MacKay Municipal Managers™

MMM Weekly Monitor

JANUARY 6, 2026

Author: Eric Kazatsky, Client Portfolio Manager

And We Are Back!

- Munis outperform to ring in the new year
- Recapping 2025 to set table for 2026
- Active momentum quite apparent in product creation

Relative Performance

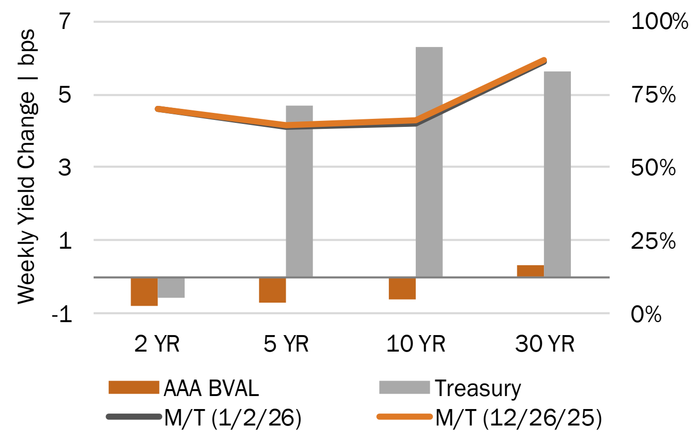
Welcome back to the new year and the anticipation is that municipals are well poised to capitalize on the positive momentum that was present down the final stretch of 2025.

Municipals outperformed Treasuries over the week, as AAA muni yields were largely unchanged while U.S. Treasury yields moved higher. AAA muni rates declined by less than 1 basis point across the front and intermediate portions of the curve, while the 30-year rose modestly by approximately 0.3 basis points.

Treasuries, by contrast, sold off more meaningfully across the curve, driving improved muni-to-Treasury ratios and supporting relative performance for tax-exempts.

From a total return perspective, municipals benefited from rate stability in an environment of rising Treasury yields, underscoring the defensive characteristics of the asset class and the continued support from technicals despite elevated supply.

FIGURE 1: MUNIS OUTPERFORM



Data as of January 2, 2026. Spot Muni, Spot AA rates
Source: Bloomberg

Technicals

While we are a mere week away from highlighting our top 5 insights for 2026, we thought that this most recent weekly would provide a solid opportunity to recap 2025 and set the table for the year ahead.

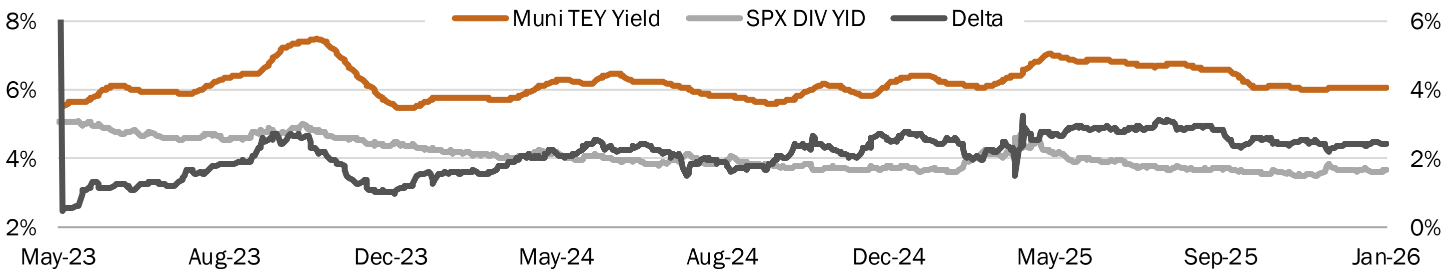
BIG PICTURE

The municipal market spent much of 2025 working through a long-overdue normalization—and investors are finally being paid again for taking thoughtful risk. After starting the year in the red, tax-exempts staged a meaningful comeback and will finish 2025 with returns around 4.1%, or north of 6% on a tax-adjusted basis.[1] That's a very strong outcome for high-quality fixed income.

Importantly, municipals remain a relatively cheap asset class. Long muni tax-equivalent yields are offering nearly 160 basis points of additional spread versus same-duration corporates, and over 240 basis points of incremental income relative to the S&P 500 dividend yield (See Figure 2 on next page).

1. Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax. This illustration does not constitute tax advice. The information contained herein should not be used as a substitute for advice from your tax advisor. Neither MacKay Municipal Managers nor MacKay Shields LLC advise clients on tax matters. Consult your tax advisor for further information.

FIGURE 2: TAX EQUIVALENT YIELD OF MUNIS VS S&P 500 DIVIDEND YIELD



Data as of January 2, 2026
Source: Bloomberg

WHY 2025 RETURNS WERE SO ASYMMETRICAL

The uneven performance—weak in the first half and very strong in the second—was largely driven by a return to normalcy along the muni yield curve. We entered the year with an inverted, extremely flat curve that offered little compensation for duration or credit risk. The subsequent steepening was uncomfortable in real time, but ultimately necessary.

CURVE NORMALIZATION IS NOW WORKING FOR INVESTORS

With a more traditionally sloped curve, investors are once again being compensated through roll-down,[2] and credit spreads are being priced more appropriately rather than artificially compressed. That dynamic was a key contributor to the strong second-half recovery, and we believe sets up a healthier market backdrop heading into 2026.

SUPPLY: RECORD ISSUANCE, STRONG ABSORPTION

New-issue supply finished 2025 right near $600 billion—a new high-water mark.[3] Just as important, the market has absorbed this supply without meaningful dislocation, underscoring strong underlying demand. We expect issuance to remain elevated in 2026, supported by improving fund flows.

LOOKING AHEAD TO 2026

We believe the municipal market is well positioned for positive returns in 2026. The absence of major tax-policy uncertainty removes a key overhang from 2025. If economic growth slows further, municipals may potentially serve as a relative safe (r) haven given their lower default history, relative to corporates, and diversification benefits.

As the Fed continues to cut rates, we expect yields on money markets and T-bills to decline, creating a natural reallocation tailwind into municipals. This is where active management matters most—particularly at the front end, where ratios are richer. Notably, tax equivalent yields of munis in the front of the curve can still offer a yield benefit over treasuries.[3]

BOTTOM LINE

After a year of adjustment, the muni market enters 2026 on far more stable footing—with healthier curves, better income, and renewed opportunities for active investors.

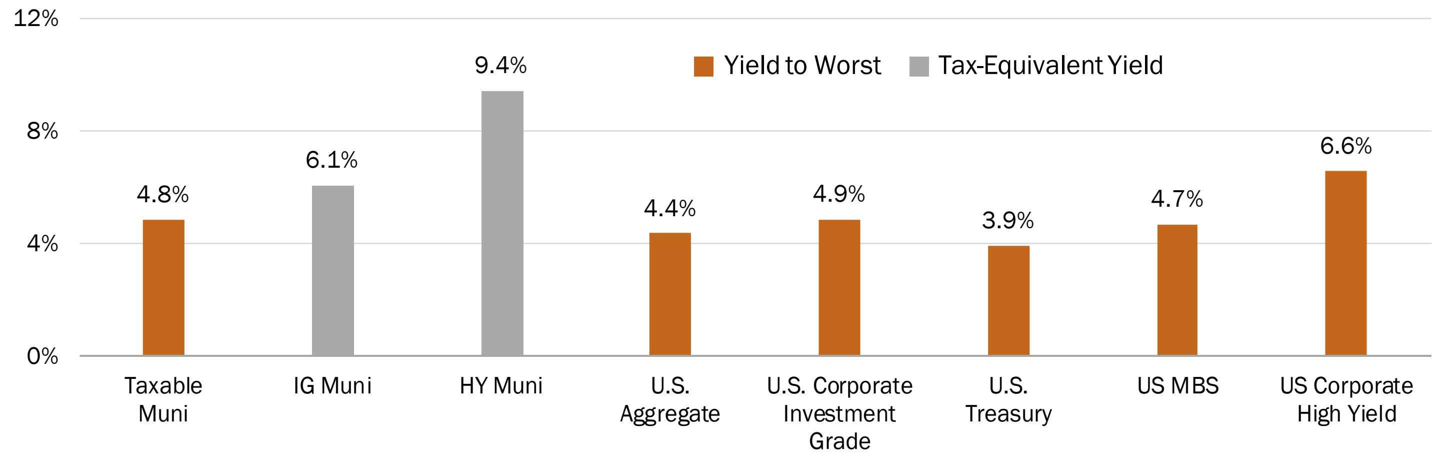
Questions from the Field

Q Was 2025 A Strong Year for Muni Product Creation?

A A good way to look at the pace and depth of new product creation for municipals is using the ETF (Exchange traded Funds) market as a litmus test. Currently, there are 157 municipal bond/tax-free focused ETFs. However, of that 157, 35 were created/have an inception date in 2025. That means that almost 23% of all muni ETFs were created in just the past year, alone. Digging deeper into the data, the real story is whether the momentum in product creation is focused around active or passive. Out of the 157 ETFs, 106 are actively managed, according to data from Bloomberg. In 2025, 24 out of the 35 ETFs that were created are actively managed, meaning that almost 70% of all new ETF products are active vs passively managed. This is a large tone shift compared to prior years new ETF launch paces.[3]

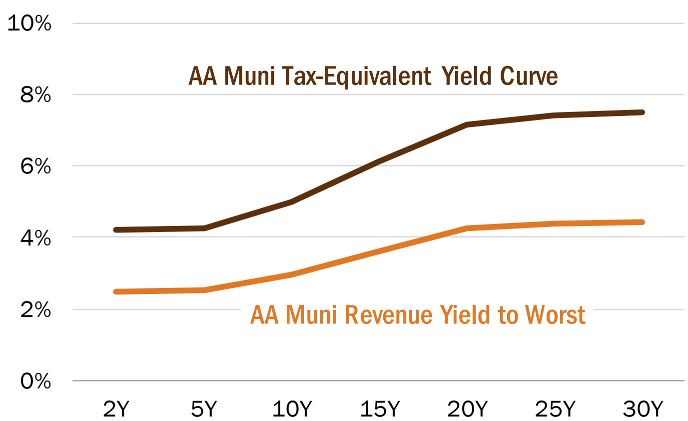
2. Roll-down refers to the capital gain an investor earns as a bond's yield decreases and its price increases simply by the passage of time, assuming the yield curve stays the same, because investors demand less yield (and pay more) for shorter-term bonds
3. Source: Bloomberg

INDEX YIELDS



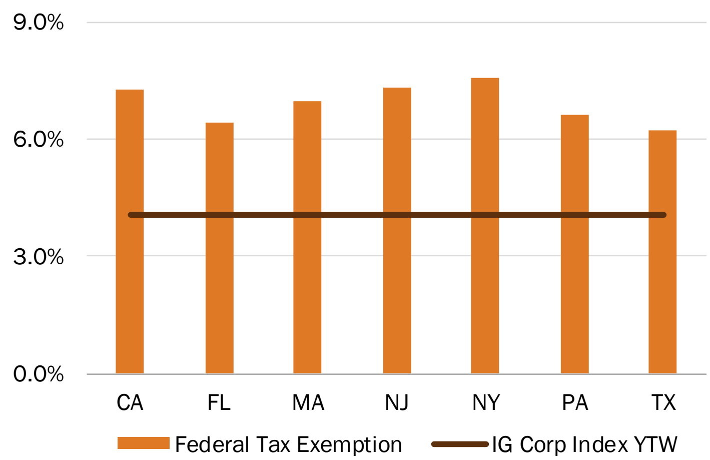
Data as of January 2, 2026.
1. Tax Equivalent Yield is using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE



Data as of January 2, 2026.
Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

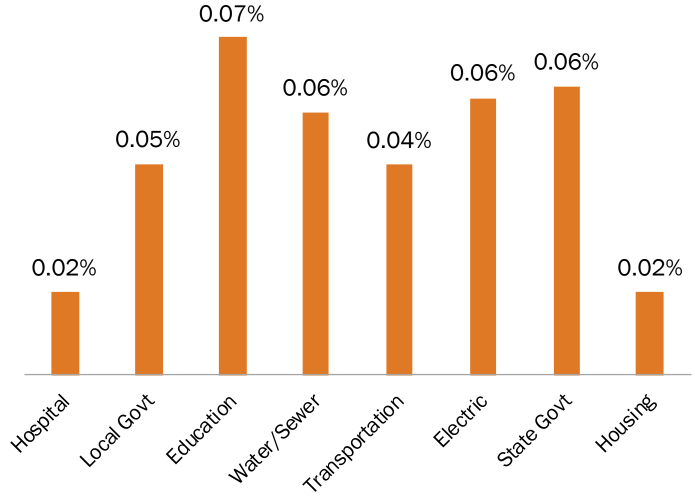
IN-STATE MUNI TAX-EQUIVALENT YTW



Data as of January 2, 2026.
Using 40.8% federal tax rate, including 3.8% Net Investment Income Tax.
Source: Bloomberg

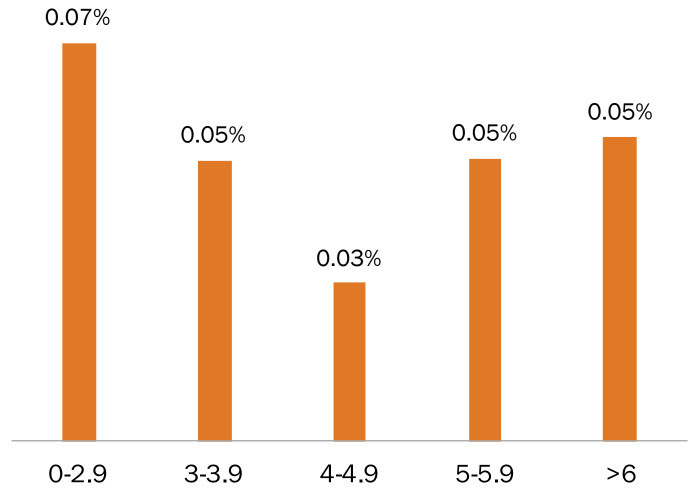
AUTHOR: ERIC KAZATSKY, CLIENT PORTFOLIO MANAGER

YTD TOTAL RETURNS BY SECTOR



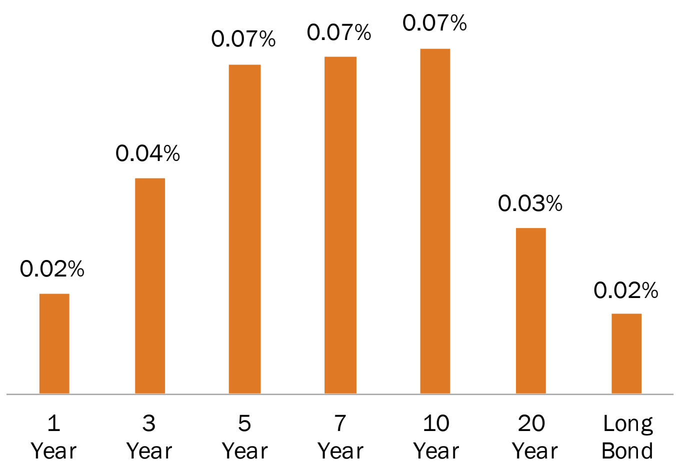
Data as of January 2, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



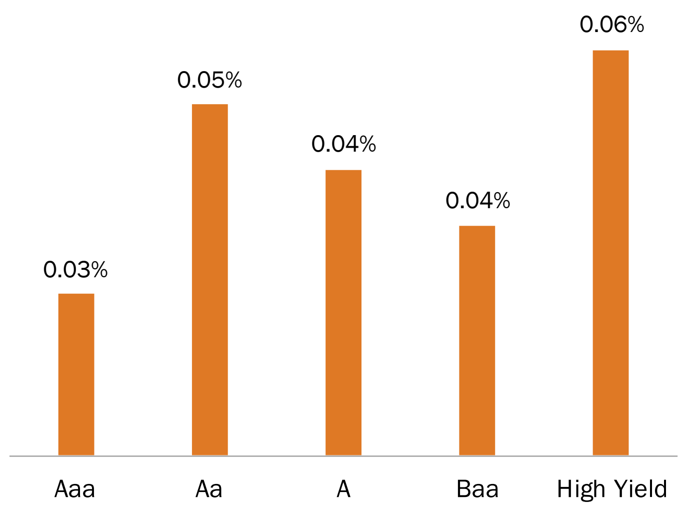
Data as of January 2, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



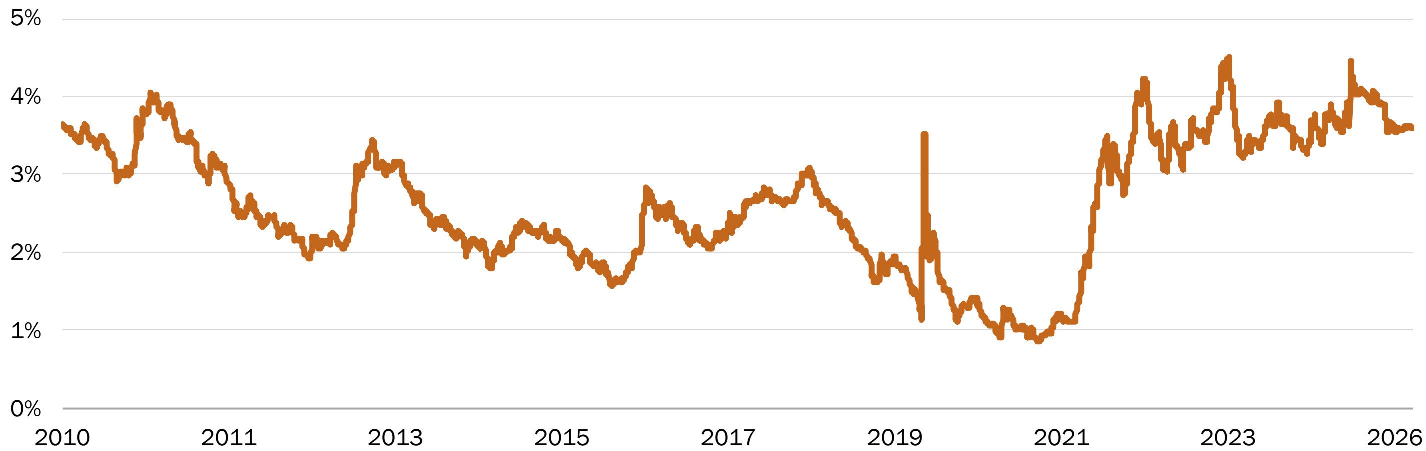
Data as of January 2, 2026.
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of January 2, 2026.
Source: Bloomberg

BLOOMBERG MUNICIPAL YIELD-TO-WORST



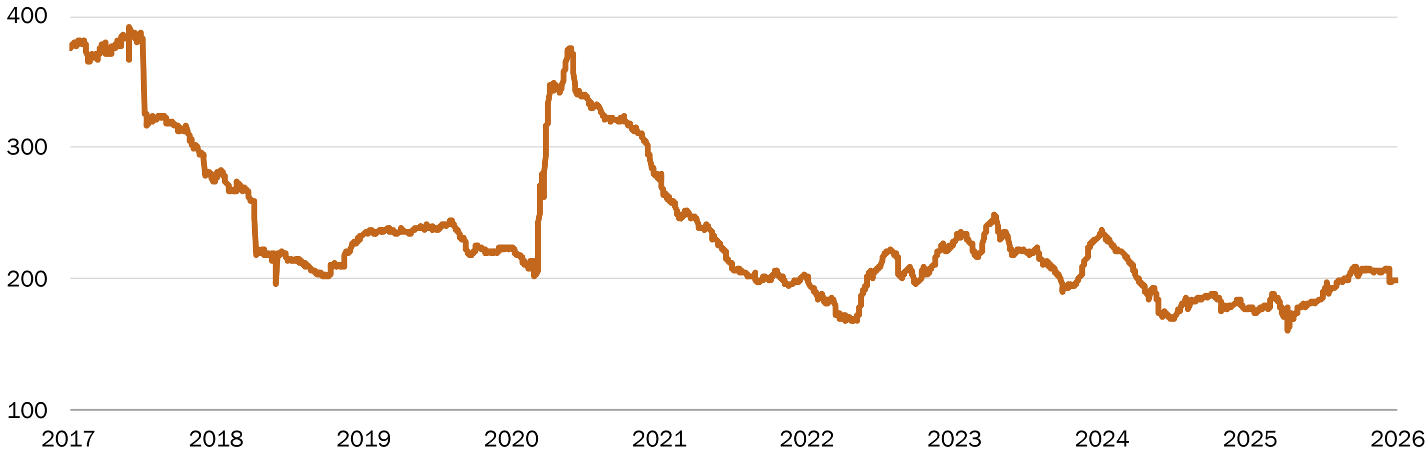
Data as of January 2, 2026.
"Post GFC Average" measures the period from 1/1/2010 – 1/2/2026
Source: Bloomberg

MUNI YIELDS

Tenor	1/2/2026	12/26/2025	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.43%	2.44%	-0.01%
5 YEAR	2.38%	2.39%	-0.01%
10 YEAR	2.72%	2.73%	-0.01%
30 YEAR	4.19%	4.19%	0.00%
US TREASURY RATE YIELDS			
2 YEAR	3.47%	3.46%	0.01%
5 YEAR	3.74%	3.68%	0.06%
10 YEAR	4.19%	4.14%	0.05%
30 YEAR	4.86%	4.81%	0.05%
US TREASURY & AAA MUNI CURVE SLOPES[1]			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 72 bps	+ 67 bps	+ 139 bps
AAA MUNI CURVE SLOPE	+ 29 bps	+ 147 bps	+ 176 bps

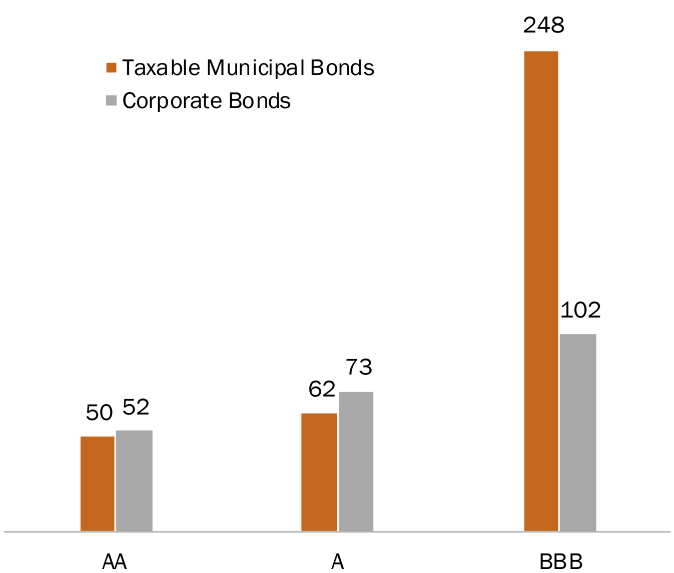
Data as of January 2, 2026.
1. 2s10s – is spread between 10yr and 2yr yield; 10s30s – refers to spread between 30yr and 10yr yield; 2s30s – refers to spread between 30yr and 2yr yield
Source: Bloomberg

BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



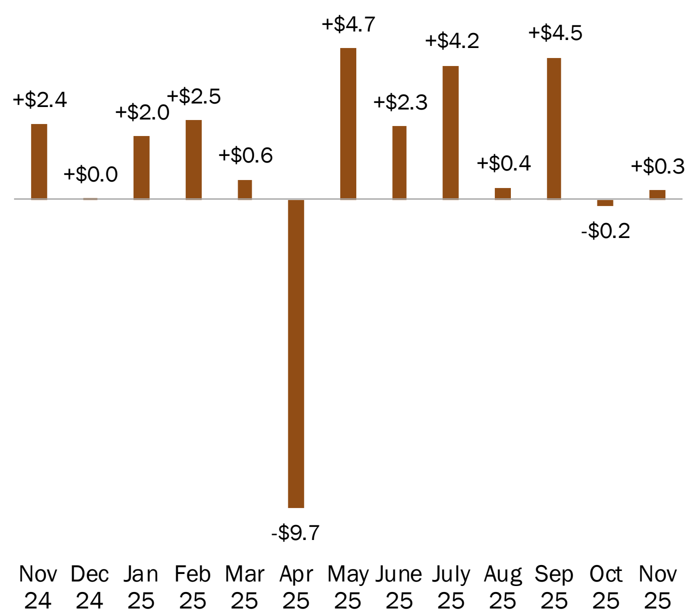
Data as of January 2, 2026.
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of January 2, 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 2, 2026.
Source: Bloomberg

DISCLOSURES

Availability of this document and products and services provided by MacKay Shields LLC may be limited by applicable laws and regulations in certain jurisdictions and this document is provided only for persons to whom this document and the products and services of MacKay Shields LLC may otherwise lawfully be issued or made available. None of the products and services provided by MacKay Shields LLC are offered to any person in any jurisdiction where such offering would be contrary to local law or regulation. It does not constitute investment advice and should not be construed as an offer to buy securities. The contents of this document have not been reviewed by any regulatory authority in any jurisdiction. This material contains the opinions of the MacKay Municipal Managers™ team of MacKay Shields LLC but not necessarily those of MacKay Shields LLC. The opinions expressed herein are subject to change without notice. This material is distributed for informational purposes only. Forecasts, estimates, and opinions contained herein should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Any forward-looking statements speak only as of the date they are made and MacKay Shields assumes no duty and does not undertake to update forward-looking statements. No part of this document may be reproduced in any form, or referred to in any other publication, without express written permission of MacKay Shields LLC.

MacKay Shields LLC does not offer or sponsor any funds registered under the Investment Company Act of 1940, as amended ("Registered Funds"). MacKay Shields LLC serves in the capacity as investment manager of certain Registered Funds through sub-advisory arrangements.

MacKay Municipal Managers is a trademark of MacKay Shields LLC.

MacKay Shields LLC is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company. "New York Life Investments" is both a service mark, and the common trade name of certain investment advisers affiliated with New York Life Insurance Company. Investments are not guaranteed by New York Life Insurance Company or New York Life Investments.

It is not possible to invest directly in an index. Past performance is not indicative of future results.

NOTE TO UK AND EUROPEAN UNION INVESTORS

This document is intended only for the use of professional investors as defined in the Alternative Investment Fund Manager's Directive and/or the UK Financial Conduct Authority's Conduct of Business Sourcebook. To the extent this document has been issued in the United Kingdom, it has been issued by NYL Investments UK LLP, 200 Aldersgate Street, London UK EC1A 4HD, which is authorised and regulated by the UK Financial Conduct Authority. To the extent this document has been issued in the EEA, it has been issued by NYL Investments Europe Limited, 77 Sir John Rogerson's Quay, Block C Dublin D02 VK60 Ireland. NYL Investments Europe Limited is authorized and regulated by the Central Bank of Ireland (i) to act as an alternative investment fund manager of alternative investment funds under the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) and (ii) to provide the services of individual portfolio management, investment advice and the receipt and transmission of orders as defined in Regulation 7(4) of the AIFMD Regulations to persons who meet the definition of "professional client" as set out in the MiFID Regulations. It has passported its license in additional countries in the EEA.

This document only describes capabilities of certain affiliates of New York Life Investments and/or MacKay Shields LLC. No such affiliates will accept subscriptions in any funds not admitted to marketing in your country or provide services to potential customers in your country, including discretionary asset management services, except where it is licensed to do so or can rely on an applicable exemption.

MacKay Shields LLC is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company. "New York Life Investments" is both a service mark, and the common trade name of certain investment advisers affiliated with New York Life Insurance Company. Investments are not guaranteed by New York Life Insurance Company or New York Life Investments.

NOTE TO CANADIAN RECIPIENTS

The information in these materials is not an offer to sell securities or a solicitation of an offer to buy securities in any jurisdiction of Canada. In Canada, any offer or sale of securities or the provision of any advisory or investment fund manager services will be made only in accordance with applicable Canadian securities laws. More specifically, any offer or sale of securities will be made in accordance with applicable exemptions to dealer and investment fund manager registration requirements, as well as under an exemption from the requirement to file a prospectus, and any advice given on securities will be made in reliance on applicable exemptions to adviser registration requirements.

NOTE TO JAPANESE RECIPIENTS

This is issued by New York Life Investment Management Asia Limited (Financial Instruments Business Operator, Kanto Local Finance Bureau (FIBO) No. 2964, Member of Japan Investment Advisers Association and Type 2 Financial Instruments Firms Association) for institutional investors only. As costs and/or fees to be borne by investors vary depending on circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance. All investments involve risks, including market fluctuation and investors may lose the principal amount invested. Investors should obtain and read the prospectus and/or information set forth in Article 37-3 of the Financial Instruments and Exchange Act carefully before making investment decisions

COMPARISONS TO AN INDEX

Comparisons to a financial index are provided for illustrative purposes only. Comparisons to an index are subject to limitations because portfolio holdings, volatility and other portfolio characteristics may differ materially from the index. Unlike an index, portfolios within the composite are actively managed and may also include derivatives. There is no guarantee that any of the securities in an index are contained in any managed portfolio. The performance of an index may assume reinvestment of dividends and income, or follow other index-specific methodologies and criteria, but does not reflect the impact of fees, applicable taxes or trading costs which, unlike an index, may reduce the returns of a managed portfolio. Investors cannot invest in an index. Because of these differences, the performance of an index should not be relied upon as an accurate measure of comparison.

SOURCE INFORMATION

"Bloomberg®", "Bloomberg Indices®", Bloomberg Fixed Income Indices, Bloomberg Equity Indices and all other Bloomberg indices referenced herein are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by MacKay Shields LLC ("MacKay Shields"). Bloomberg is not affiliated with MacKay Shields, and Bloomberg does not approve, endorse, review, or recommend MacKay Shields or any products, funds or services described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to MacKay Shields or any products, funds or services described herein.

All ICE Data indices referenced herein (each such index, the "Index"), are products of ICE data indices, LLC ("ICE Data"), and are used with permission. ICE® is a registered trademark of ICE Data or its affiliates, and BofA® is a registered trademark of Bank of America Corporation licensed by Bank of America Corporation and its affiliates ("BofA") and may not be used without BofA's prior written approval. ICE Data, its affiliates and their respective third party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ICE Data, its affiliates nor their respective third party suppliers shall be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and your use is at your own risk. Inclusion of a security within an index is not a recommendation by ICE Data to buy, sell, or hold such security, nor is it considered to be investment advice. ICE Data, its affiliates and their respective third party suppliers do not sponsor, endorse, or recommend MacKay Shields LLC, or any of its products or services.

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.