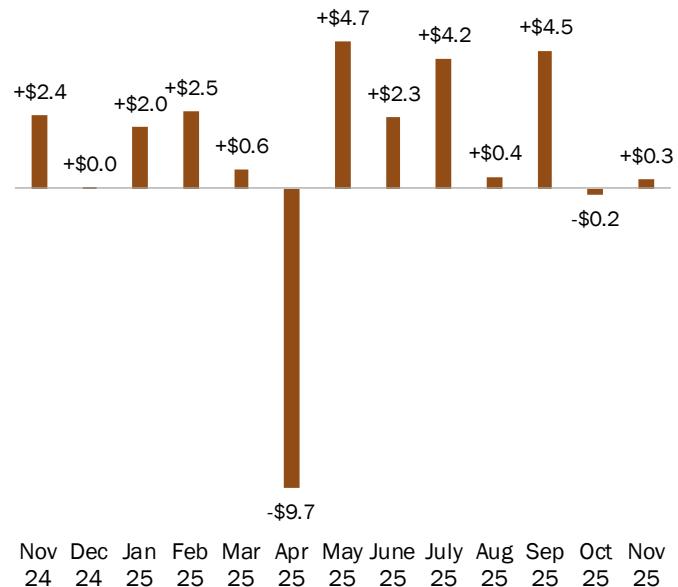


Data as of January 9, 2026.

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 January 9, 2026.

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.