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No Free Lunches, But Muni Snacks Do Exist

- Muni performance takes a step backwards
- Wading into active waters for alpha snacks
- Keeping watchful eye on post tax bill credit landscape

Relative Performance

After a strong run in tax-exempt markets, the rally appears to be losing steam as September draws to a close. The good news: even with a modest reversal in rates over recent sessions, this month is still on track to deliver one of the strongest returns since 2009, when the Bloomberg Muni Index posted a 3.59% gain.

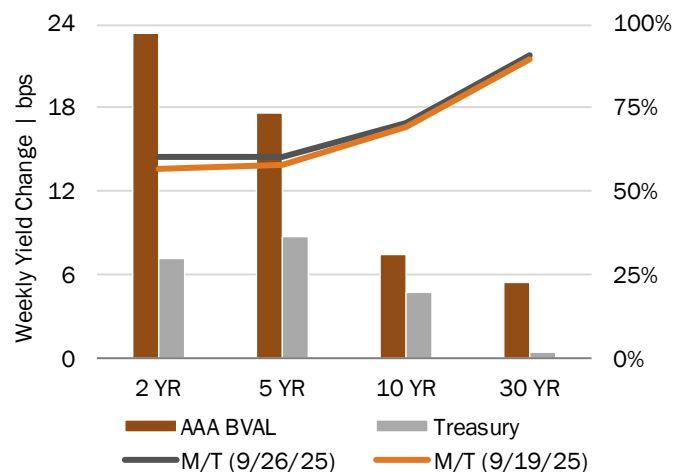
While on the road meeting with clients this week, we received many questions about municipal total returns. Our focus was on the long end of the curve, where performance has been notably strong. The Bloomberg Long Muni Index (LM22TR) has returned 4.10% month-to-date, compared to just 0.24% for the front end (LM01TR).

Importantly, municipals are now outperforming taxable counterparts on a tax-adjusted basis. With durations aligned around six years, the Bloomberg US Aggregate Index (LBUSTR) has returned 6.06% year-to-date, versus 4.05% for the Bloomberg Muni 10 Year Index (LM10TR). After adjusting the US Agg for the top federal tax rate of 40.8%, its return drops to 3.58%—giving municipals a clear advantage for high-net-worth investors.

Market Technicals

In fixed income, there's rarely a free lunch—but AMT bonds¹ may offer a compelling “snack.” Since the 2017 tax reform, the number of filers subject to the alternative minimum tax has dropped from nearly 5 million to just 200,000.² While AMT bonds still carry a yield penalty, they have historically

FIGURE 1: MUNIS OUTPERFORMED TREASURIES ACROSS THE CURVE



Data as of September 26, 2025. Spot Muni, Spot AA rates
Source: Bloomberg

outperformed. (see Figure 2 on next page) While this year, AMT and non-AMT bonds are neck in neck in returns, we continue to believe the AMT exposed bonds, offer attractive relative value for investors unconstrained by AMT exposure.

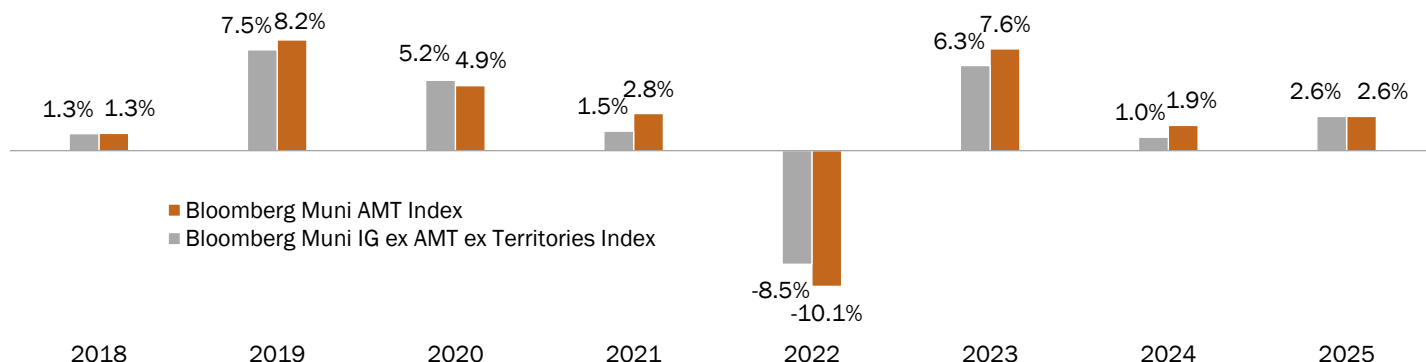
AMT Bonds: A Window Reopens

For years, investor hesitation around AMT bonds was rooted in one word: uncertainty. The 2017 tax reform, while expansive, came with a sunset clause that threatened to reinstate pre2018 AMT rules by the end of 2025. That looming possibility kept many investors sidelined.-

1. AMT Bonds = Alternative Minimum Tax Bonds - certain municipal bonds where the interest is not fully tax-free. Instead, the interest counts toward your income if you're subject to AMT.

2. Source: <https://www.bankrate.com/taxes/alternative-minimum-tax/>

FIGURE 2: AMT VS NON-AMT RETURNS



Data as of September 25, 2025

Source: Bloomberg

Fast forward to today, and the fog has lifted. The newly enacted One Big Beautiful Bill Act extends key provisions of the 2017 tax cuts—this time, without a sunset clause. That includes the narrowed scope of the AMT. While some tweaks to the code may modestly expand the AMT filer base, the overall footprint remains well below pre-reform levels.

From a market perspective, the tax overhang has largely dissipated. Yet, pricing hasn't caught up. (See Figure 3 below) That disconnect creates a tactical opportunity for investors willing to revisit AMT exposure—assuming they've confirmed their tax posture with a qualified advisor.

In short: the policy risk has shifted, but the market hasn't fully priced it in. That's where the edge lies.

Snack Time in Muniland

Despite fading tax concerns, AMT bonds continue to trade at a meaningful discount. One way to quantify the opportunity is through spread pickup. Using yield-to-worst data:

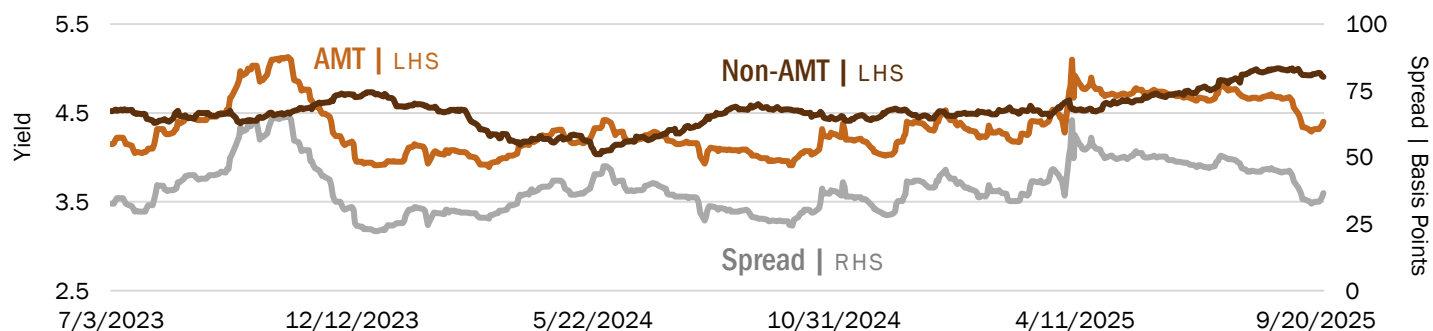
- Bloomberg AMT Muni Index (I00043US) offers +50 bps over the Bloomberg A Index (LMA1TR).
- The spread widens to +88 bps over the Bloomberg AA Index (LMA2TR).

Both are several standard deviations above long-term averages.

So why does this dislocation persist? It's structural. Sectors like airports—frequent AMT issuers—continue to tap the market. Meanwhile, passive ETF complexes and some SMAs benchmarked to AMT-free indices systematically avoid these bonds. That leaves a gap.

For active managers, this is a classic case of mispriced risk. The tax overhang is gone. The spreads remain. The opportunity is real.

FIGURE 3: AMT VS NON-AMT YIELD/SPREADS



Data as of September 25, 2025

Source: Bloomberg

Questions from the Field

Q Are you concerned about the state of muni credit if the economy slows?

A If—and it's still a big if—the economy slips into recession, we believe municipals should once again prove their value as a haven asset class. During the GFC, munis held up well relative to corporates, and we expect similar behavior if cracks emerge in credit markets.

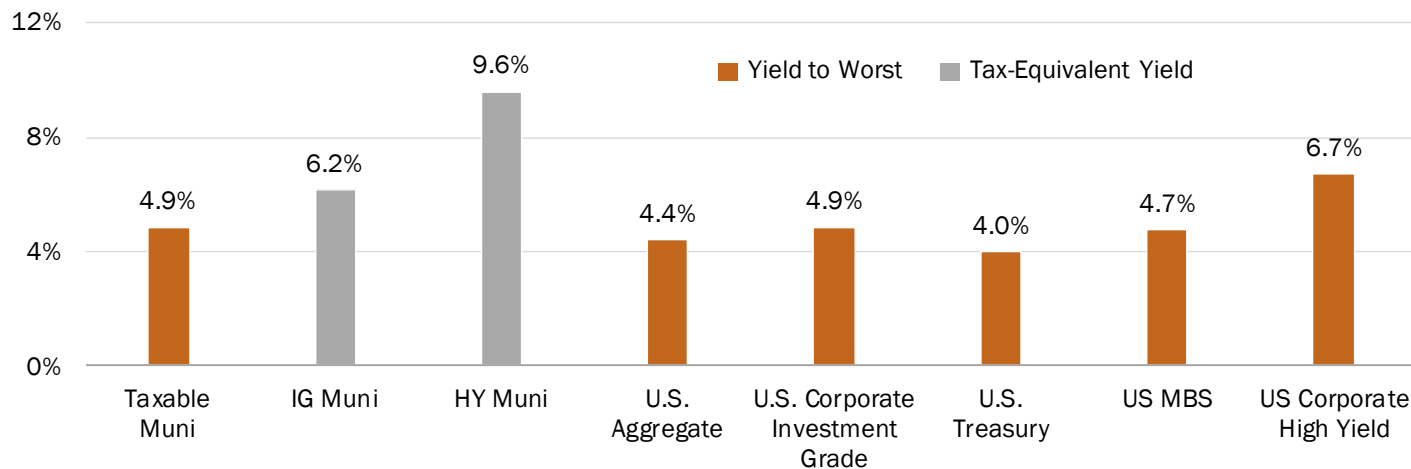
Historically, munis have outperformed in Fed easing cycles, with Muni/Treasury ratios tightening each time. We see no reason this cycle should be different.

We remain constructive on the muni market overall but acknowledge stress in sectors touched by the One Big Beautiful Bill—notably healthcare and higher education.

- **HEALTHCARE:** Rural and single-site hospitals may feel Medicaid reductions faster than multi-state systems or university-affiliated networks.
- **HIGHER ED:** The sector faces demographic headwinds and a post-pandemic rethink of the traditional 4-year model. Smaller liberal arts schools with thin funding and declining enrollment are potentially more vulnerable in a downturn.

Bottom line: It is our view that munis offer relative safety and diversification, but sector selection will matter more than ever.

INDEX YIELDS

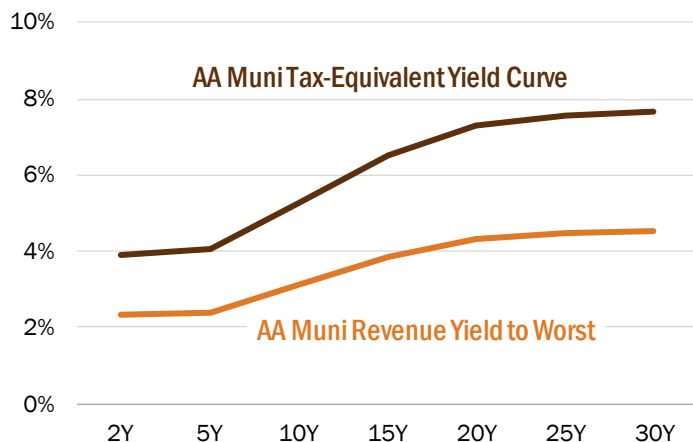


Data as of September 25, 2025.

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

Source: Bloomberg

AAA MUNI TAX-EQUIVALENT YIELD CURVE

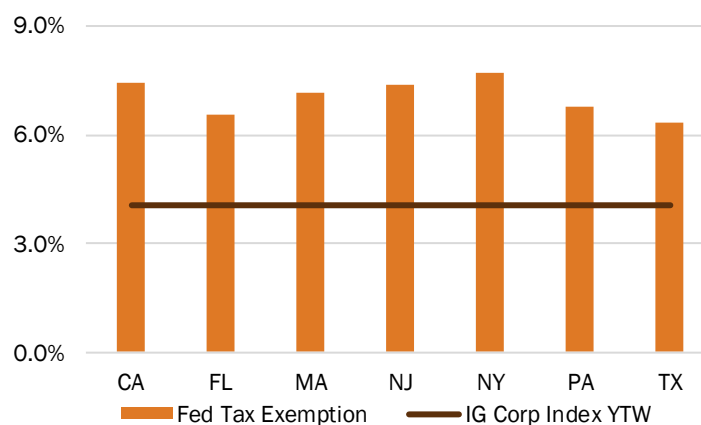


Data as of September 25, 2025.

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

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW

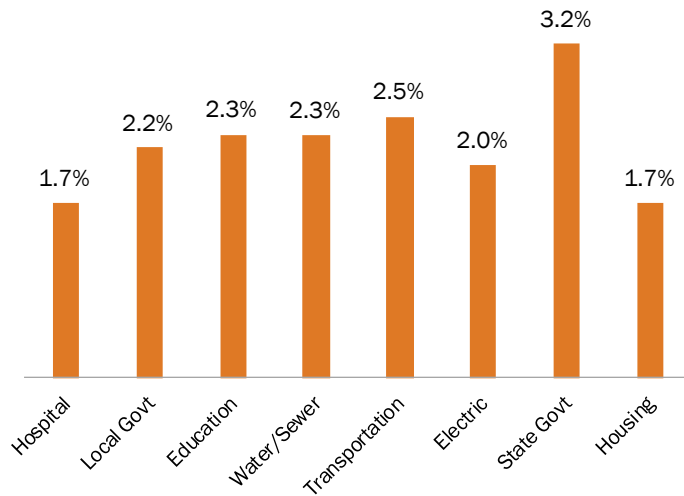


Data as of September 25, 2025.

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

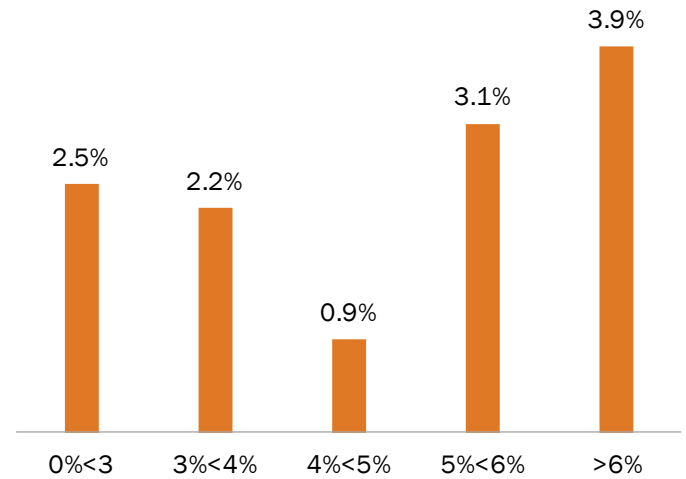
Source: Bloomberg

YTD TOTAL RETURNS BY SECTOR



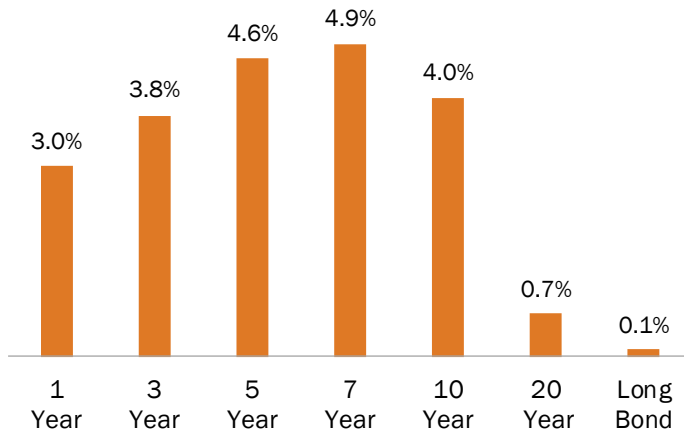
Data as of September 25, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



Data as of September 25, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



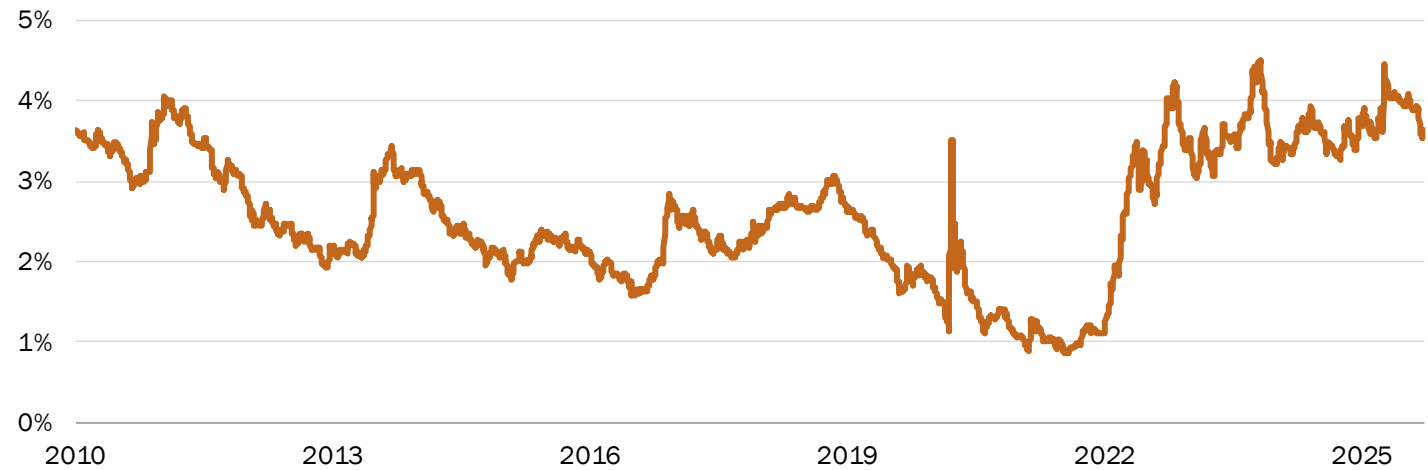
Data as of September 25, 2025.
Source: Bloomberg

YTD TOTAL RETURNS BY RATING CATEGORY



Data as of September 25, 2025.
Source: Bloomberg

BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of September 25, 2025.

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

Source: Bloomberg

MUNI YIELDS

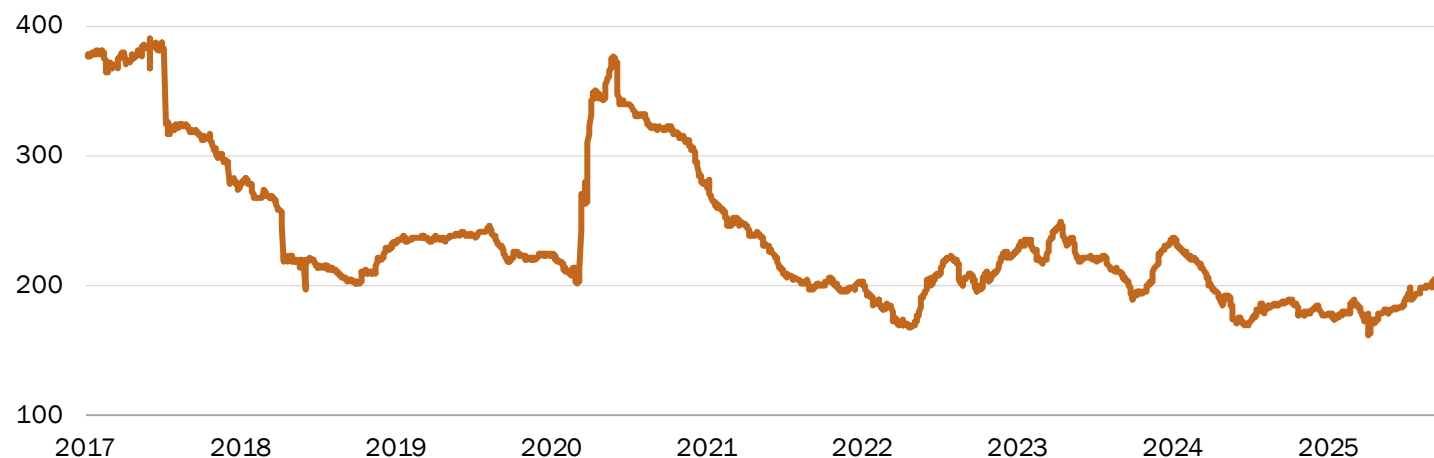
Tenor	9/18/2025	9/25/2025	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.02%	2.20%	0.18%
5 YEAR	2.13%	2.27%	0.14%
10 YEAR	2.85%	2.92%	0.07%
30 YEAR	4.24%	4.30%	0.07%
US TREASURY RATE YIELDS			
2 YEAR	3.57%	3.64%	0.07%
5 YEAR	3.67%	3.75%	0.08%
10 YEAR	4.11%	4.18%	0.07%
30 YEAR	4.72%	4.75%	0.03%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 54 bps	+ 57 bps	111 bps
AAA MUNI CURVE SLOPE	+ 73 bps	+ 138 bps	211 bps

Data as of September 25, 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

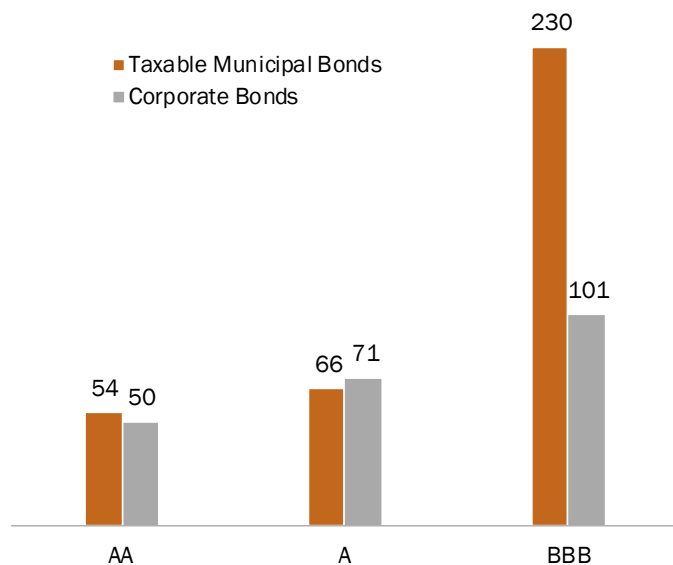
BLOOMBERG MUNICIPAL HIGH YIELD | AAA YIELD DIFFERENTIAL



Data as of September 25, 2025.

Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS

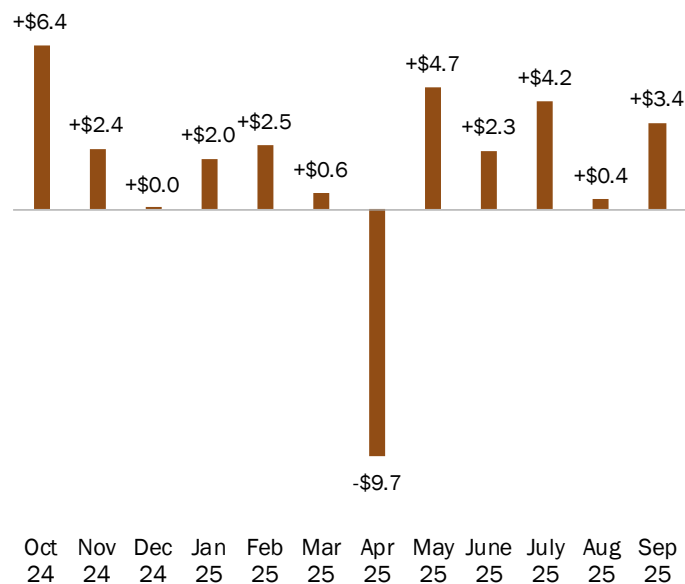


Data as of September 25, 2025.

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 September 25, 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.