

Use Case for Municipals Being Proven in Private Credit Cracks

KEY TAKEAWAYS

- Broader rates weaken, munis hold on
- Munis show resilience in diverging credit market
- Municipals are a far cry from private credit

Relative Performance

MUNI VS. TREASURY RELATIVE PERFORMANCE

Rates backed up meaningfully last week as macro repricing drove a broad selloff across fixed income. AAA BVAL yields rose 13 bps in 2s, 16 bps in 5s, and 17 bps in 10s, with the long end up roughly 15 bps. Treasuries moved more aggressively, selling off 18–23 bps across the front and intermediate curve and roughly 15 bps in 30s.¹

The move was largely macro-driven. Stronger-than-expected economic data, combined with a reset in Fed rate-cut expectations, pushed Treasury yields higher as markets began pricing a “higher-for-longer” policy path. At the same time, fading risk-off flows tied to recent geopolitical headlines removed some of the safe-haven bid that had supported Treasuries in prior weeks.

The 2-year muni-to-Treasury ratio rose 0.7 points to 60.70%, the 5-year ratio increased to 60.45%, and the 10-year ratio widened 1.2 points to 64.43%. The 30-year ratio edged higher to 89.34%.¹

After several weeks of richening, the backup in ratios begins to reintroduce relative value – particularly in the 5–10 year portion of the curve, where we believe carry and roll-down dynamics remain attractive. Importantly, this was not muni-specific weakness; tax-exempts simply moved less than Treasuries during a macro-driven duration repricing.

Market Technicals

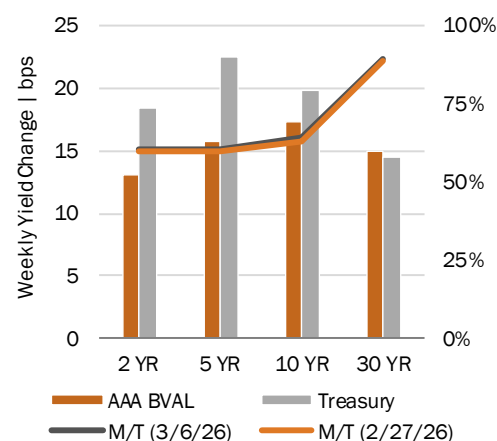
Relative to U.S. corporate spreads, taxable municipal credit spreads have remained notably more resilient this cycle, underscoring the distinct risk buckets that exist across fixed income markets. While corporate credit has exhibited more pronounced spread volatility amid macro uncertainty, municipals—particularly in the taxable segment—have demonstrated steadier performance. This divergence reinforces the structural and fundamental differences between public finance credit and traditional corporate balance sheet risk.

FIGURE 1: INDEX PERFORMANCE

	MTD	YTD	2025
Muni Bond 5-Year	-0.51%	1.29%	5.03%
Muni Bond 10-Year	-0.94%	1.41%	5.92%
Muni Bond 15-Year	-0.99%	1.64%	5.31%
Muni Long Bond	-0.91%	1.25%	1.95%
Muni Managed Money	-0.95%	1.37%	3.94%

Data as of March 6, 2026.
Source: Bloomberg

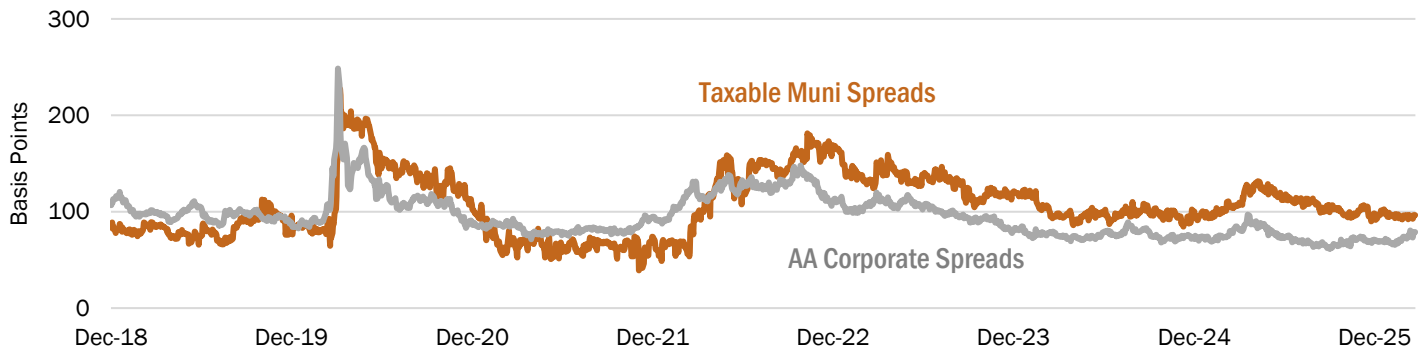
FIGURE 2: MUNIS OUTPERFORM



Data as of March 6, 2026. Spot Muni, Spot AAA rates
AAA B VAL: AAA Municipal yield curve
M/T: Municipal/Treasury Yield Ratio - Bloomberg Municipal Bond Index yield / Bloomberg US Treasury Index yield.
Source: Bloomberg

1. Bloomberg

FIGURE 3: TAXABLE MUNI AND CORP CREDIT RISK CONVERGE



Data as of March 9, 2026
Source: Bloomberg

Common misconceptions about municipal bonds are that they are 1) only for tax-exempt investors and 2) always issued as tax-exempt securities. Both assumptions miss the mark. After-tax yield comparisons can favor municipals even for taxable investors, and the taxable municipal market—an often-overlooked segment—offers exposure to high-quality credit that is fundamentally different from corporate debt.

Investors hesitant to reduce taxable allocations altogether may find taxable municipals particularly attractive. They offer diversification away from traditional corporate credit risk, while their call structures can provide incremental yield support in volatile rate environments.

TAXABLE MUNIS: SIMILAR YIELD, DIFFERENT RISK PROFILE

From a quantitative perspective, municipal bonds exhibit limited correlation to U.S. corporates and equities. This characteristic can provide a valuable buffer should economic conditions deteriorate or recession risks rise. The high-quality bias of the asset class also makes it attractive to risk-conscious investors and institutions managing capital constraints.

BY THE NUMBERS

- The Bloomberg Taxable Municipal Bond Index (BTMNTX) carries an average credit quality of AA, with only ~2% of the index rated BBB.
- In contrast, the Bloomberg U.S. Investment Grade Corporate Index has an average rating of A-, with approximately 47% allocated to BBB-rated bonds.

Importantly, the yield differential between the two markets remains minimal. Recent yield-to-worst levels show taxable municipals around 4.77% versus 4.90% for U.S. investment grade corporates.² In other words, investors are receiving somewhat comparable income while assuming meaningfully less exposure to lower-tier investment grade credit risk.

When viewed alongside the recent resilience of taxable muni spreads versus corporates, the case for crossover exposure strengthens further. Municipal credit is not simply a tax story—it is a differentiated credit story. In an environment where spread dispersion and late-cycle risks are becoming more pronounced, the structural advantages and lower correlation profile of taxable municipals merit renewed attention within core fixed income allocations.

2. Data as of March 6, 2026. Bloomberg Taxable Municipal Index and US Bloomberg Corporate Index.

Questions from the Field

Q We're getting more client questions about private credit and liquidity. Could the NYLI MacKay Muni Income Opportunities Fund ([MMIOX](#)) behave like the recent private credit redemption or other similar write-down headlines?

To access the most up-to-date information about a specific fund, simply click on the fund's name. This will take you to a detailed page that includes the prospectus, the fund's investment objectives, its performance history, key risk factors, Morningstar ratings, and other essential details.

A Great question—and one that's coming up more frequently at point-of-sale as private credit headlines pick up.

First, it's important to distinguish structure. MMIOX is an interval fund, which operates under Rule 23c-3³ and provides scheduled quarterly repurchase offers. The Fund currently intends to provide liquidity through quarterly repurchase offers of up to 10% of its outstanding shares at net asset value (NAV). If shareholders request to sell more than the amount offered in a given quarter, requests are expected to be fulfilled on a pro rata (proportional) basis, and shareholders may not be able to sell all of the shares they submit for repurchase..

Many larger headlines involved a non-traded BDC (Business Development Company), which is not governed by Rule 23c-3 and can reduce or suspend redemptions at board or manager discretion. In other words, that was a discretionary liquidity change under stress. Interval funds, by contrast, operate with rules-based, scheduled liquidity, which provides greater transparency around access to capital.

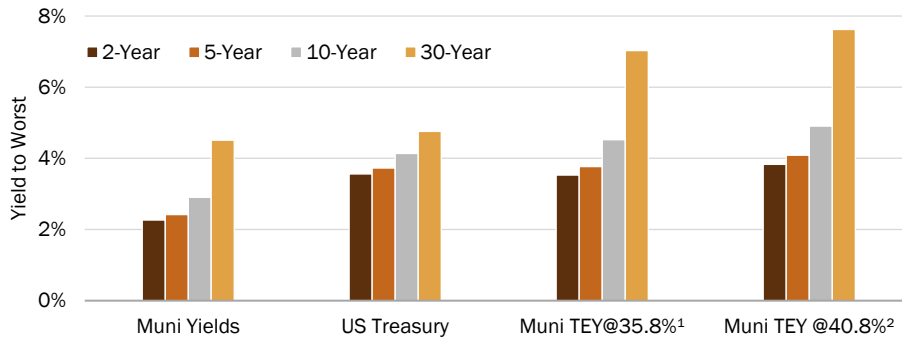
Second, valuation dynamics are very different. Public municipal bonds are generally priced off observable market inputs and have historically adjusted gradually with changes in rates, spreads, and fundamentals. Private loans — the primary assets in many BDC structures — can experience step-function write-downs if a borrower deteriorates, which is what drove some of the recent TCPC NAV headlines.

Bottom line: these private credit headlines are largely about private-loan liquidity and valuation dynamics, not the behavior of diversified, high-grade municipal portfolios. For clients seeking income with transparency and incremental price discovery, municipals continue to offer a more durable, all-weather allocation.

3. Interval funds and business development companies (BDCs) are investment vehicles that can provide exposure to private or less-liquid companies and loans, but they differ in how investors access their money and how shares are priced. **Interval funds** are registered closed-end funds that typically offer to repurchase a limited percentage of shares at set intervals (for example, quarterly), so investors may not be able to sell whenever they choose. **Publicly traded BDCs** trade on stock exchanges and can generally be bought or sold on market days, but their market price may be higher or lower than the value of their underlying holdings (NAV) and can be volatile; non-traded BDCs may have more limited liquidity. Both structures involve investment risk, including the risk of loss, and any distributions are not guaranteed and may change over time.



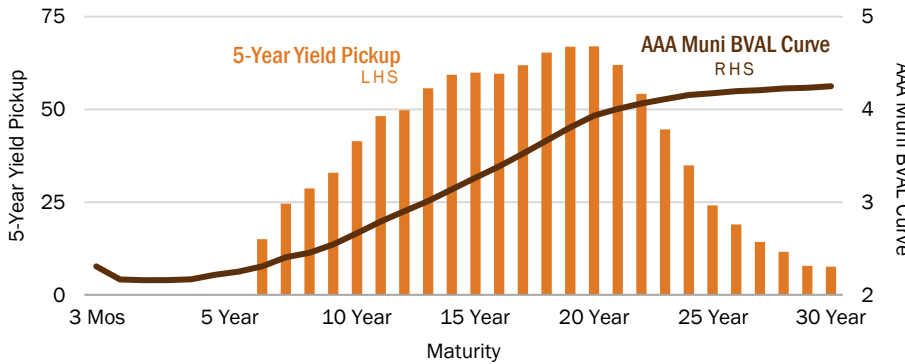
TAX-ADJUSTED YIELDS OF MUNICIPAL BOND INDEX VS US TREASURY INDEX



On a tax-adjusted basis munis handily lead across tenors

1. Tax Equivalent Yield is using 32% federal tax rate, including 3.8% Net Investment Income Tax.
 2. Tax Equivalent Yield is using 37% federal tax rate, including 3.8% Net Investment Income Tax.
 Data as of Data as of March 6, 2026.
 Source: Bloomberg

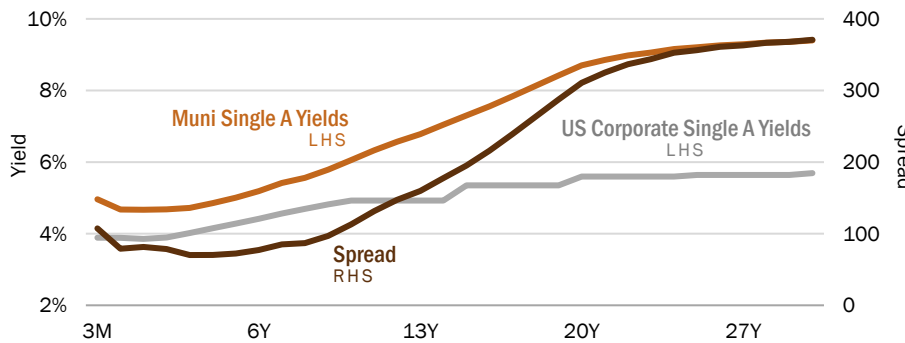
YIELD CURVE STEEPNESS



Our relative value lens focus on the area of the curve where steepness benefits returns

Data as of Data as of March 6, 2026.
 Source: Bloomberg

MUNI EXCEEDS CORPORATE SPREADS

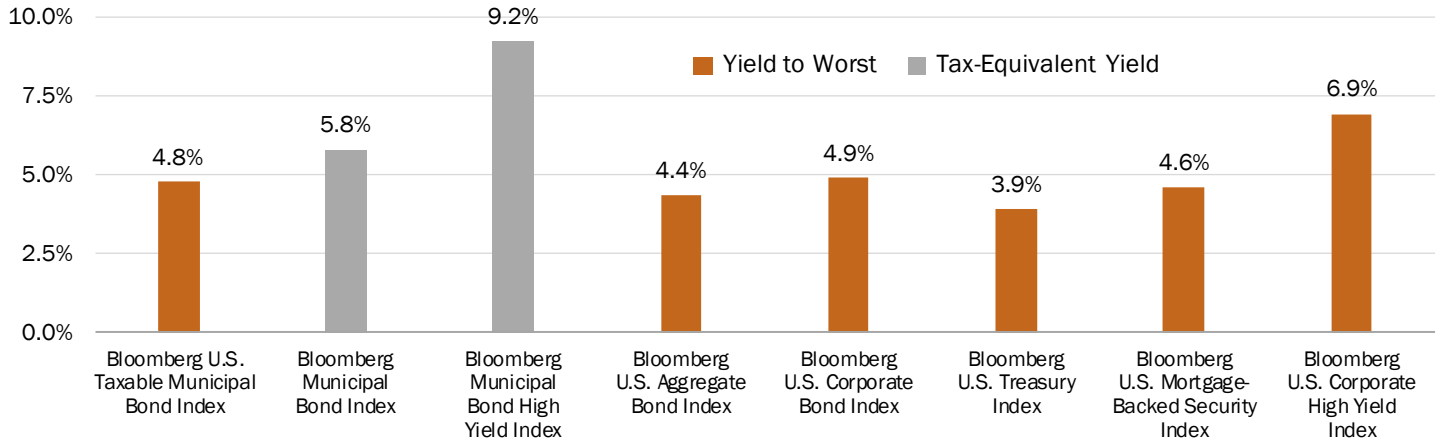


Tax equivalent munis continue to exceed corporate spread/yields

Data as of Data as of March 6, 2026.
 Muni Single A Yields: Bloomberg Municipal Bond Index; US Corporate Single A Yields: Bloomberg Corporate Bond Index
 Source: Bloomberg



INDEX YIELDS



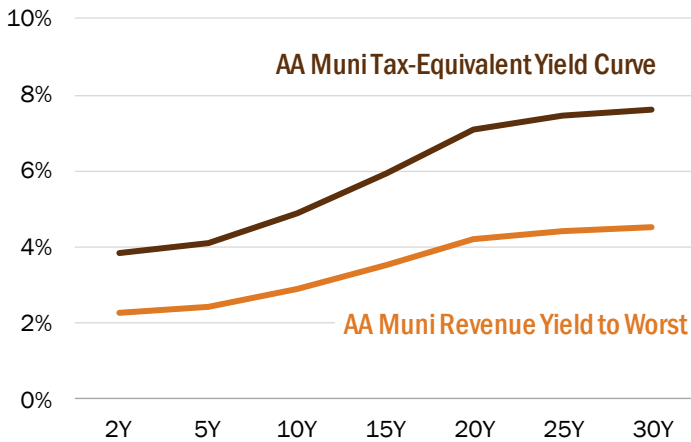
Data as of March 6, 2026

Index definitions can be found in the Index Descriptions section in the back of this report.

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

Source: Bloomberg

AA MUNI TAX-EQUIVALENT YIELD CURVE

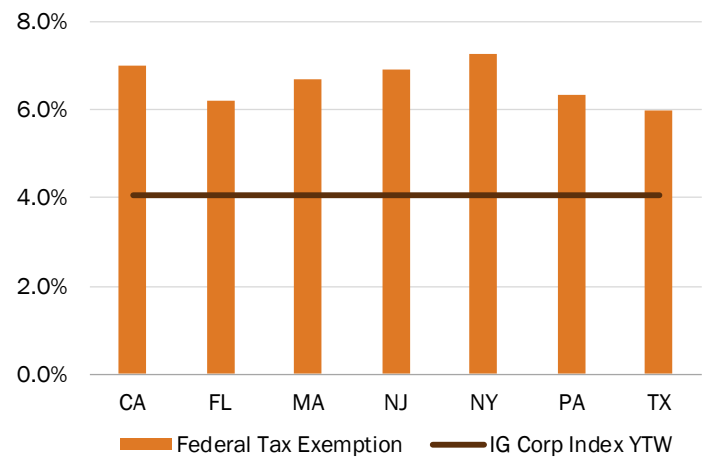


Data as of March 6, 2026

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

Source: Bloomberg

IN-STATE MUNI TAX-EQUIVALENT YTW



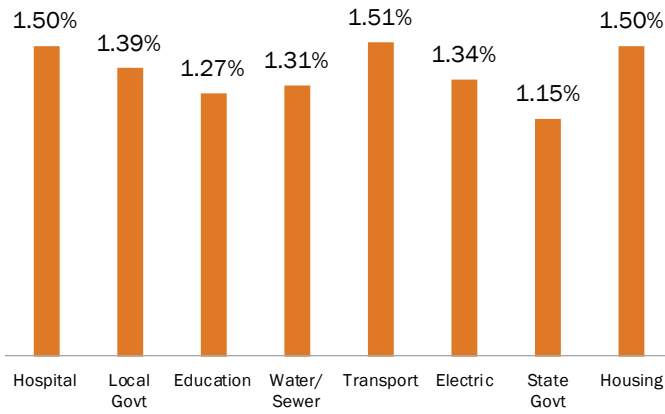
Data as of March 6, 2026

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

Source: Bloomberg

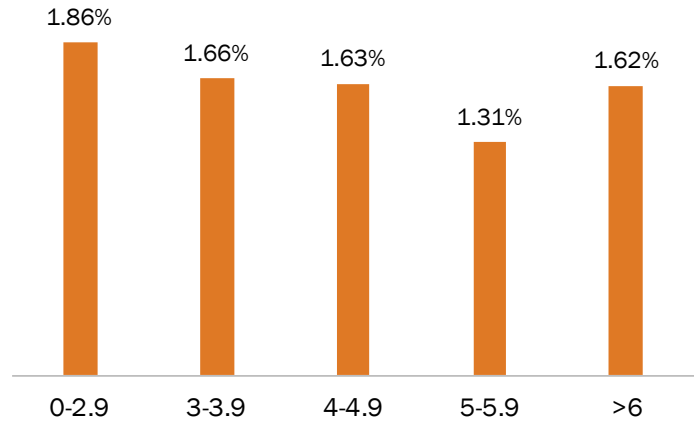


YTD TOTAL RETURNS BY SECTOR



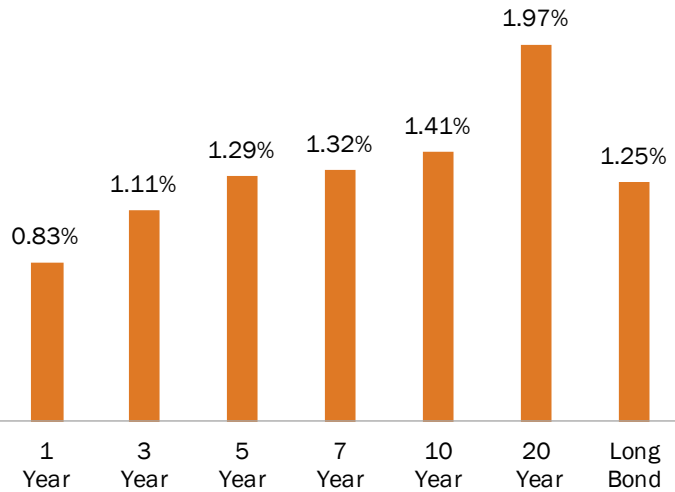
Data as of March 6, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY COUPON



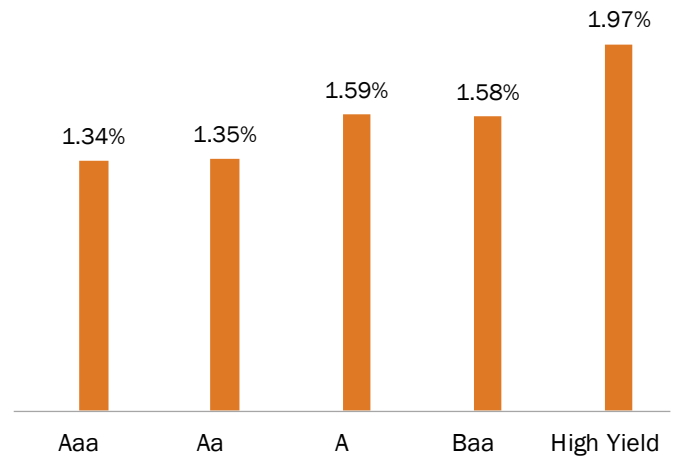
Data as of March 6, 2026
Source: Bloomberg

YTD TOTAL RETURNS BY MATURITY



Data as of March 6, 2026
Source: Bloomberg

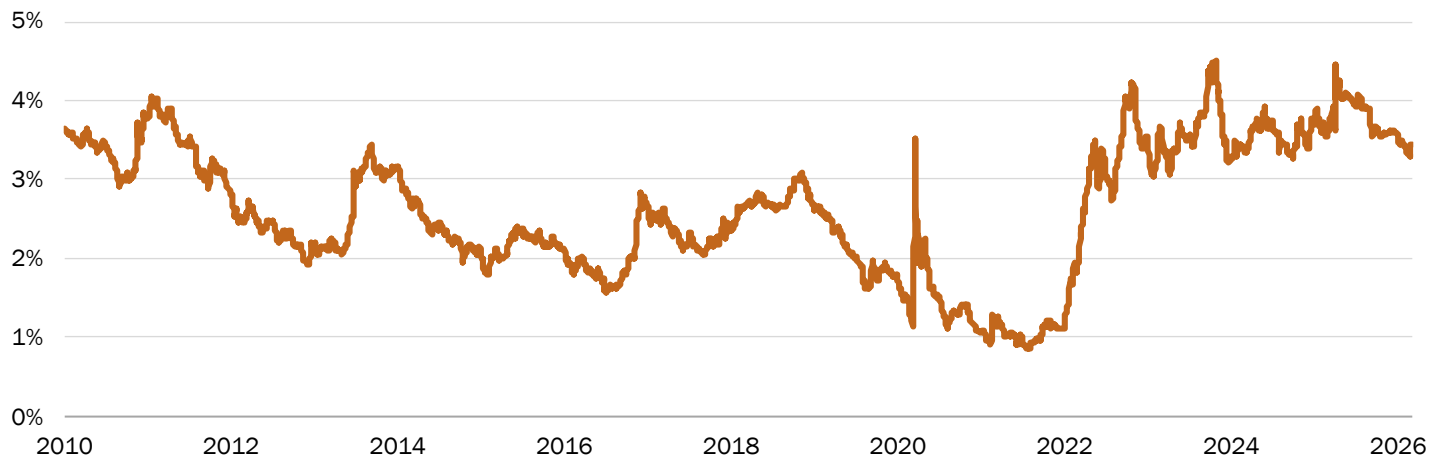
YTD TOTAL RETURNS BY RATING CATEGORY



Data as of March 6, 2026
Source: Bloomberg



BLOOMBERG MUNICIPAL YIELD-TO-WORST



Data as of March 6, 2026
 "Post GFC Average" measures the period from 1/1/2010 - 2/26/2025
 Source: Bloomberg

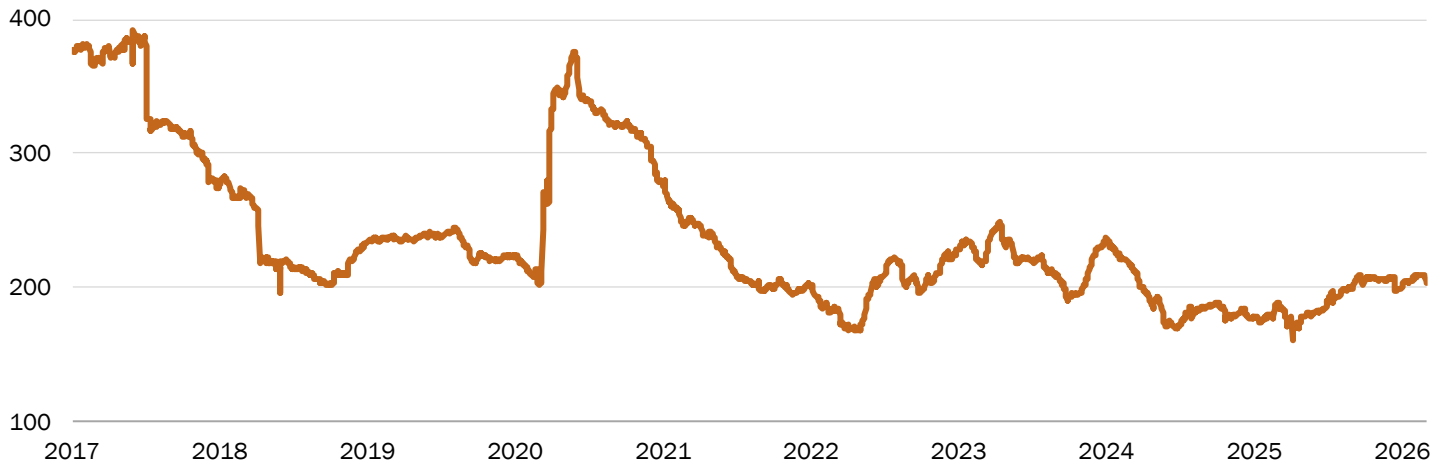
MUNI YIELDS

Tenor	3/6/2026	2/27/2026	Change (+/-)
BLOOMBERG AAA MUNI KEY RATE YIELDS			
2 YEAR	2.16%	2.03%	0.13%
5 YEAR	2.25%	2.09%	0.16%
10 YEAR	2.66%	2.49%	0.17%
30 YEAR	4.25%	4.10%	0.15%
US TREASURY RATE YIELDS			
2 YEAR	3.56%	3.38%	0.18%
5 YEAR	3.72%	3.51%	0.21%
10 YEAR	4.15%	3.97%	0.18%
30 YEAR	4.77%	4.64%	0.13%
US TREASURY & AAA MUNI CURVE SLOPES¹			
	2s10s	10s30s	2s30s
US TREASURY CURVE SLOPE	+ 59 bps	+ 62 bps	+ 121 bps
AAA MUNI CURVE SLOPE	+ 51 bps	+ 159 bps	+ 209 bps

Data as of March 6, 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



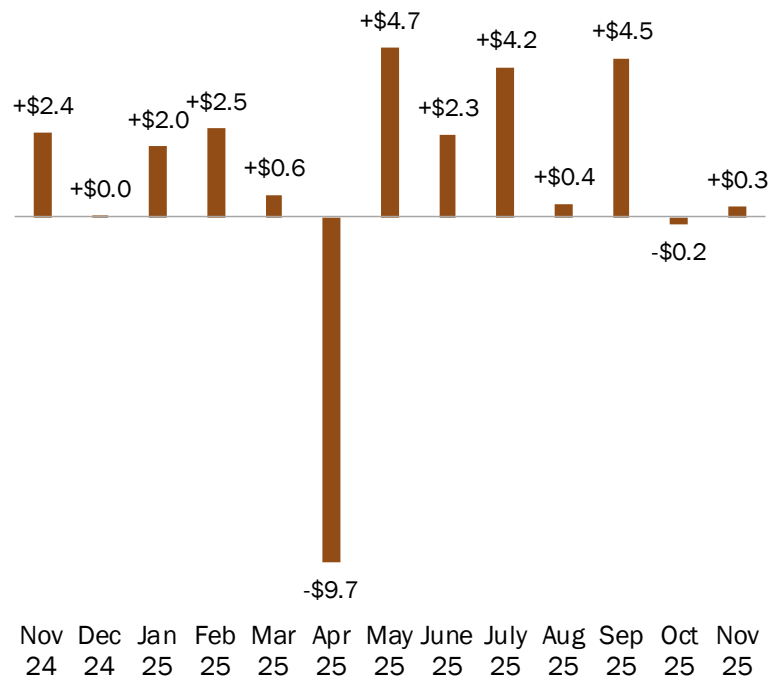
Data as of March 6, 2026
Source: Bloomberg

TAXABLE MUNICIPAL AND CORPORATE CREDIT SPREADS



Data as of March 6, 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 March 6, 2026
Source: Bloomberg



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Investing in below investment grade securities may carry a greater risk of nonpayment of interest or principal than higher-rated bonds. Funds that invest in bonds are subject to interest-rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner

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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.

Additional Yield Definition

BVAL AA, A, BBB and BB Yields is calculated by Bloomberg and is representative of the average 2YR spot rate on respective Bloomberg Yield curves of corporate credits with the respective average credit rating that are valued by Bloomberg's valuation service.

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.