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Munis Break 2026 Winning Streak

- Munis break winning streak
- Isolating curve value points
- Credit thoughts from the desk

Relative Performance

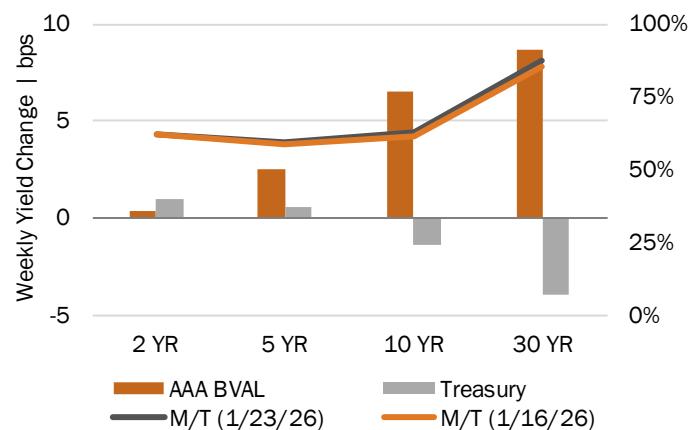
Municipals modestly underperformed Treasuries over the past week as tax-exempt yields moved higher across the curve, while Treasury yields declined in intermediate and long maturities. AAA BVAL yields rose by roughly 0–1 bp in 2s, 2–3 bps in 5s, and 6–9 bps in 10s and 30s. In contrast, Treasury yields were little changed at the front end, before falling 1–4 bps in 10s and 30s (See Figure 1).

The divergent moves drove a partial reversal of the prior weeks' ratio richening, particularly beyond the front end. Muni-to-Treasury ratios were essentially unchanged in 2s, edging lower by just 0.02 points to 62.36%. Ratios cheapened further out the curve, with the 5-year ratio rising roughly half a point to 59.15%, the 10-year ratio increasing nearly 1.5 points to 62.71%, and the 30-year ratio moving higher by almost two points to 87.42%.

Looking ahead, attention this week turns to the January FOMC meeting. Policy is widely expected to remain unchanged, with no adjustment to the target range, leaving the market's focus squarely on Chair Powell's messaging. Commentary around the inflation outlook, the timing of potential easing, and the Fed's ability to maintain policy independence amid heightened political scrutiny could influence broader rate sentiment, particularly following recent volatility in the front end.

On the municipal supply front, the new issue calendar is relatively light¹, with limited negotiated volume expected. The quieter primary backdrop is consistent with seasonal patterns and we believe should help support technicals, particularly after several weeks of heavier issuance. A lighter supply

FIGURE 1: MUNIS UNDERPERFORM



Data as of January 23, 2026. Spot Muni, Spot AA rates

Source: Bloomberg

environment may help limit additional ratio cheapening in the near term and provide some stability for tax-exempt valuations.

Despite the week's relative underperformance, muni ratios remain well inside longer-term averages, particularly in the intermediate portion of the curve, following several weeks of pronounced outperformance.¹ The recent backup in tax-exempt yields appears more consistent with technical digestion amid heavier new-issue supply and profit-taking, rather than a material shift in the broader fundamental backdrop. With reinvestment demand ongoing and absolute tax-exempt yields still attractive, it is our view that municipals continue to offer compelling relative value versus taxable alternatives despite near-term volatility as 2026 unfolds.

1. Source: Bloomberg

Technicals

One of the clearest ways we frame our yield-curve preference today is by looking at how much long-maturity yield investors are able to capture earlier on the curve, and how that compares with history. This perspective moves the discussion away from forecasting rate direction and toward assessing whether investors are being adequately compensated for staying short.

As of late January 2026, that compensation looks meaningfully diminished. Two-, five-, and ten-year municipal bonds are capturing only about 53–63% of 30-year yields, roughly 10–11 percentage points below their respective five-year averages. Even at 15 years, yield capture remains well below historical norms. It is only in the 20-year area of the curve where yield levels begin to approximate long-bond yields—and notably, that segment now appears cheaper than its longer-term average (See Figure 2).

We view this configuration as a byproduct of persistent technical demand concentrated in shorter and intermediate maturities, particularly from SMA and passive strategies with structural constraints. That demand has compressed yields in the front and belly of the curve, leaving investors increasingly undercompensated for avoiding maturity extension. At the same time, those same constraints limit how far these vehicles can extend, creating relatively better value further out the curve.

Against that backdrop, our preference is not simply to add duration, but to be intentional about where duration is held.

Questions from the Field

Q

If municipal fundamentals are still generally solid, where do you actually see risk showing up in the market right now?

A

That's an important distinction, because the risk we're focused on today is less about broad municipal credit stress and more about dispersion and mispricing.

At a headline level, most municipal issuers remain on stable footing. Defaults are limited, reserves are still elevated relative to history, and income levels remain attractive. The risk, in our view, is that those broad statistics can mask meaningful differences beneath the surface, particularly as extraordinary federal support continues to fade and policy decisions become more consequential at the state and local level.

We're seeing that show up most clearly in areas where revenue stability is tied to discretionary budget decisions or political priorities. General obligation credits, in particular, are becoming more sensitive to how policymakers balance rising costs, social spending, and fiscal flexibility. That doesn't mean widespread deterioration, but it does mean outcomes are likely to diverge more than they have in recent years.

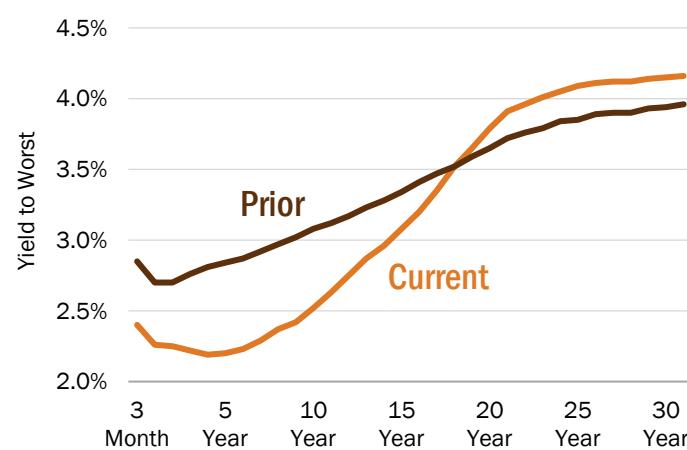
At the same time, technical forces are creating risk in a different way. Demand has become increasingly concentrated in rules-based and passive strategies, which can leave some segments of the market crowded and fully priced, while others are overlooked for non-credit reasons. In those crowded areas, investors may be taking on more valuation and liquidity risk than they realize, even in high-quality bonds.

So when we talk about risk today, we're not talking about an imminent credit cycle. We're talking about a market that is less forgiving of imprecision. In that environment, disciplined security selection, an emphasis on durable revenue streams, and active liquidity management matter more than simply owning "munis" broadly.

The intermediate-to-long portion of the curve—particularly the 12–22 year range—offers a more balanced combination of yield, valuation, and forward return potential. In our view, investors are giving up a historically large amount of yield to remain short, while modest extension is being rewarded more favorably than headline yield levels alone would suggest.

In short, the curve is doing much of the work today. Rather than expressing strong directional rate views, we see curve positioning as a primary lever for return generation, with the current opportunity set favoring segments where yield capture, rolldown, and technical support are more attractively aligned.

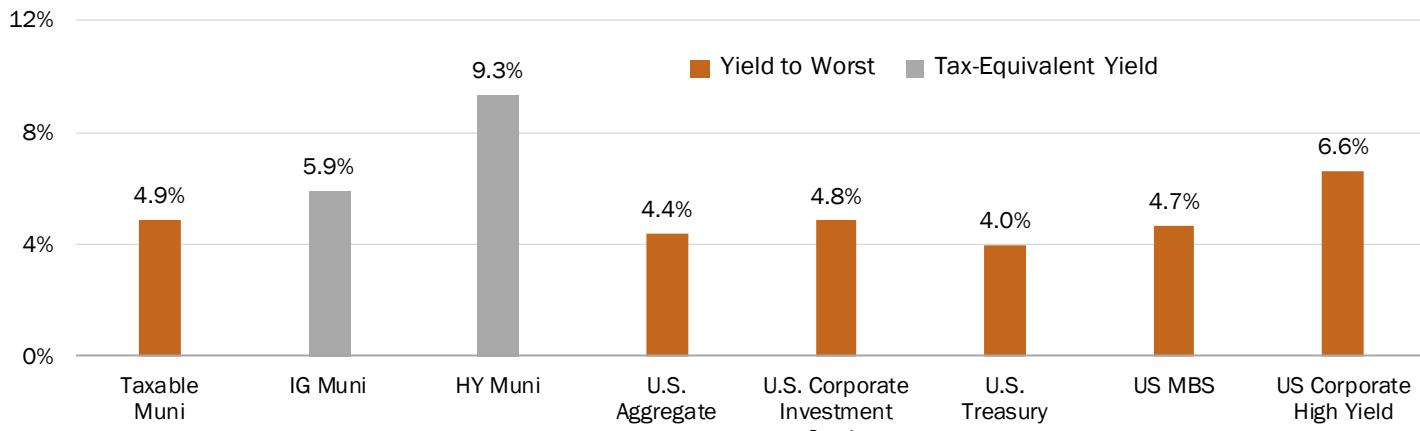
FIGURE 2: Aaa MUNI RATE MOVES



Data as of January 26, 2026.

Source: Bloomberg

INDEX YIELDS

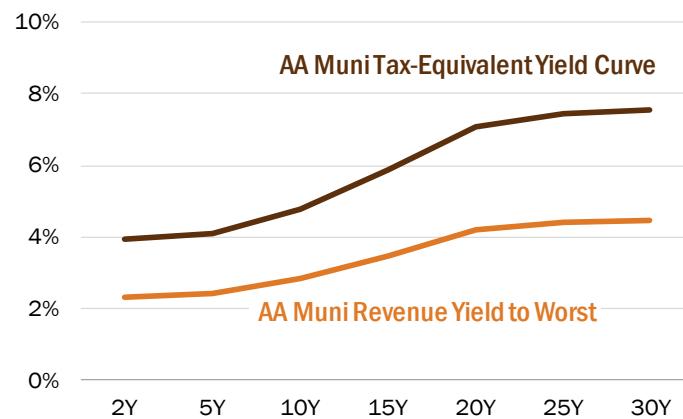


Data as of January 23, 2026.

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

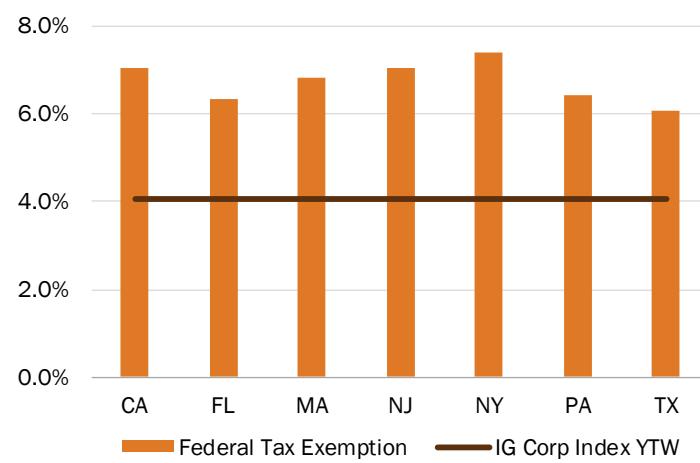


Data as of January 23, 2026.

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

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW

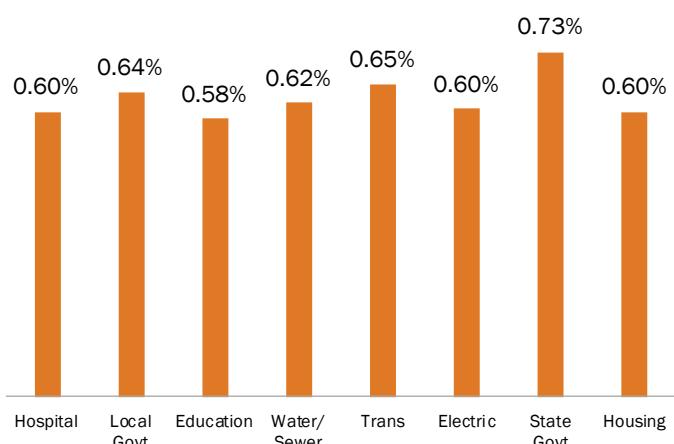


Data as of January 23, 2026.

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

Source: Bloomberg

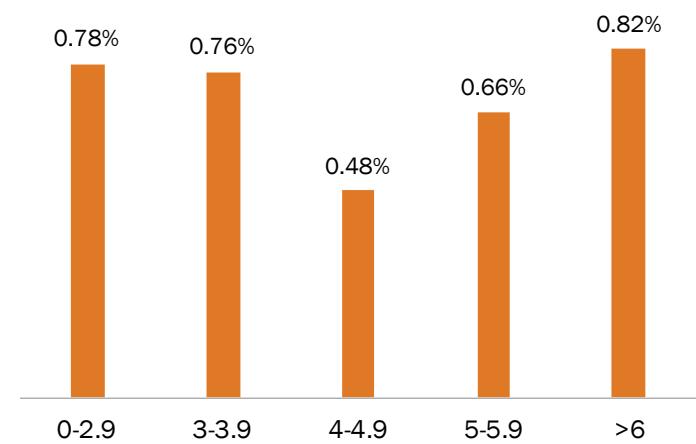
YTD TOTAL RETURNS BY SECTOR



Data as of January 23, 2026.

Source: Bloomberg

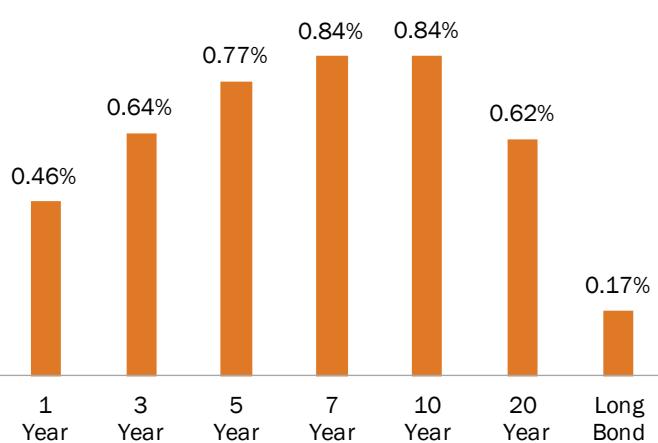
YTD TOTAL RETURNS BY COUPON



Data as of January 23, 2026.

Source: Bloomberg

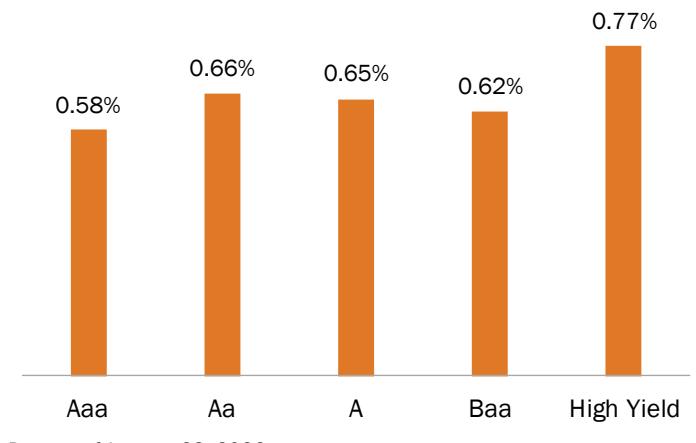
YTD TOTAL RETURNS BY MATURITY



Data as of January 23, 2026.

Source: Bloomberg

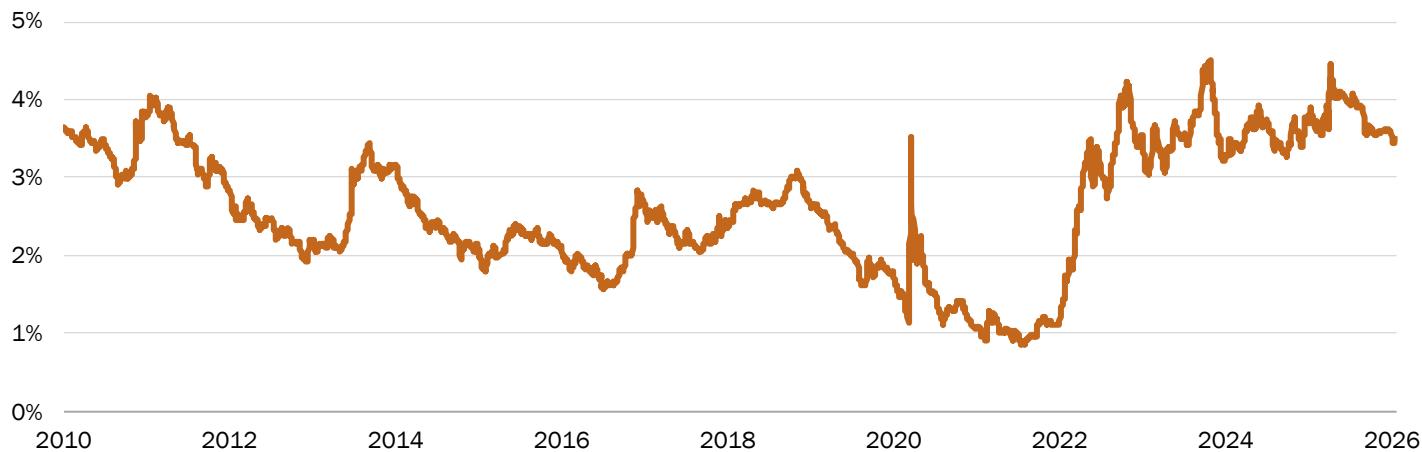
YTD TOTAL RETURNS BY RATING CATEGORY



Data as of January 23, 2026.

Source: Bloomberg

BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of January 23, 2026.

"Post GFC Average" measures the period from 1/1/2010 - 1/23/2026

Source: Bloomberg

MUNI YIELDS

Tenor	1/23/2026	1/16/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.24%	2.24%	0.00%
5 YEAR	2.27%	2.24%	0.03%
10 YEAR	2.65%	2.59%	0.07%
30 YEAR	4.22%	4.14%	0.09%
US TREASURY RATE YIELDS			
2 YEAR	3.60%	3.59%	0.01%
5 YEAR	3.84%	3.82%	0.02%
10 YEAR	4.24%	4.24%	0.00%
30 YEAR	4.82%	4.83%	-0.01%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 64 bps	+ 58 bps	+ 122 bps
AAA MUNI CURVE SLOPE	+ 41 bps	+ 157 bps	+ 198 bps

Data as of January 23, 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

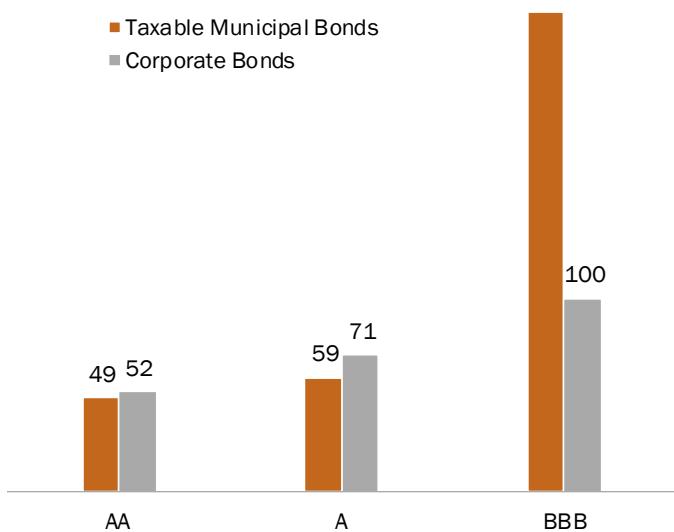
BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of January 23, 2026.

Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS

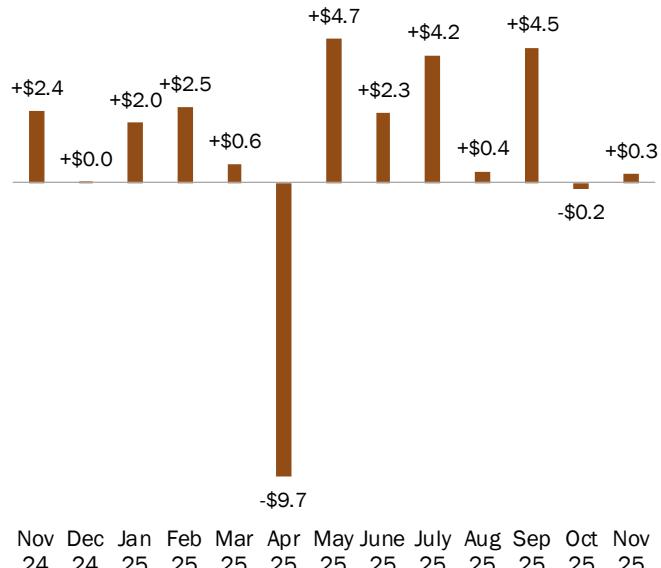


Data as of January 23, 2026.

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 23, 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.