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Despite Tighter Spreads, Credit Gems Exist

- Munis outperform amid government reopening
- Rolling down the credit curve to end the year
- Differentiating high yield munis from high yield corporates

Relative Performance

Municipals outperformed this past week, richening across the curve as Treasury yields moved higher. AAA BVAL yields declined modestly, with moves ranging from -0.7 bps on the 2-year to -1.4 bps on the 30-year, while Treasuries sold off, with yields rising 3.14 bps on the 2-year and 1.37 bps on the 30-year. This divergence tightened absolute yields for municipals and widened the gap versus Treasuries, reinforcing muni strength on a relative basis.

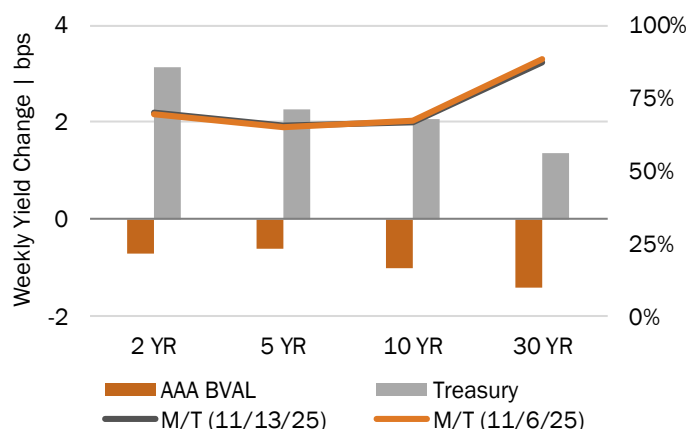
The muni-to-Treasury ratios reflected this trend, tightening across all maturities. The 10-year ratio now sits at 66.06%, down from 66.92%, while the 30-year ratio dropped nearly a full point to 86.86%, signaling stronger technicals and investor confidence in municipals. Shorter maturities saw similar movement, with the 2-year ratio at 69.11%, underscoring reinvestment demand at the front end.¹

The resolution of the U.S. government shutdown removed a key source of uncertainty from markets, but the Treasury sell-off suggests investors are recalibrating expectations around fiscal policy and supply dynamics. While municipals were largely insulated from direct shutdown risk, the improved macro tone and seasonal reinvestment flows helped munis richen even as Treasuries faced upward pressure on yields.

Technicals

Credit spreads continue to highlight where investors can extract value. At current levels, AA-rated municipals trade near 81 bps, A-rated at 105 bps, and Baa around 150 bps¹. That means moving down the credit ladder offers meaningful incremental yield:

FIGURE 1: MUNIS OUTPERFORM



Data as of November 13, 2025. Spot Muni, Spot AA rates
Source: Bloomberg

- AA → A: About 24 bps of additional spread. This step introduces modest credit risk but remains firmly investment grade, making it an attractive option for accounts looking to enhance income without materially changing risk posture.
- A → Baa: Roughly 57 bps of pickup. This is where the value proposition becomes compelling. For investors willing to do the credit work, Baa-rated paper offers a significant yield advantage without crossing into high-yield territory.

Put differently, moving from AA to Baa nets nearly 81 bps of incremental spread—an opportunity that stands out when you consider the risk profile. Over a 10-year horizon, cumulative municipal default rates remain exceptionally low:

AA	A	Baa
~0.01%	~0.01%	~0.48

1. Source: Bloomberg

Compare that to global corporates, where Baa defaults average 3.52% over the same period². Municipals offer a fraction of the risk for a meaningful pickup in yield.

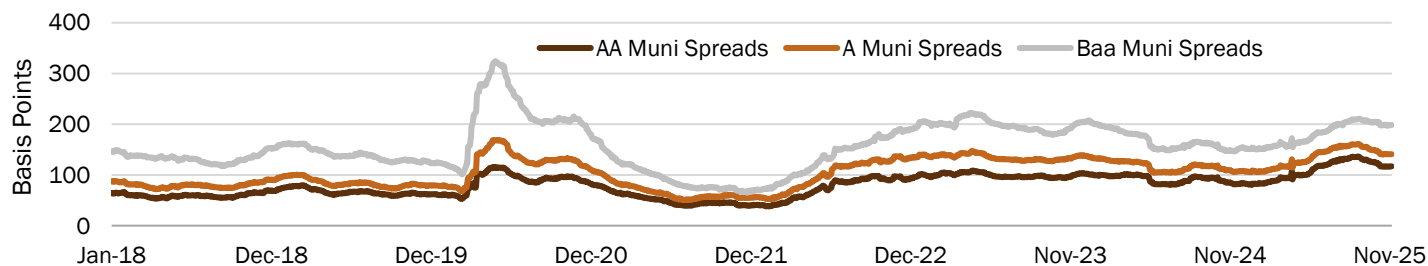
REINVESTMENT TAILWINDS

According to Bloomberg, \$42 billion of municipal bonds mature in November, with roughly \$20 billion concentrated in the AA/A space. That's a significant amount of reinvestable cash looking for a home. For investors sitting on proceeds from higher-quality paper, this is an opportune moment to reassess credit allocation. Rather than simply rolling into similar AA or A

bonds at historically tight spreads, the potential opportunity to consider a move down the curve into Baa-rated municipal credits where spreads remain near long-term averages and offer a substantial yield advantage.

We believe the macro backdrop supports this strategy. With the government shutdown resolved and technicals strong, reinvestment flows should continue to underpin demand. Issuance remains light, and credit fundamentals are solid, potentially creating a favorable environment for selective risk-taking.

FIGURE 2: SPREADS PER RATINGS BUCKET



Data as of November 17, 2025

Source: Bloomberg

Questions from the Field

Q When I hear the term high yield munis, I think of very high risk. Are they very similar to non-rated corporates?

A High yield municipals combine tax efficiency, income potential, and risk-adjusted stability, making them a smart choice for investors seeking enhanced returns without excessive credit risk, and we highlight several key points differentiating them from “high yield corporates”

ATTRACTIVE TAX-ADVANTAGED INCOME: High yield municipal bonds deliver compelling after-tax yields, often surpassing taxable alternatives—especially for investors in higher tax brackets. Tax-equivalent yields can make municipals a superior income solution.

LOWER DEFAULT RISK: Historically, municipal bonds—even in the high yield segment—have exhibited significantly lower default rates than similarly rated corporate bonds.³ This means higher income without proportionally higher credit risk.

CREDIT QUALITY STABILITY: Municipal credits tend to experience less rating volatility and more stability than corporate bonds, supported by essential service revenues and tax-backed structures.⁴

DIVERSIFICATION BENEFITS: High yield municipals have low correlation to equities and taxable fixed income², helping reduce overall portfolio volatility and improve risk-adjusted returns.

CONSISTENT PERFORMANCE TRACK RECORD: Since 2010, high yield municipals have produced positive returns with an average tax adjusted return of 5.36%, besting high yield corporates, which provided a 2.49% tax adjusted return over the same period.⁵

WHY NOW? AN ATTRACTIVE ENTRY POINT: Muni High Yield spreads are currently wider than Corporate High Yield spreads. Historically, periods of underperformance vs corporates have often been followed by mean reversion and improved returns as market flows normalize, something we anticipate will happen, once again.

2. Source: Bloomberg

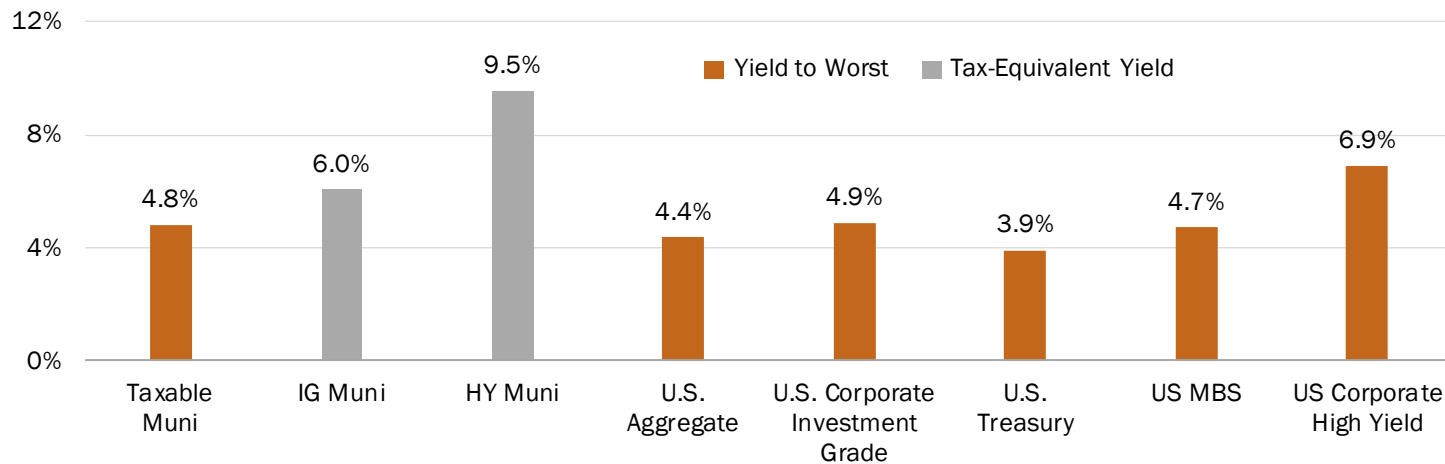
3. Source: Moody's Investors Service

4. Source: S&P ratings and Bloomberg

5. Source: Bloomberg, Time Period Covers Jan 1, 2010 to September 30, 2025

Municipal Bonds: High Yield Municipal: Bloomberg Muni High Yield ; U.S. Corporate High Yield: Bloomberg U.S. High Yield. It is not possible to invest directly into an index. The after-tax returns are calculated using the marginal personal income tax rate which represents the federal tax rate of 37%, plus 3.8% medical tax surcharge.

INDEX YIELDS

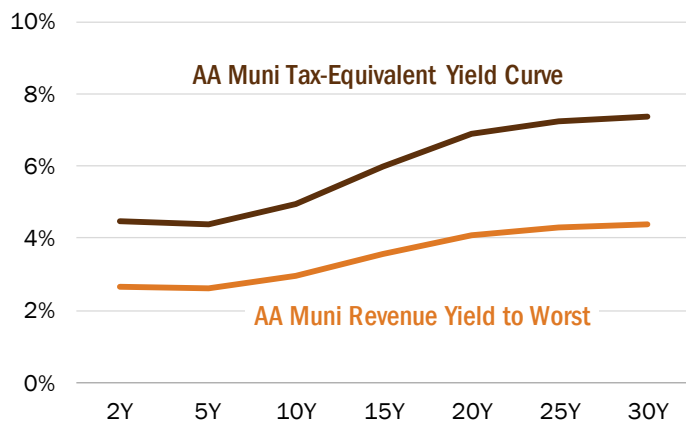


Data as of November 14, 2025.

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

Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE

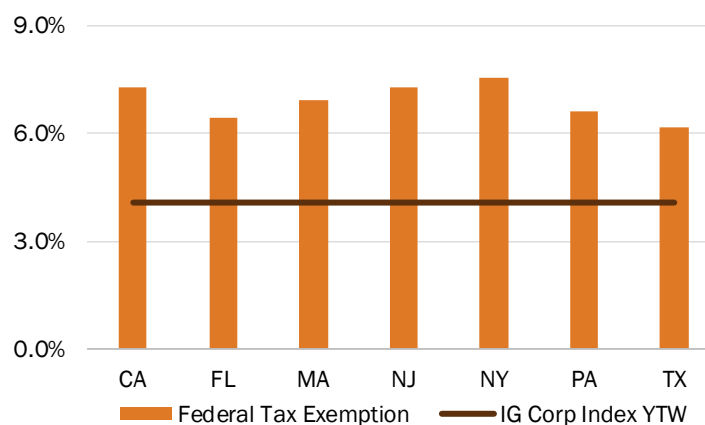


Data as of November 14, 2025.

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

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW

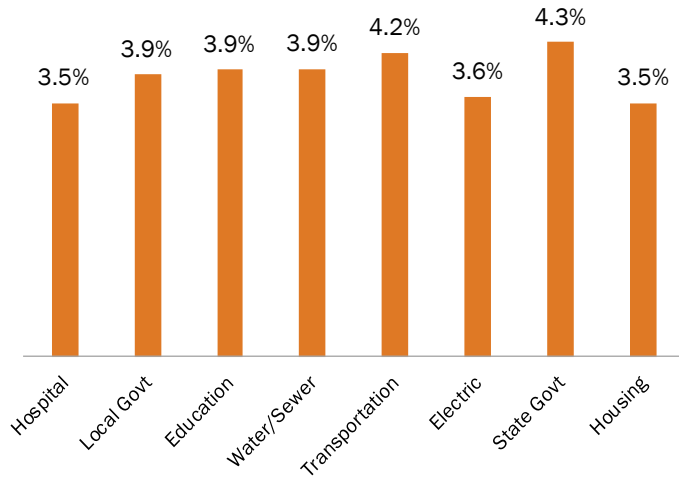


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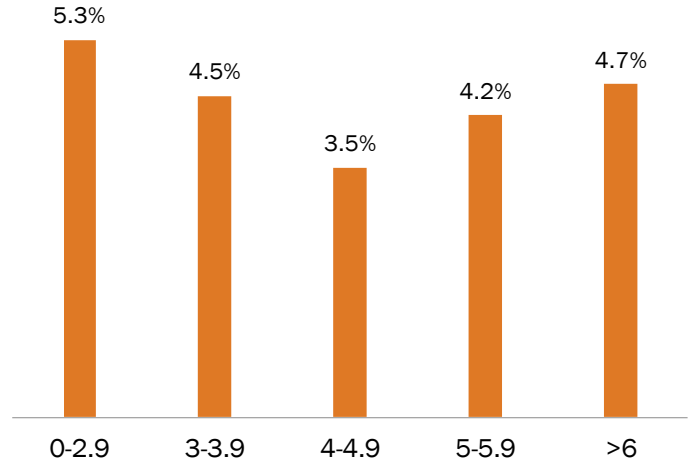
Source: Bloomberg

YTD TOTAL RETURNS BY SECTOR



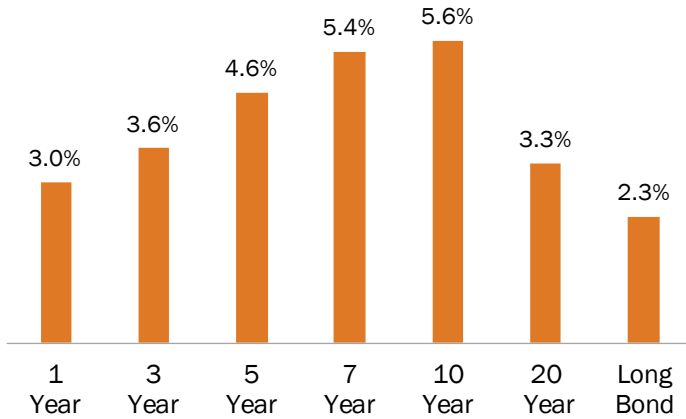
Data as of November 14, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



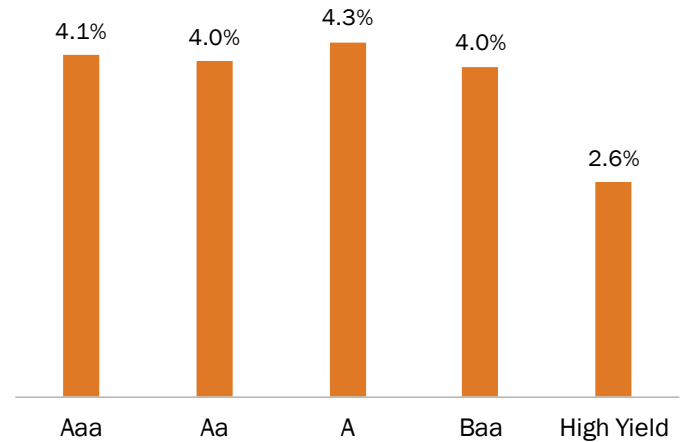
Data as of November 14, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



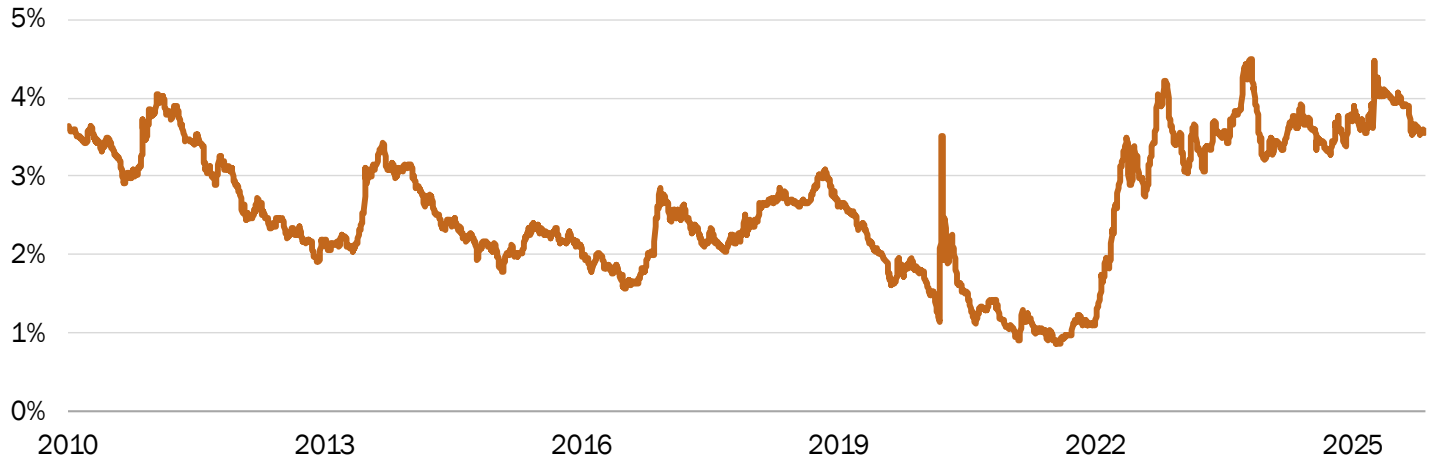
Data as of November 14, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of November 14, 2025.
Source: Bloomberg

BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of November 13, 2025.

"Post GFC Average" measures the period from 1/1/2010 – 7/4/2025

Source: Bloomberg

MUNI YIELDS

Tenor	11/6/2025	11/13/2025	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.49%	2.49%	-0.01%
5 YEAR	2.40%	2.40%	-0.01%
10 YEAR	2.73%	2.72%	-0.01%
30 YEAR	4.11%	4.10%	-0.01%
US TREASURY RATE YIELDS			
2 YEAR	3.57%	3.58%	0.01%
5 YEAR	3.69%	3.71%	0.02%
10 YEAR	4.11%	4.11%	0.00%
30 YEAR	4.69%	4.70%	0.01%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 53 bps	+ 59 bps	+ 112 bps
AAA MUNI CURVE SLOPE	+ 24 bps	+ 137 bps	+ 161 bps

Data as of November 13, 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

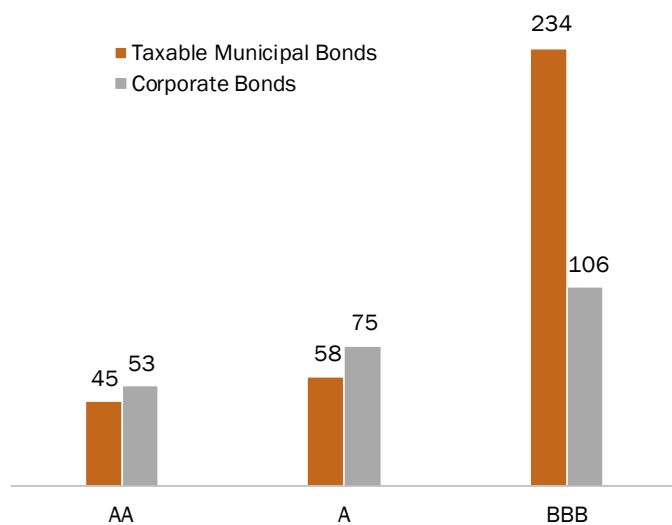
BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of November 13, 2025.

Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS

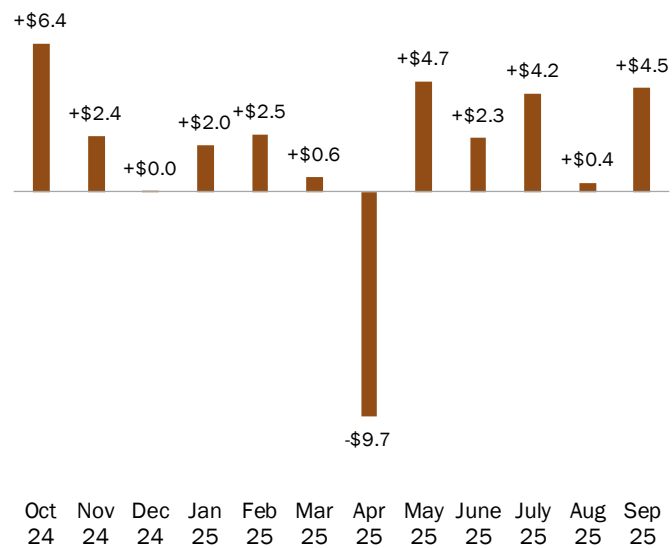


Data as of November 13, 2025.

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 13, 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.