

MUNI MOMENT: TAX-EQUIVALENT YIELDS DESERVE A FRESH LOOK

June 2026

In the current environment, municipal (muni) bonds can potentially offer a combination of income, tax benefits, and price appreciation. Combined with active management, tax-equivalent muni yields may provide investors with attractive income while also benefiting from opportunities related to their relatively steep yield curves.¹

The Yield Opportunity Potential in Municipal Bonds

Corporate bond yields have receded from their post-pandemic highs, but municipal bond yields remain elevated.

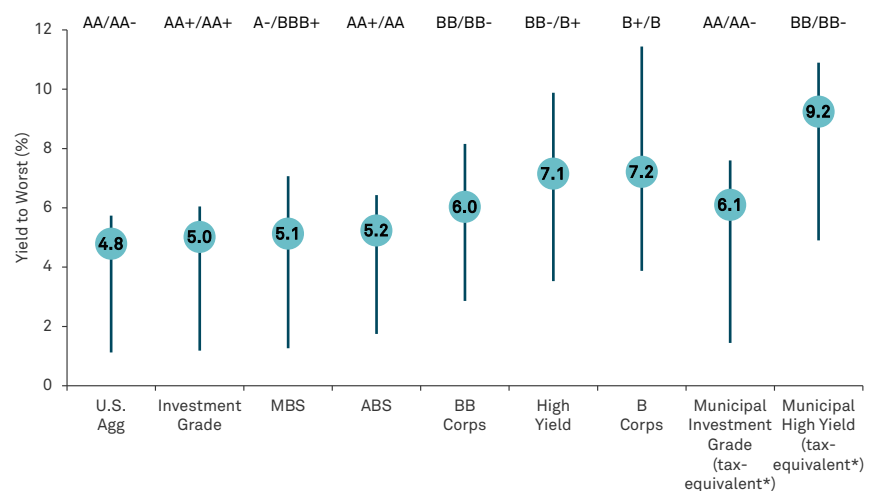
Investment grade munis (rated AA on average) are currently out-yielding BB-rated high yield corporates on a tax-equivalent basis. High yield bonds have higher credit and liquidity risks than investment grade bonds and are considered speculative in terms of the issuer's ability to pay interest and repay principal on a timely basis.

High yield munis may be able to potentially stretch that advantage over high yield corporates even further.

Tax-Equivalent Municipal Yields May Offer a Compelling Premium Over Other Fixed Income Sectors

- Current
- Range since 2021

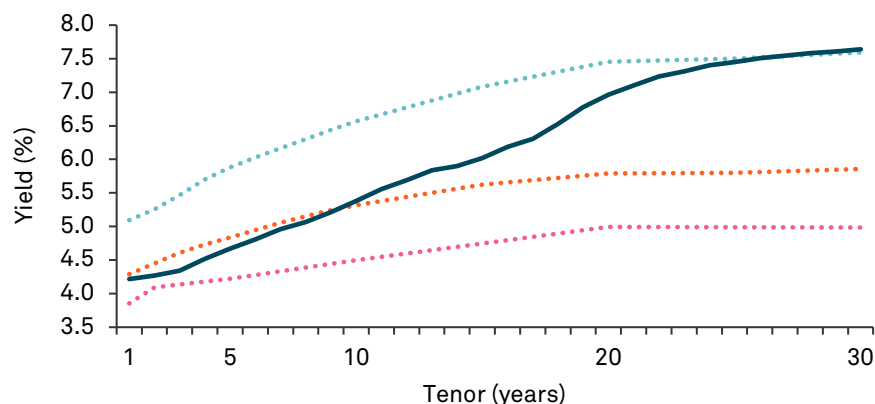
Source: Bloomberg, ICE BofA, Insight Investment, June 11, 2026. *Based on 40.8% tax bracket (37% top federal band plus 3.8% investment income Medicare surcharge). U.S. Agg = Bloomberg U.S. Aggregate Bond Index; MBS = mortgage-backed securities; ABS = asset-backed securities. See index definitions in Appendix.



Municipal Yield Curves Currently Offer High Long-Term Yields and Potential Capital Gains From “Rolling Down” the Curve

— AA Revenue Municipal Bonds (tax-equivalent*)
 - - - U.S. BB Corporates
 - - - U.S. Investment Grade
 - - - U.S. Treasuries

Source: Bloomberg Evaluated Pricing Solutions (BVAL), June 11, 2026. *Based on 40.8% tax bracket (37% top federal band plus 3.8% investment income Medicare surcharge).



Markets appear to be taking notice. Municipal bond ETF and mutual fund net flows are collectively over seven times higher in 2026 than one year ago.²

Skilled Managers May Be Able to Extract the Most From the Opportunity

Municipal Separately Managed Account (SMA) strategies can often ignore longer-dated bonds.

Many municipal SMA ladder strategies are concentrated in 1-to-10-year maturities. However, some of these SMAs can still allow their investment managers some flexibility to add exposure to longer-dated bonds.

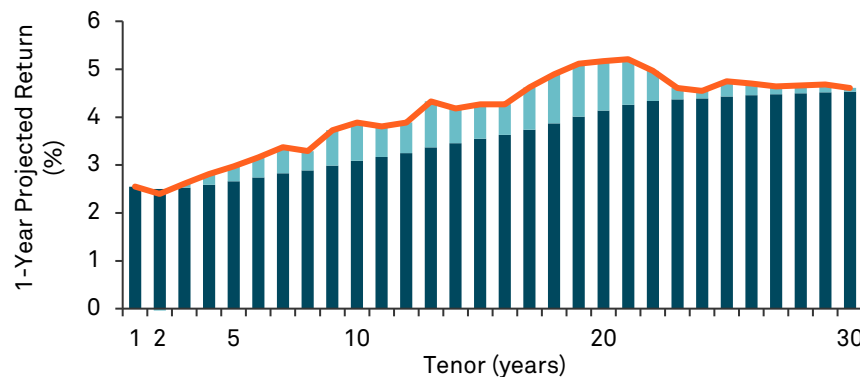
Other municipal SMAs are not concentrated at 1-to-10-year maturities at all and, are therefore, free to focus their investments more squarely on longer-dated bonds if desired.

These strategies may target muni bonds around the 20-year tenor range, where we currently see “carry” (income collection) and “roll” opportunities to be most pronounced.

The 20-year Part of the Curve May Offer the Strongest “Carry and Roll” Opportunities

■ Carry
 ■ Roll
 — Total

Source: JP Morgan, May 2026. Assumes a static yield curve and returns are based on common new issue structure: AA 5%, 1-10 year non-calls, and 11-year and longer bonds with a 10-year call option.



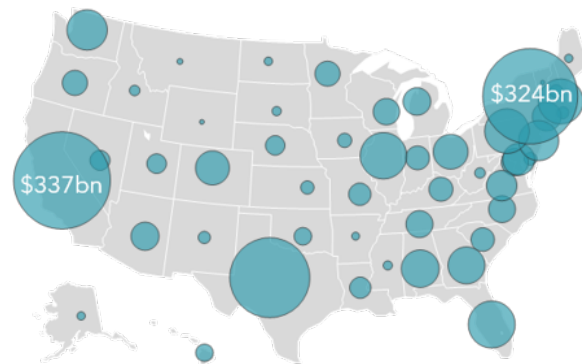
The Municipal Bond Market is Sprawling and Inefficient, Providing Potential Opportunities for Active Managers

California and New York account for a third of the tax-exempt muni bond market, meaning many passive investors in national municipal strategies may be forced to accept meaningful exposure to bonds without state or local tax exemption from their home state.

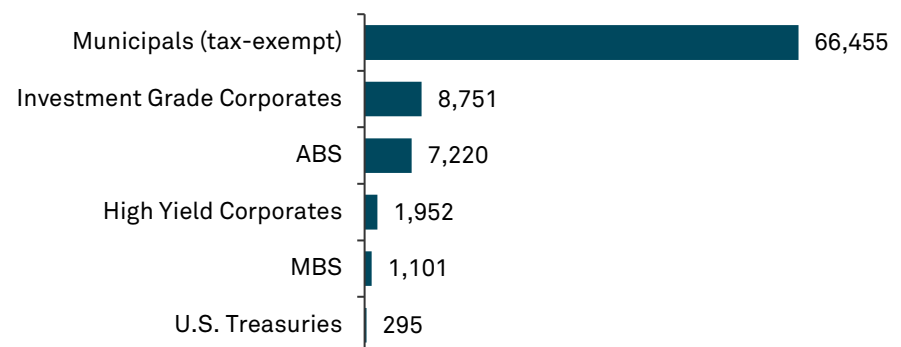
Passive approaches may also miss out on a wealth of mispriced credit opportunities. There are over 65,000 investment grade tax-exempt muni bonds alone, far higher than the number of bonds available in related bond markets.

Passive Players May Miss Out on a Wealth of Individual Mispricing Opportunities

Investment Grade Tax-Exempt Municipal Bond Market



Number of Bonds



Source: Bloomberg, ICE BofA, Insight Investment, June 11, 2026.

Further, much of the \$4.4 trillion³ in the muni bond market is off benchmark.

In our view, given the sheer number of small bonds outstanding, credit-spread pricing can be inefficient. Our team has found potential mispricing across the universe and often disagrees with ratings agency assessments of issuer credit quality.

We believe capable active managers can target significant value through independent credit research and flexible, opportunistic trading.

About Insight Investment

Insight Investment is a leading global investment manager and fixed income specialist firm within BNY Investments.

Endnotes

1. Municipal income may be subject to state and local taxes for out-of-state residents. Some income may be subject to the federal alternative minimum tax for certain investors. Capital gains, if any, are taxable.
2. ICI, Bloomberg, May 2026
3. SIFMA, December 2025

Appendix

Asset-Backed Securities (ABS) are financial securities such as a bond or note collateralized by a pool of assets such as loans, leases, credit card debt, royalties, or receivables. **Mortgage-Backed Securities (MBS)** are investments similar to a bond made up of a bundle of home loans bought from the banks that issued them. Investors in MBS receive periodic payments similar to bond coupon payments. **Commercial Mortgage-Backed Securities (CMBS)** are fixed-income investment products that are backed by mortgages on commercial properties rather than residential real estate.

Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. **Bloomberg U.S. Corporate High Yield Corporate Index** tracks the performance of U.S. dollar-denominated below-investment-grade-rated corporate debt publicly issued in the U.S. domestic market. **Bloomberg U.S. High Yield Index** measures the USD denominated, high yield, fixed-rate bond market, rated BB or B by S&P or the equivalent rating by Fitch or Moody's. **Bloomberg U.S. MBS Index** tracks fixed-rate agency mortgage backed passthrough securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). **Bloomberg U.S. Corporate Investment-Grade Index** is a broad-based benchmark that measures the investment grade, fixed rate, taxable, corporate bond market. **Bloomberg Municipal Bond Index** that tracks the performance of the USD-denominated long-term tax-exempt bond market in the United States. **ICE BofA U.S. ABS & CMBS Index** is part of ICE Data Indices' fixed income index suite, which tracks over 6,000 standard indices representing more than \$100 trillion in global bond market debt across 43 currencies. An investor cannot directly invest in an index.

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Bond ratings reflect the rating entity's evaluation of the issuer's ability to pay interest and repay principal on the bond on a timely basis. Bonds rated BBB/Baa or higher are considered investment grade, while bonds rated BB/Ba or lower are considered speculative as to the timely payment of interest and principal. Credit ratings reflect only those assigned by Nationally Recognized Statistical Rating Organizations (NRSRO) that have rated fund holdings. Split-rated bonds, if any, are reported in the higher rating category.

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