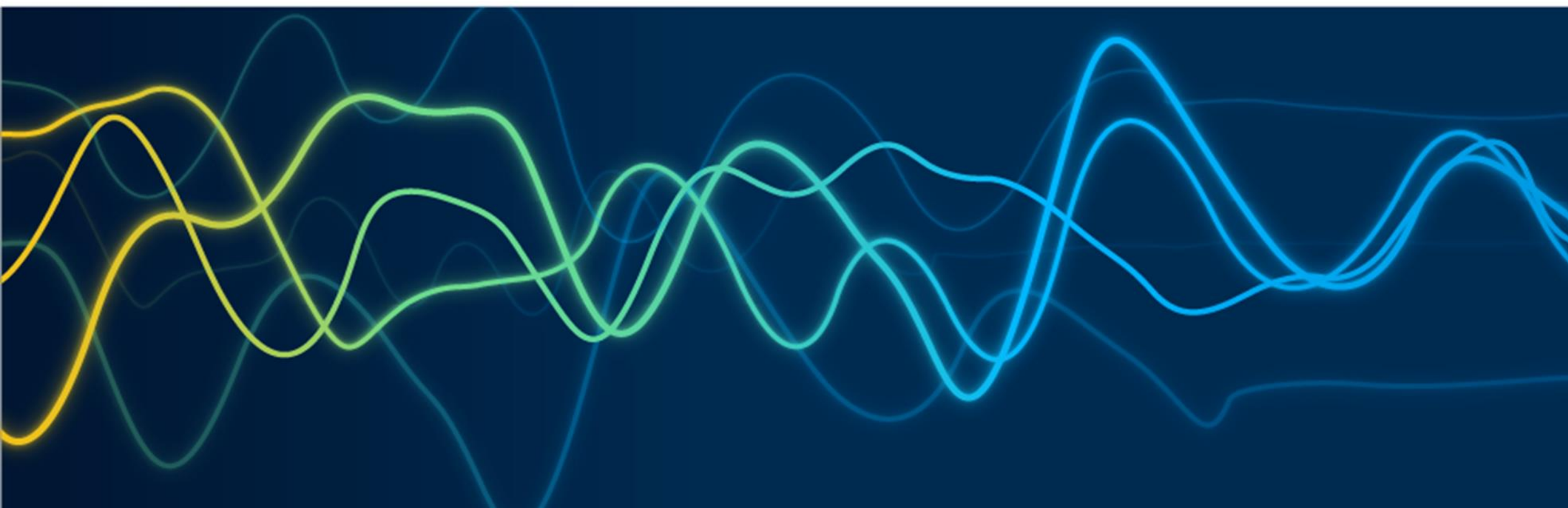


# Municipal Bond Market Monitor

Municipal Bond Investment Team

December 31, 2025



# Macro Outlook



# Yields remain elevated compared to history

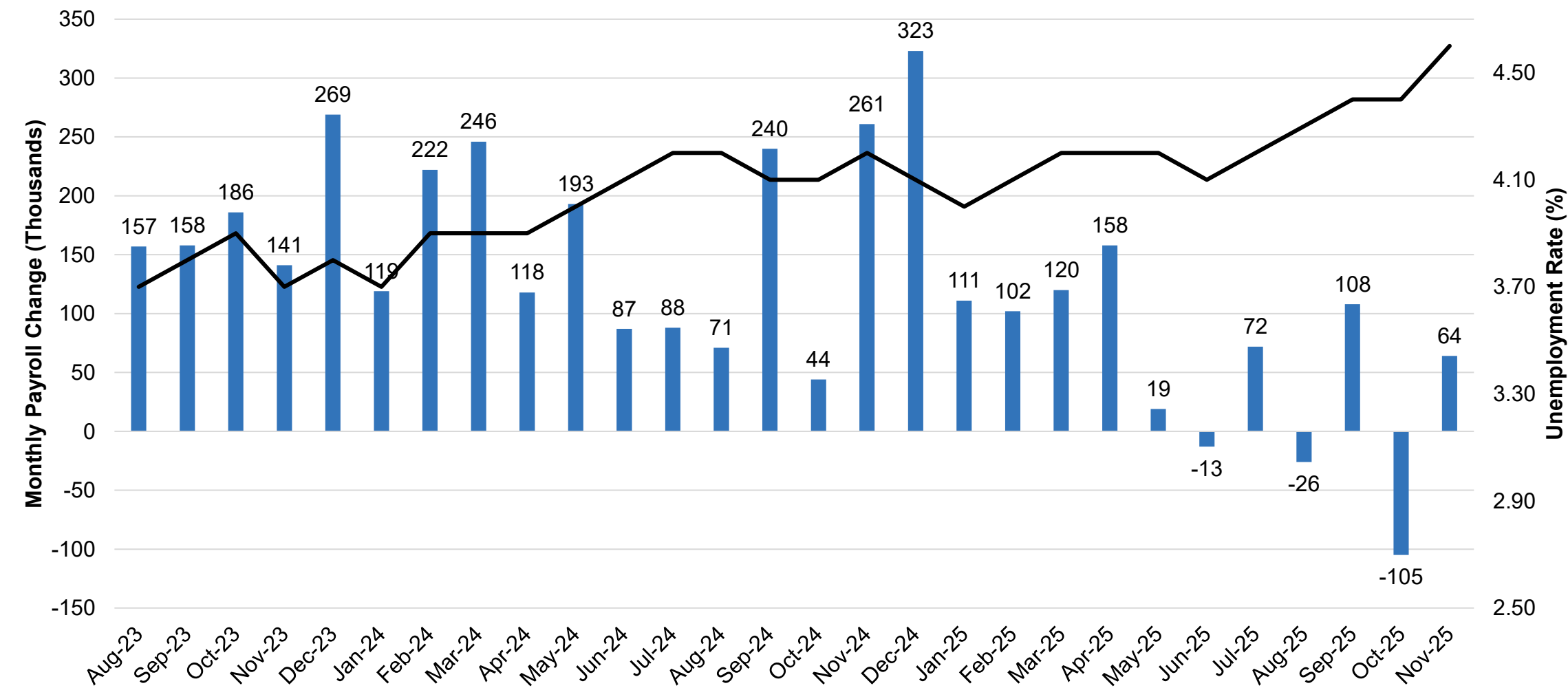
Bloomberg 10-Year US Treasury Bond Index Yield-to-Worst



/Source: Bloomberg as of 12/31/25. Data is for informational use only. **Past performance is not a reliable indicator of future results.** The index performance is provided for illustrative purposes only and is not meant to depict the /performance of a specific investment.

Job growth has slowed as unemployment rises

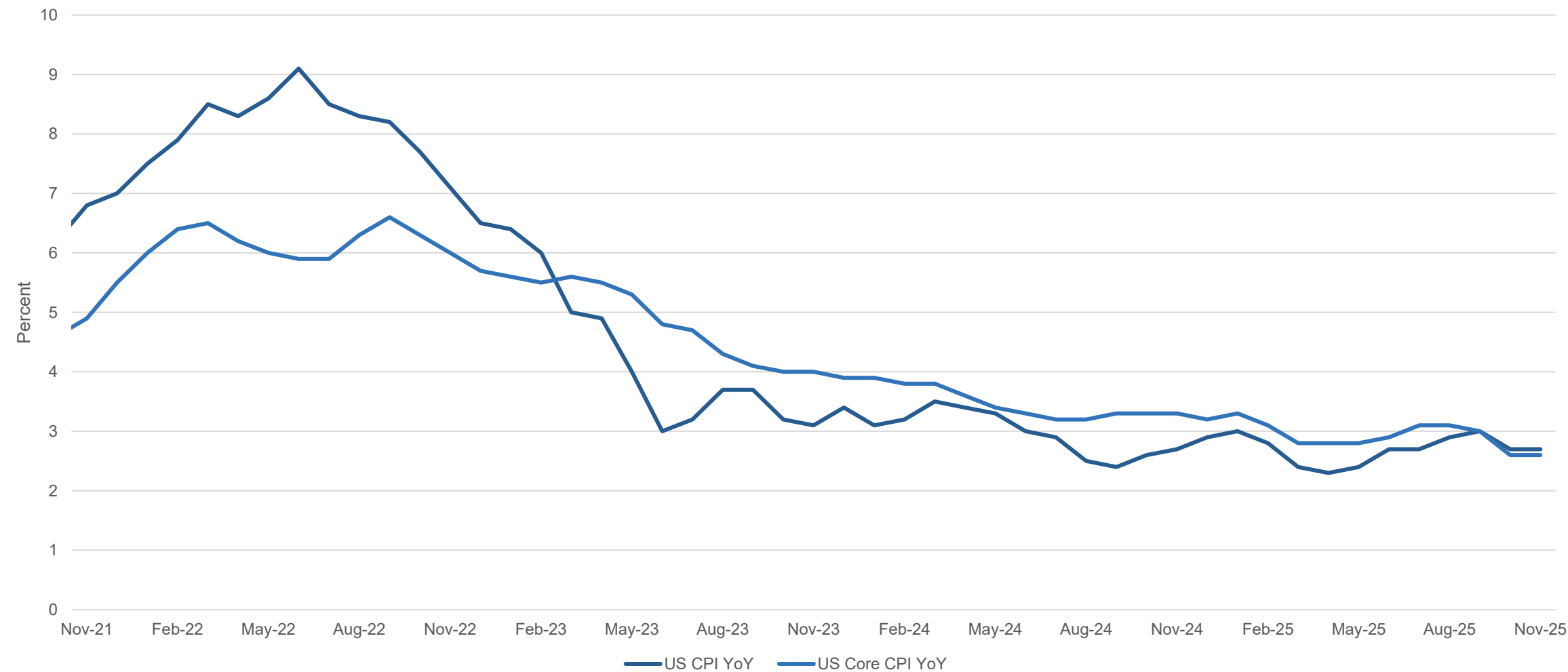
Monthly Payrolls and Unemployment Rate (%)



Source: Bloomberg as of 11/30/2025. Data provided is for informational use only. Past performance is not a reliable indicator of future results.

# Inflation readings have steadied, but still above the Fed’s target

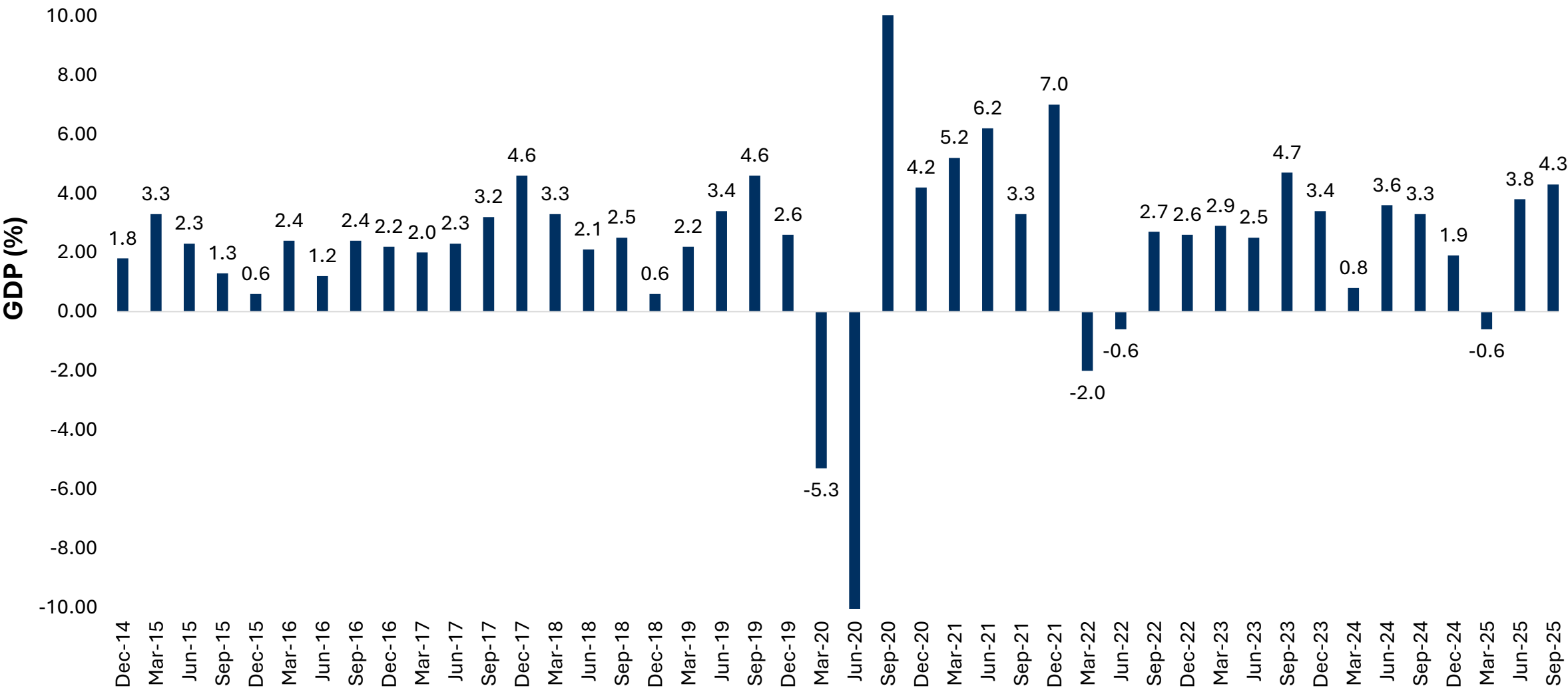
Consumer Price Index (CPI) and Core CPI (%)



Source: Bloomberg as of 11/30/2025. Data provided is for informational use only. **Past performance is not a reliable indicator of future results.**

After a negative print in Q1 2025, GDP bounced back in Q2 and Q3

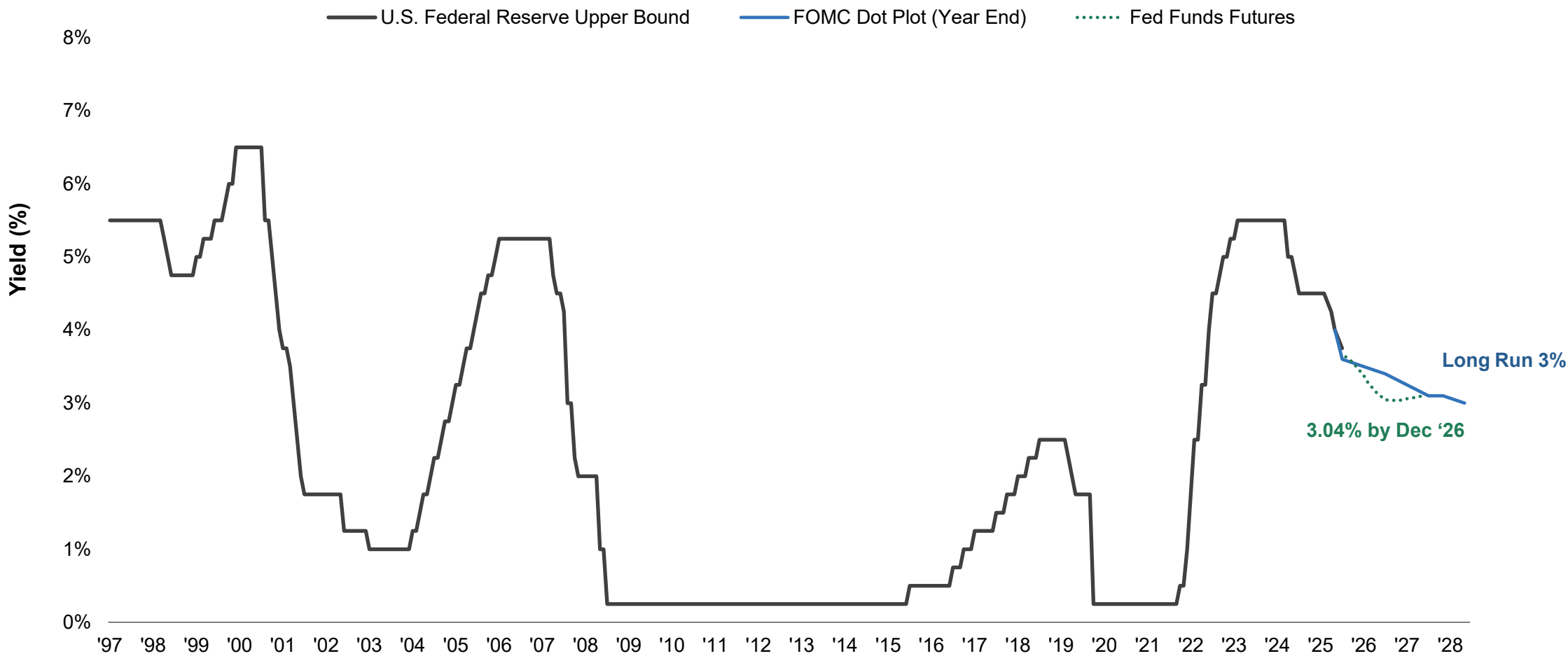
GDP US Chained Dollars (Quarter over Quarter)



Source: Bloomberg as of 9/30/25. Data provided is for informational use only. **Past performance is not a reliable indicator of future results.** GDP data in Jun 2020 and Sep 2020 was -28% and +34.8% respectively.

# Markets expect faster rate cuts than the Fed is signaling

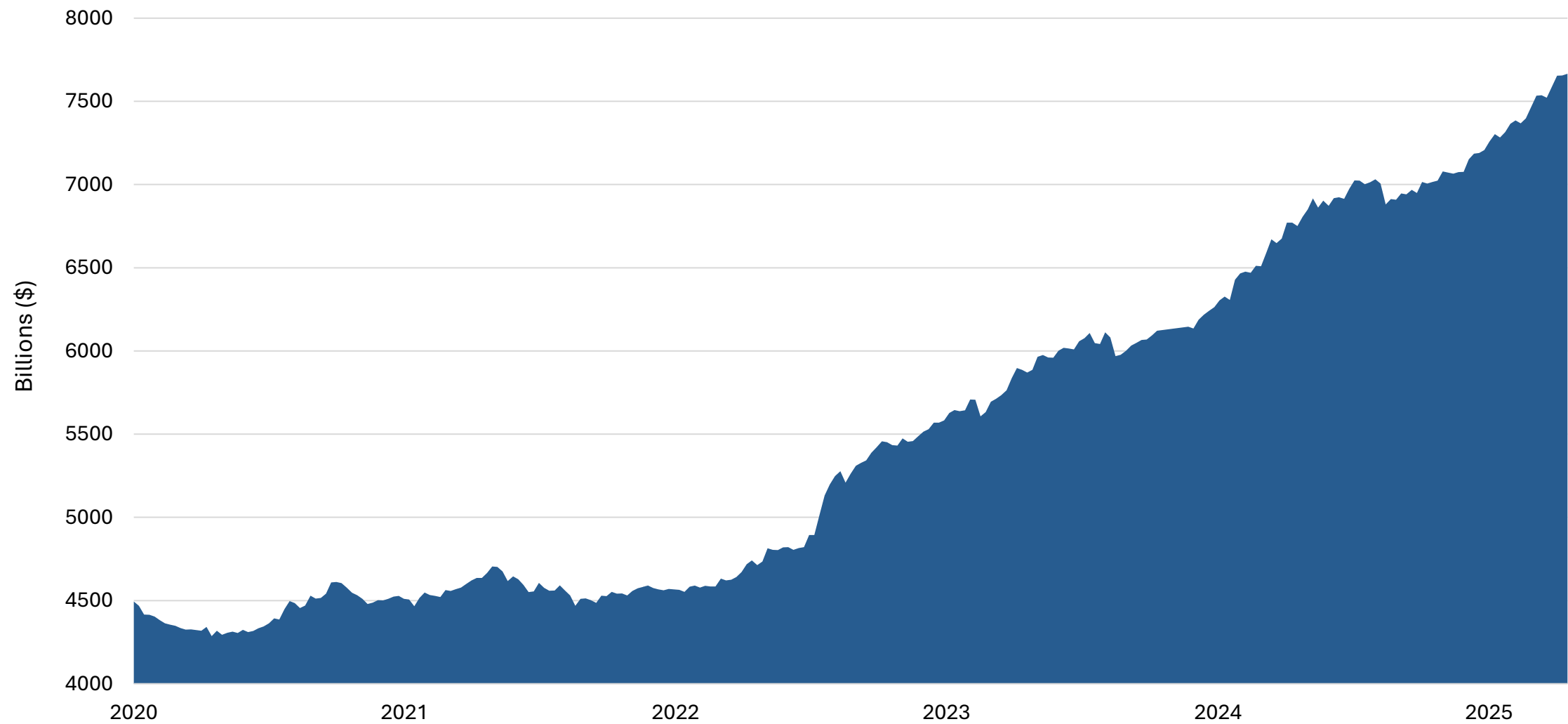
US Federal Reserve - Central Bank Policy Rate Upper Bound *PLUS* Futures-implied and FOMC Expectations



Source: FOMC and Bloomberg as of 12/31/2025. Data provided is for informational use only. **Past performance is not a reliable indicator of future results.**

As overnight rates decline, money market fund assets may seek a new home

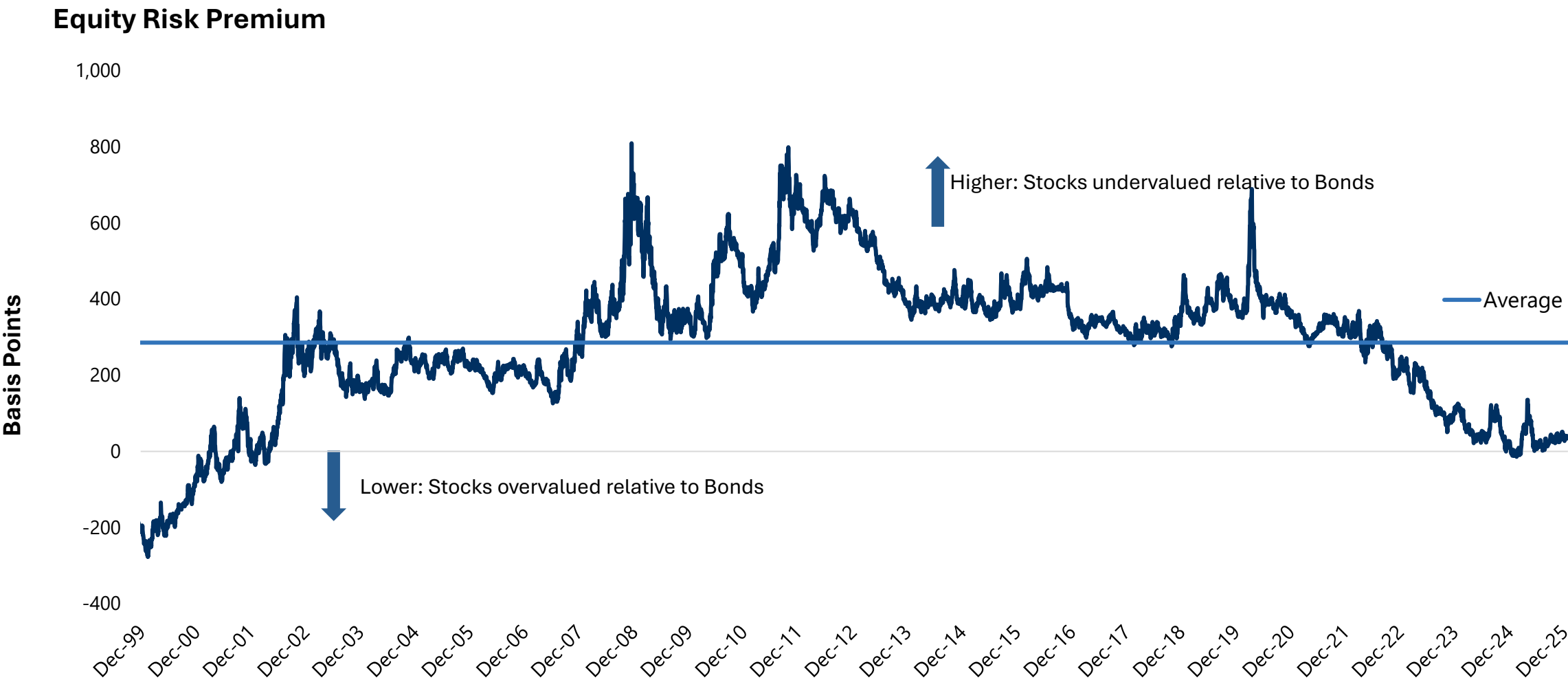
ICI Money Market Funds Total Net Assets



Source: Bloomberg as of 12/31/2025. Data provided is for informational use only. **Past performance is not a reliable indicator of future results.**



# Equity Risk Premium - Bonds look more attractive as stocks appear overvalued



Source: Bloomberg as of 12/31/25. Data provided is for informational use only. **Past performance is not a reliable indicator of future results.** Index shown is the Morgan Stanley Equity Risk Premium S&P500 Index. . It is not possible to invest directly in an index. Indexes are unmanaged and do not reflect the deduction of fees or expenses. Equity Risk Premium is the difference between S&P 500 earnings yield and 10-Year UST Yield.

# Municipal Market Update



# December and Full Year Municipal Market Review

## MUNIS ENDED THE YEAR ON A POSITIVE NOTE BUT STILL UNDERPERFORMED TAXABLE FIXED INCOME FOR THE YEAR

### 2025 RETURNS:

- Muni Bond Index: 4.25% | HY Muni Index: 2.46% | Taxable Muni Index: 7.89%
- US Treasury: 6.32% | Corporate: 7.77%

## MUNICIPAL YIELDS WERE MODESTLY HIGHER FOR THE MONTH YET MOSTLY LOWER FOR THE YEAR AS THE CURVE STEEPENED

### DEC '25 AAA Muni

- 2-Year: 2.44% → 2.39% -5 bps
- 5-Year 2.41% → 2.41% 0 bps
- 10-Year 2.75% → 2.76% +1 bps
- 30-Year 4.16% → 4.24% +8 bps

### 2025 AAA Muni

- 2-Year: 2.82% → 2.39% -43 bps
- 5-Year 2.87% → 2.41% -46 bps
- 10-Year 3.06% → 2.76% -30 bps
- 30-Year 3.90% → 4.24% +34 bps

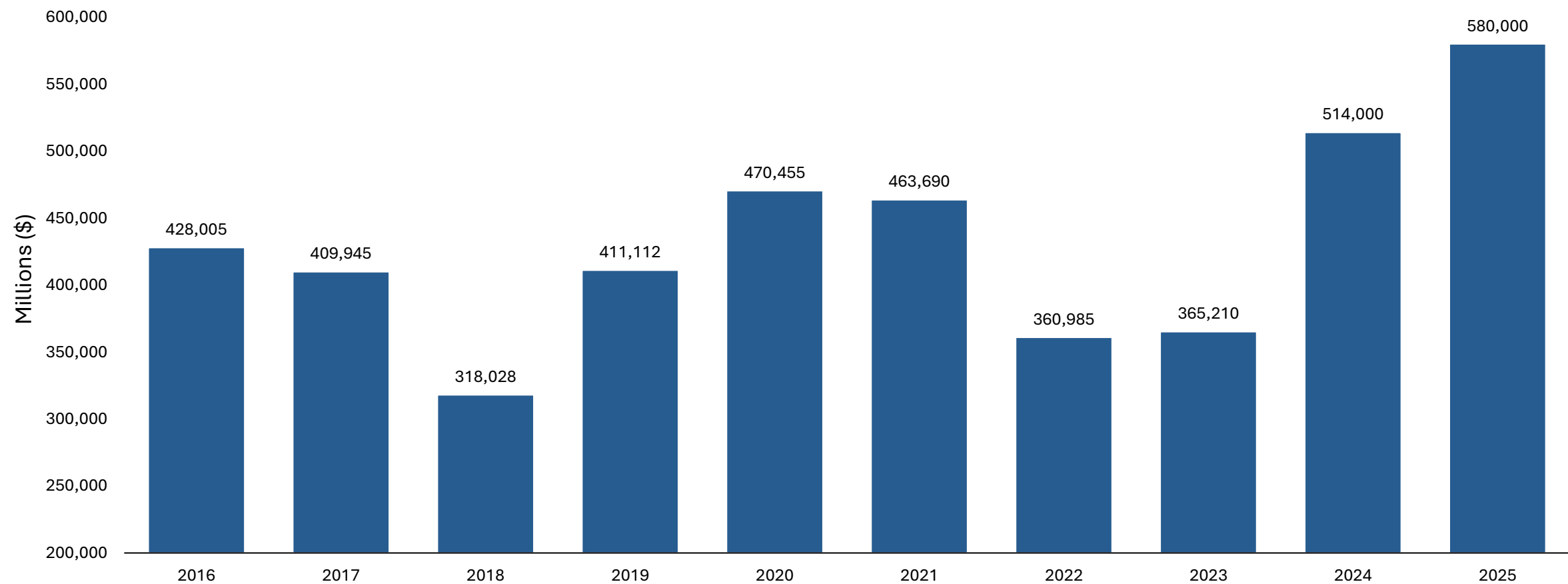
## MUNICIPAL FUND FLOWS WERE POSITIVE AND ECLIPSED ALL OF 2024'S INFLOW

- Attractive muni valuations drove inflows to the asset class during the month, and the year driven mostly by intermediate and long funds
- 2025: Short (+\$9.9bn), Short/Intermediate (\$5.8bn) and Intermediate (+\$15.8bn) fund flows all solidly positive, but Long Duration (+\$19.5bn) funds were the biggest beneficiary.

**Past performance is no guarantee of future results.** It is not possible to invest directly in an index. See end of report for important additional information. This commentary may contain statements that are not historical facts, referred to as "forward looking statements". Actual future results may differ significantly from those stated in any forward-looking statement, depending on factors such as changes in securities or financial markets or general economic conditions.  
Source: Index Performance: Bloomberg, AAA YTD changes as of 12/31/2025. Fund Flows: J.P Morgan, Ratios: Bloomberg

# Municipal issuance increased significantly in 2025, up 13% vs 2024

## Municipal Bond Issuance

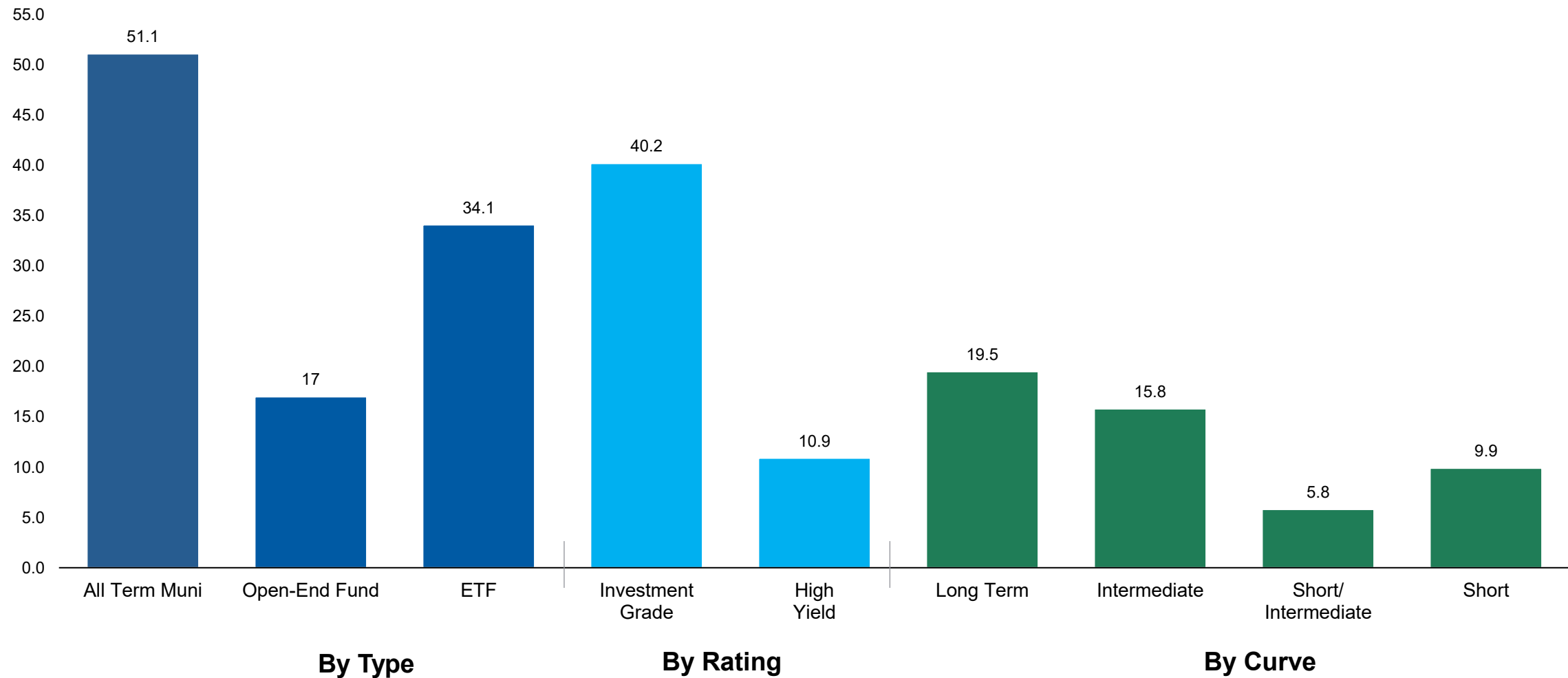


Source: LSEG as of 12/31/25

# A strong year for municipal fund flows, with investment grade funds leading the way

## Muni Fund Flows By Category

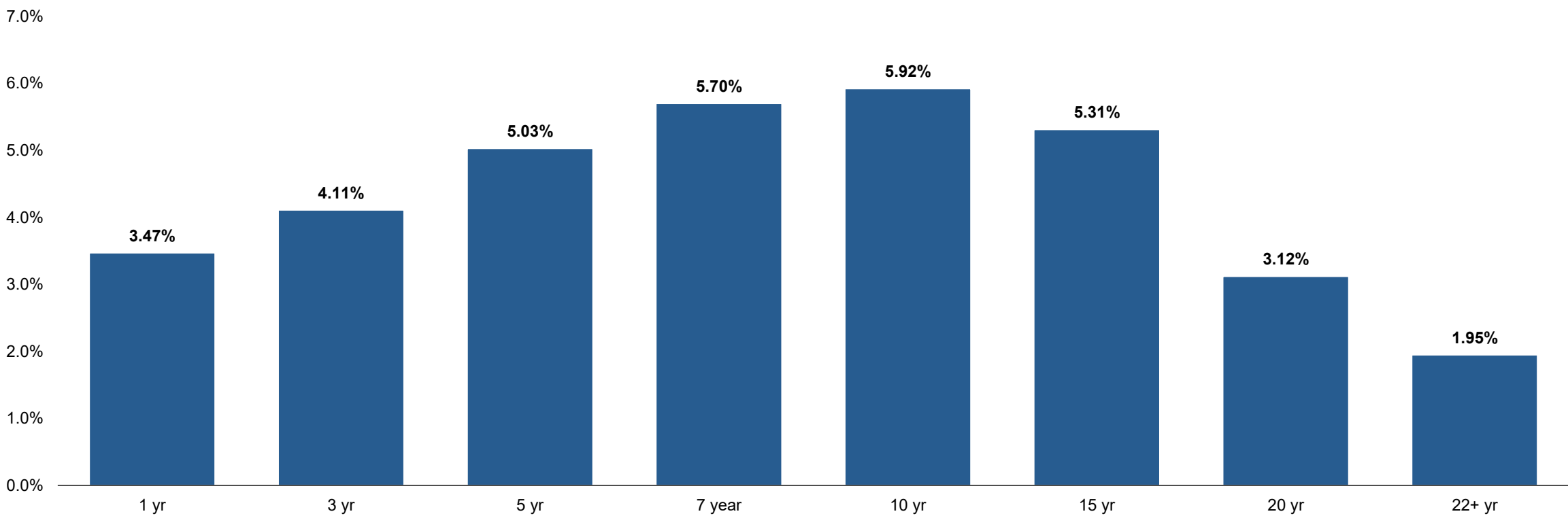
YTD Municipal Fund Flows (\$Bn)



Source: J.P. Morgan, as of 12/31/25.

Second-half strength in intermediate and longer-term munis resulted in outperformance in the belly of the curve

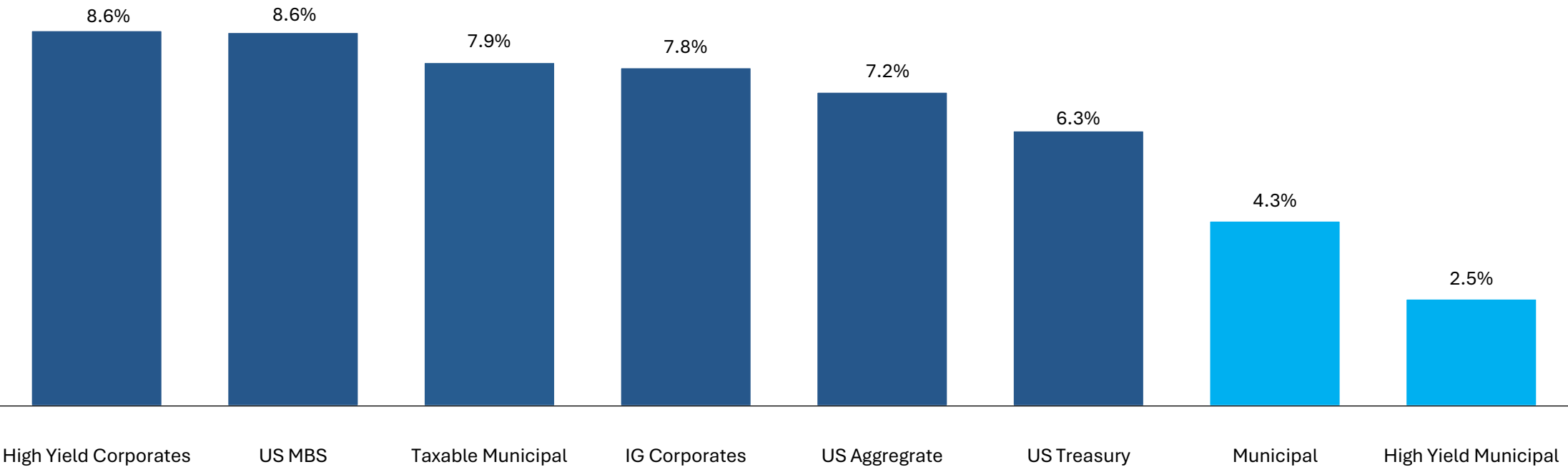
Bloomberg Municipal Bond Index Returns YTD



Source: Bloomberg, MMA and Morningstar Direct as of 12/31/25. **Past performance is no guarantee of future results.** Performance less than one year is cumulative. It is not possible to invest directly in an index. See end of report for important additional information.

# Tax-exempt municipals underperformed other fixed income asset classes in 2025

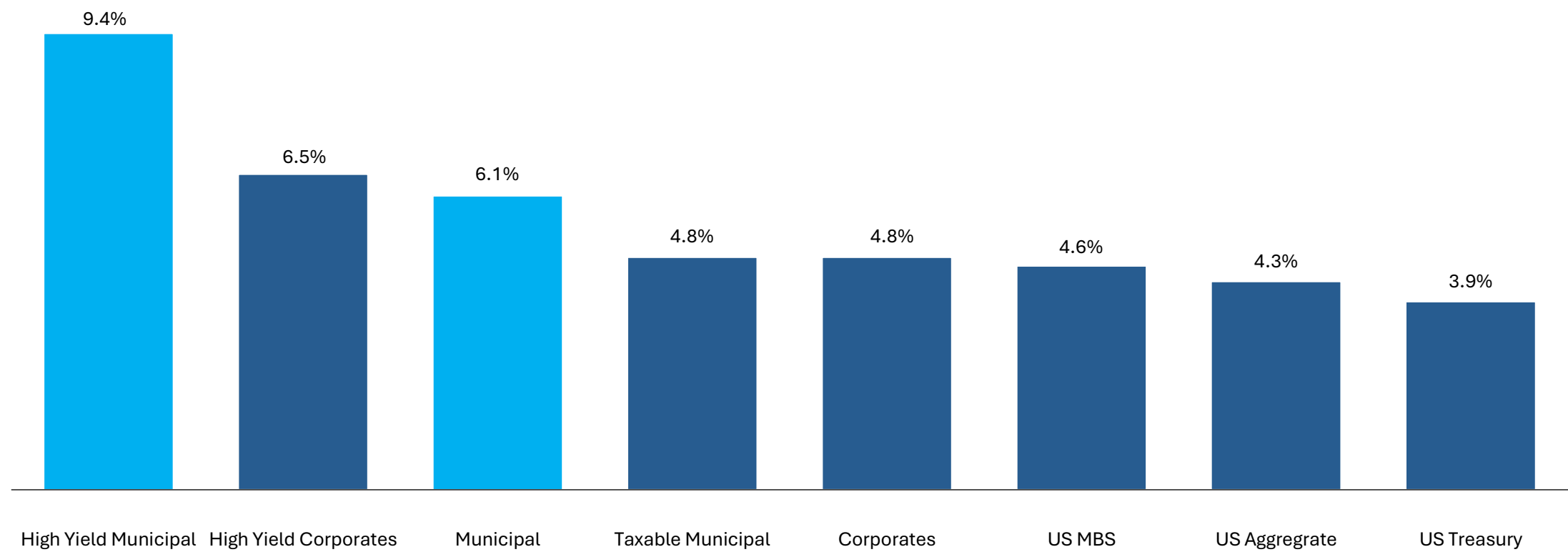
2025 Year-to-Date Index Returns



Source: Bloomberg and Morningstar Direct as of 12/31/25. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index. See end of report for important additional information. \*Basis points (BPS) is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

As a result of the underperformance, municipal yields appear attractive heading into 2026

Yield-to-Worst (%) and Taxable-Equivalent Yields for Municipal Indices

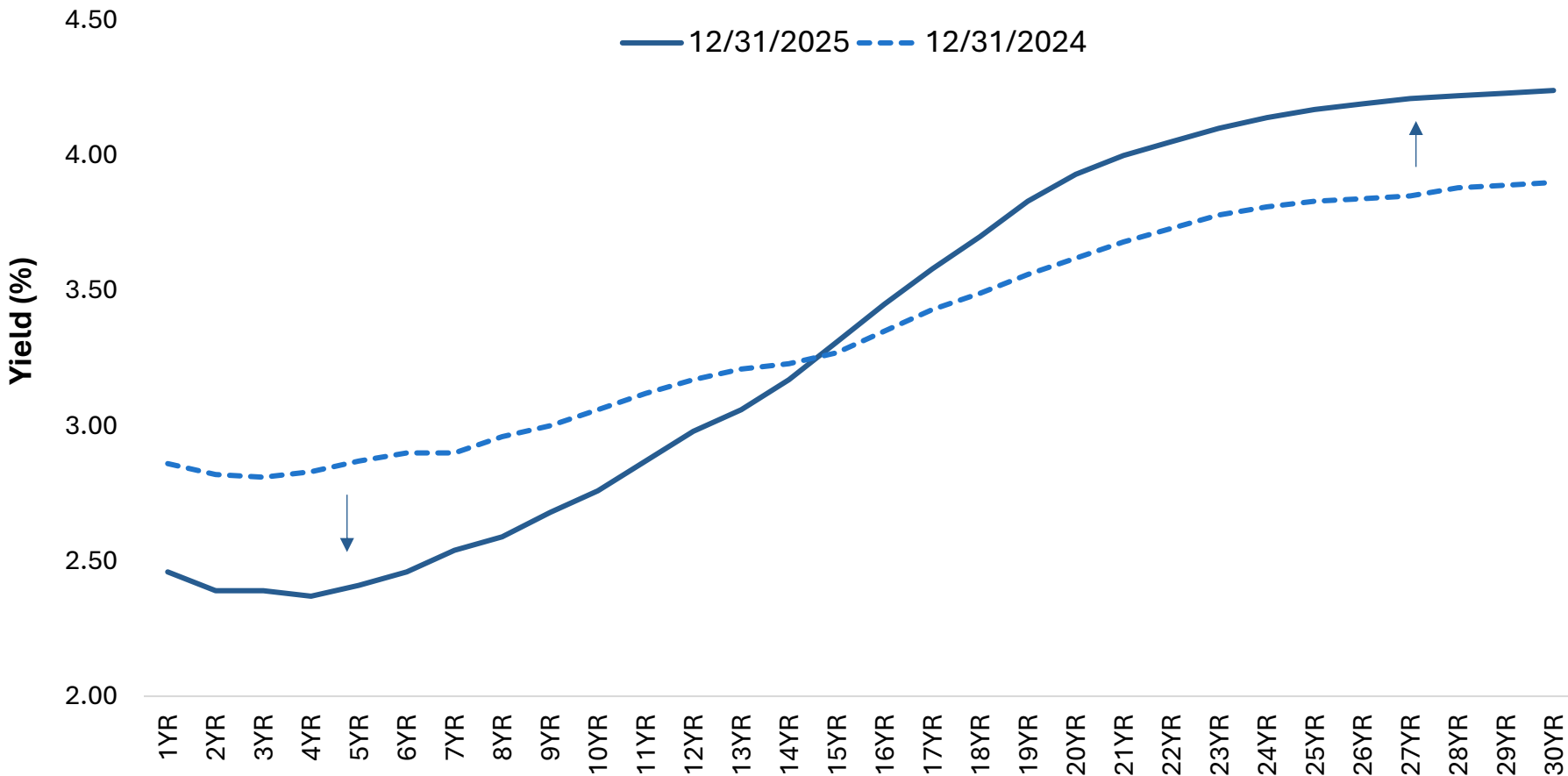


Source: Bloomberg and Morningstar Direct as of 12/31/25. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index. See end of report for important additional information. \*Basis points (BPS) is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument.



The municipal yield curve steepened significantly in 2025

AAA MMD Municipal Curve

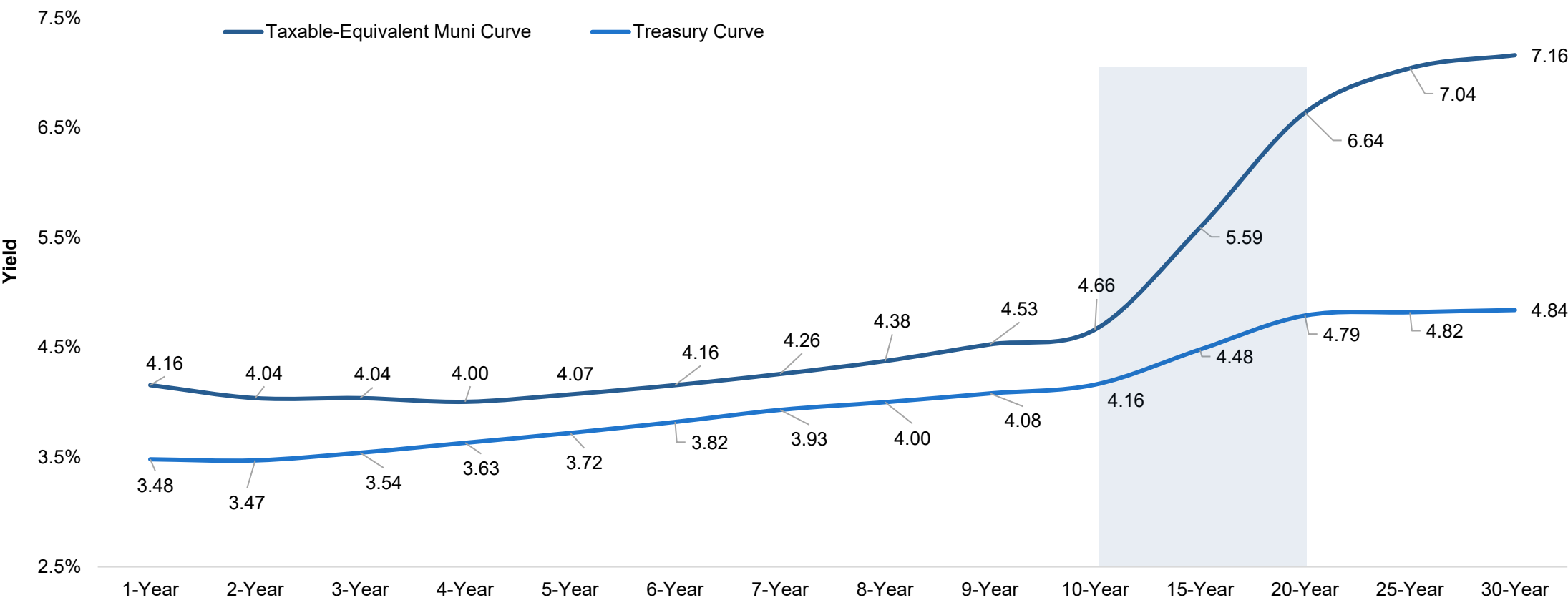


Maturity Year	YTD Yield Change
2-Year	-0.43
5-Year	-0.46
10-Year	-0.30
15-Year	0.04
20-Year	0.31
30-Year	0.34

Source: Refinitiv as of 12/31/2025. Data provided is for informational use only. Past performance is not a reliable indicator of future results.

# Taxable-equivalent yields look compelling, particularly in 10-to-20 years

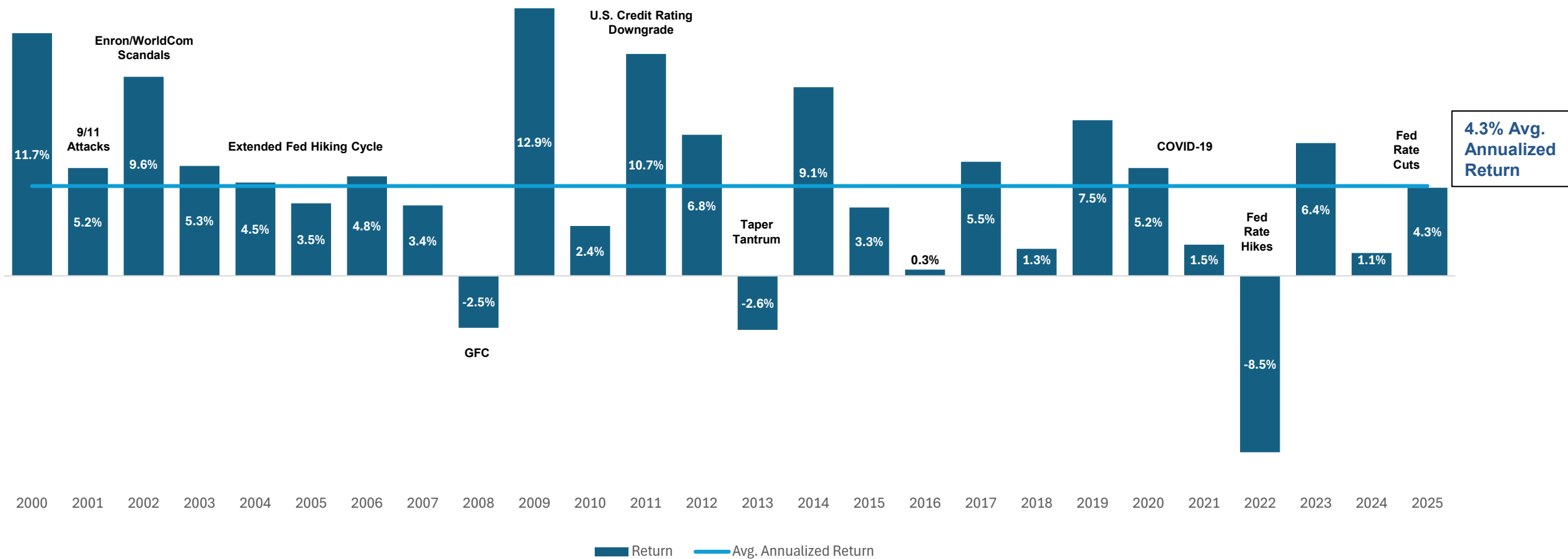
Curve discipline will be essential for navigating complex fiscal and monetary policy environment in 2026



Source: Bloomberg & Refinitiv as of 12/31/2025. Data provided is for informational use only. **Past performance is not a reliable indicator of future results.** Tax-equivalent yields is calculated assuming a federal tax rate of 40.80%.

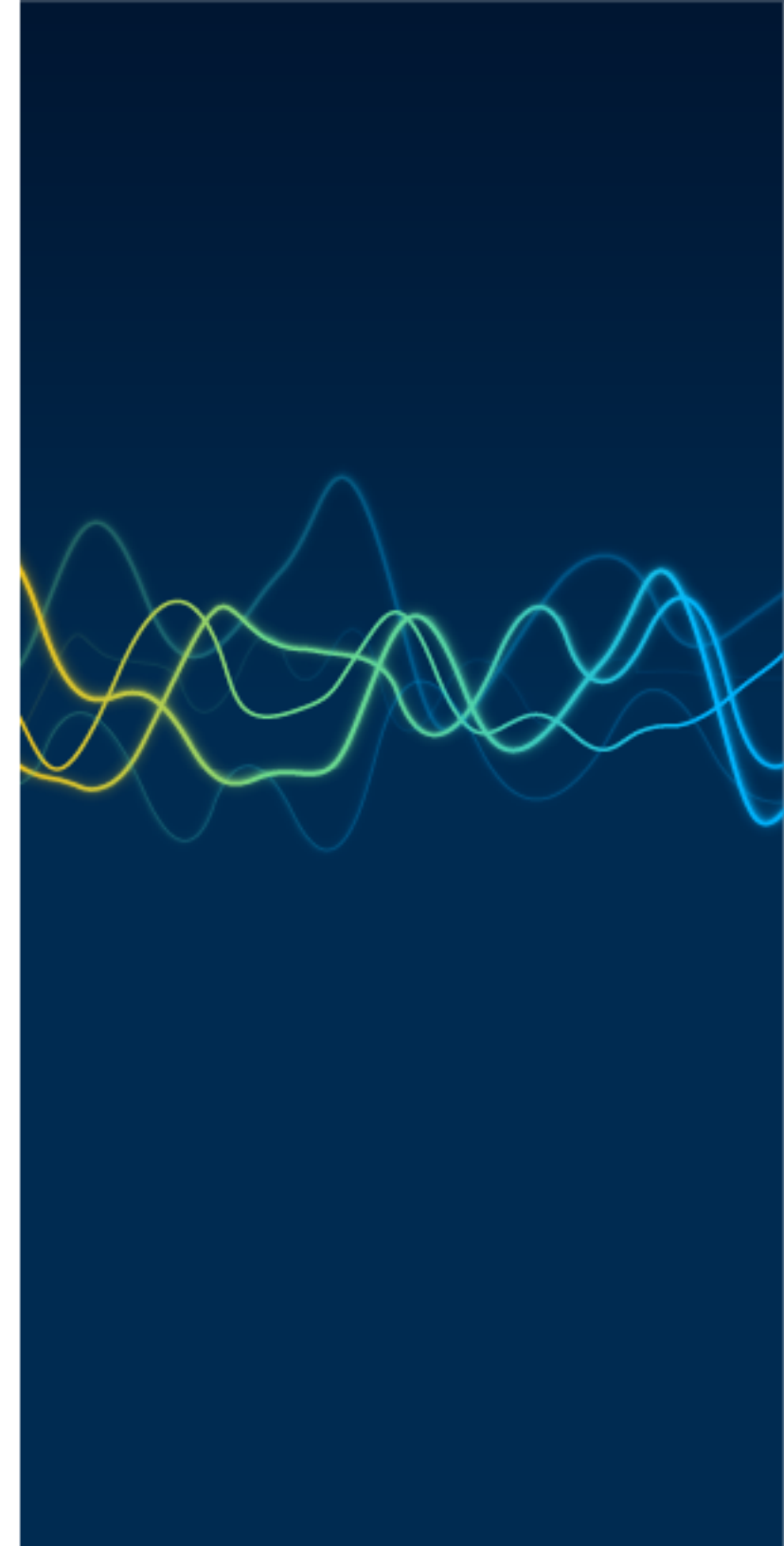
# Investment grade performance ended in-line with 25-year average due to strong second half

## Bloomberg Municipal Bond Index Calendar Year Returns



Source: Parametric and Bloomberg. Index data based on Bloomberg Municipal Bond Index. Data analyzed from 12/31/2000 through 12/31/2025. It is not possible to invest directly in an index. Indexes are unmanaged and do not reflect the deduction of fees or expenses. **Past performance is not indicative of future results.**

# Current Market Opportunities



**Yields are Elevated:** Municipal index yields are 104 basis points above the 10-year average

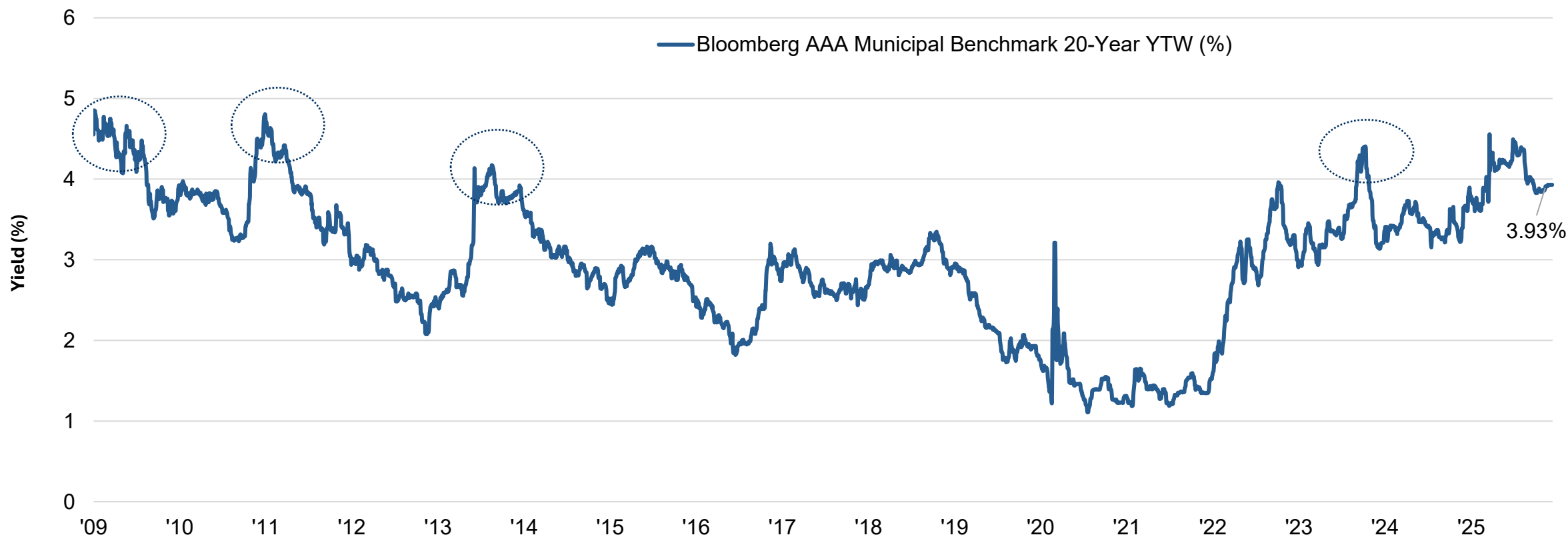
**Municipal Index Yield-to-Worst**



Source: Eaton Vance, Parametric, and Bloomberg. Index data based on Bloomberg Municipal Bond Index. Data analyzed from 11/30/2000 through 11/30/2025. Starting yields are represented by index yield to worst. Starting yields and forward index returns based on daily values for the last 25 years. It is not possible to invest directly in an index. Indexes are unmanaged and do not reflect the deduction of fees or expenses. **Past performance is not indicative of future results.**

**Yields are Elevated:** Past periods with 20-year muni yields near 4% proved to be attractive entry points

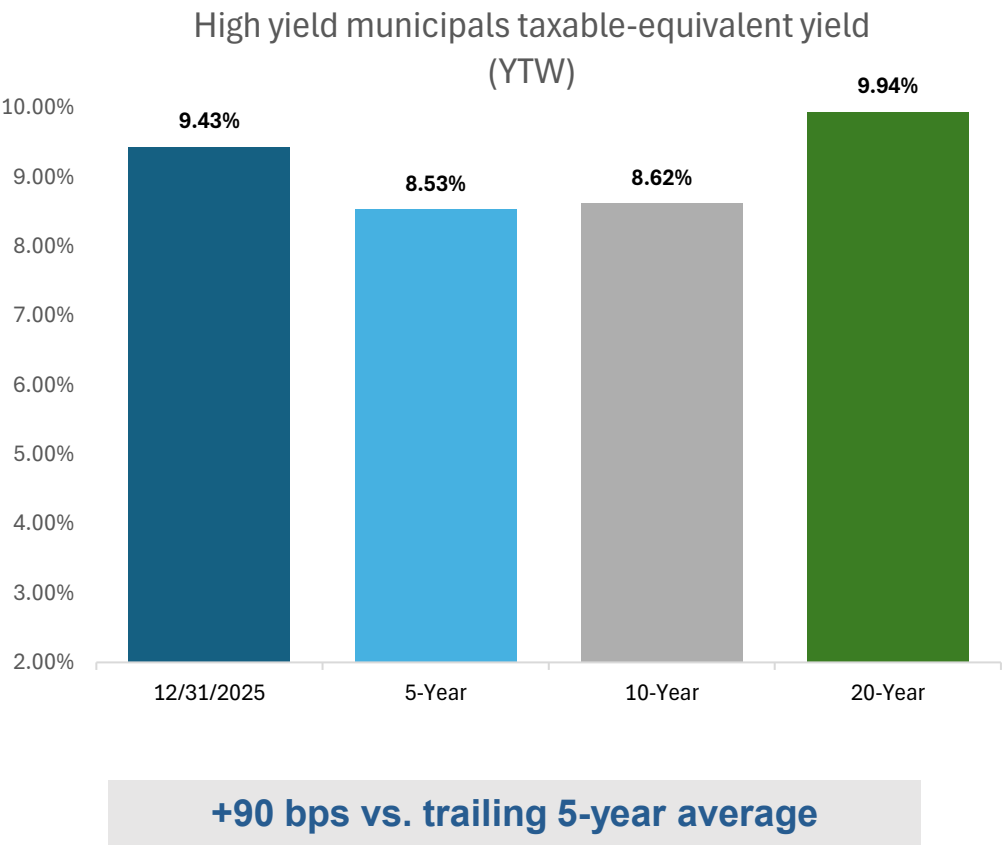
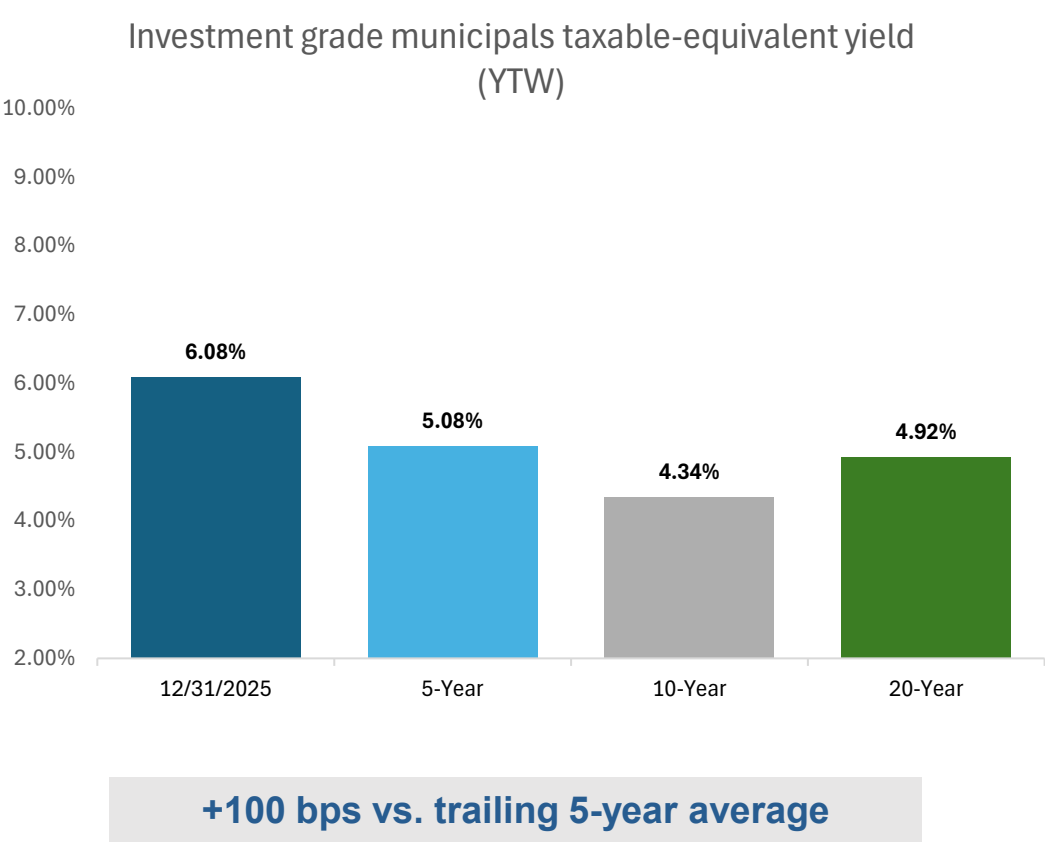
Bloomberg Municipal Benchmark 20-Year Index Yield-to-Worst (%)



Source: Bloomberg as of 12/31/2025. Index data based on Bloomberg BVAL Benchmark 20-Year Municipal Bond Curve Index. It is not possible to invest directly in an index. Indexes are unmanaged and do not reflect the deduction of fees or expenses. **Past performance is not indicative of future results.**

Yields are Elevated: Current yield levels in municipals are elevated vs. historical averages

Bloomberg Municipal Indices Yield-to-Worst vs 5-, 10- and 20-Year Averages

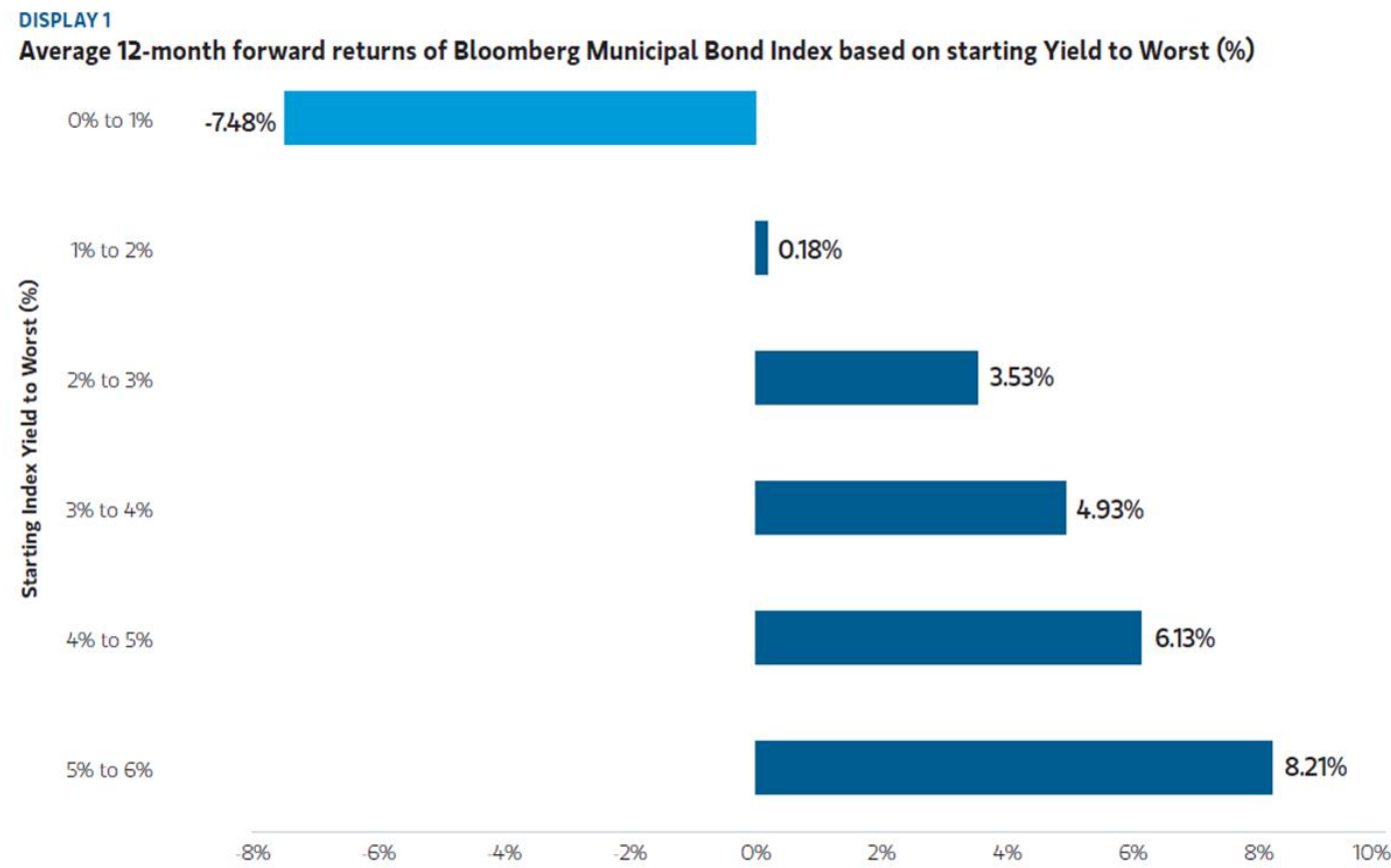


Source: Bloomberg as of 12/31/2025. Past performance is no guarantee of future results. The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment.

**Starting Yields Matter:** Locking in current interest rates can provide an income “cushion” and potentially higher returns

**Average 12-month forward returns for the Bloomberg Municipal Bond Index based on starting yield-to-worst**

- On average, a higher starting index yield-to-worst has resulted in higher forward 12 month returns.
- For example, the average index return over the 12-months following all starting yields between 3% and 4% has been 4.93%.

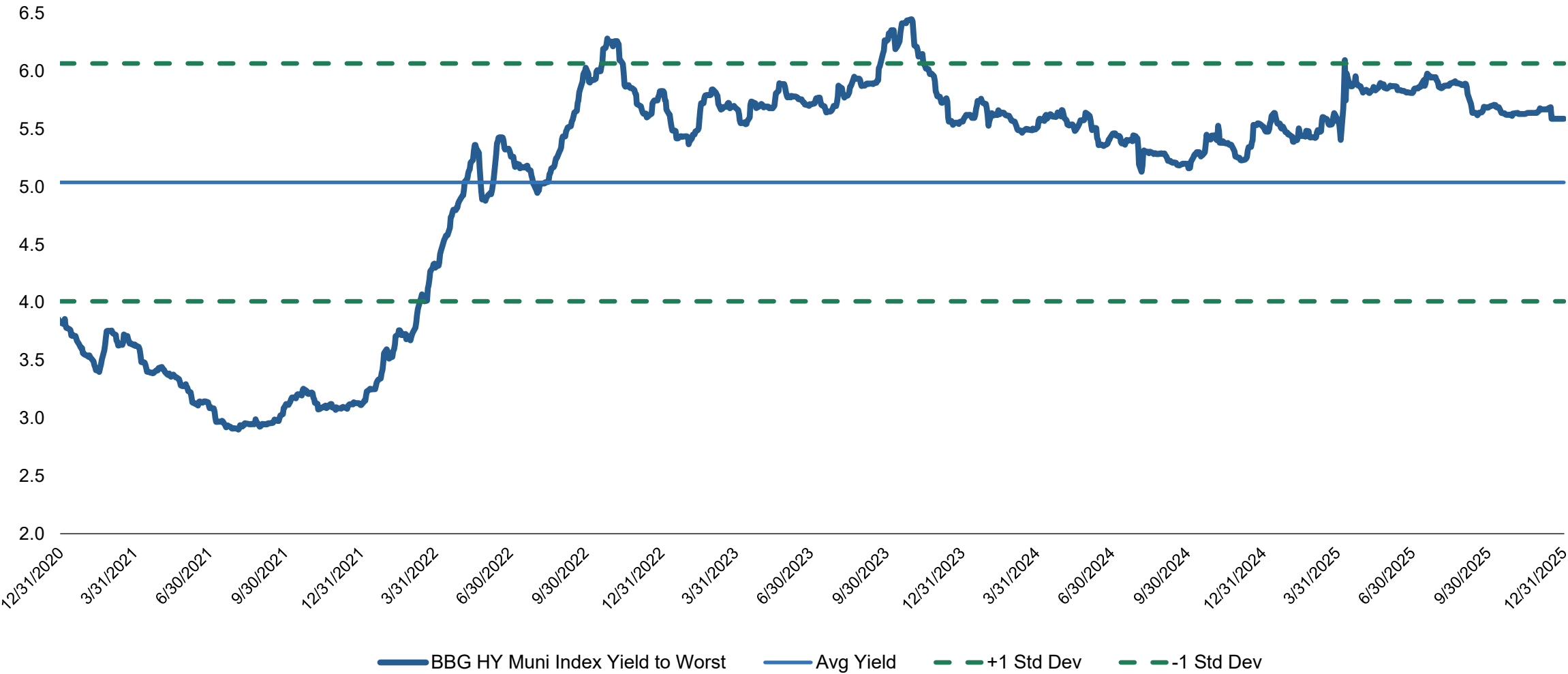


Source: Parametric and Bloomberg. Index data based on Bloomberg Municipal Bond Index. Data analyzed from 5/1/2000 through 5/1/2025. Starting yields are represented by index yield to worst. Starting yields and forward index returns based on daily values for the last 25 years. It is not possible to invest directly in an index. Indexes are unmanaged and do not reflect the deduction of fees or expenses. Past performance is not indicative of future results.



High yield municipals are compelling with absolute yields close to one standard deviation higher than the 5-year average

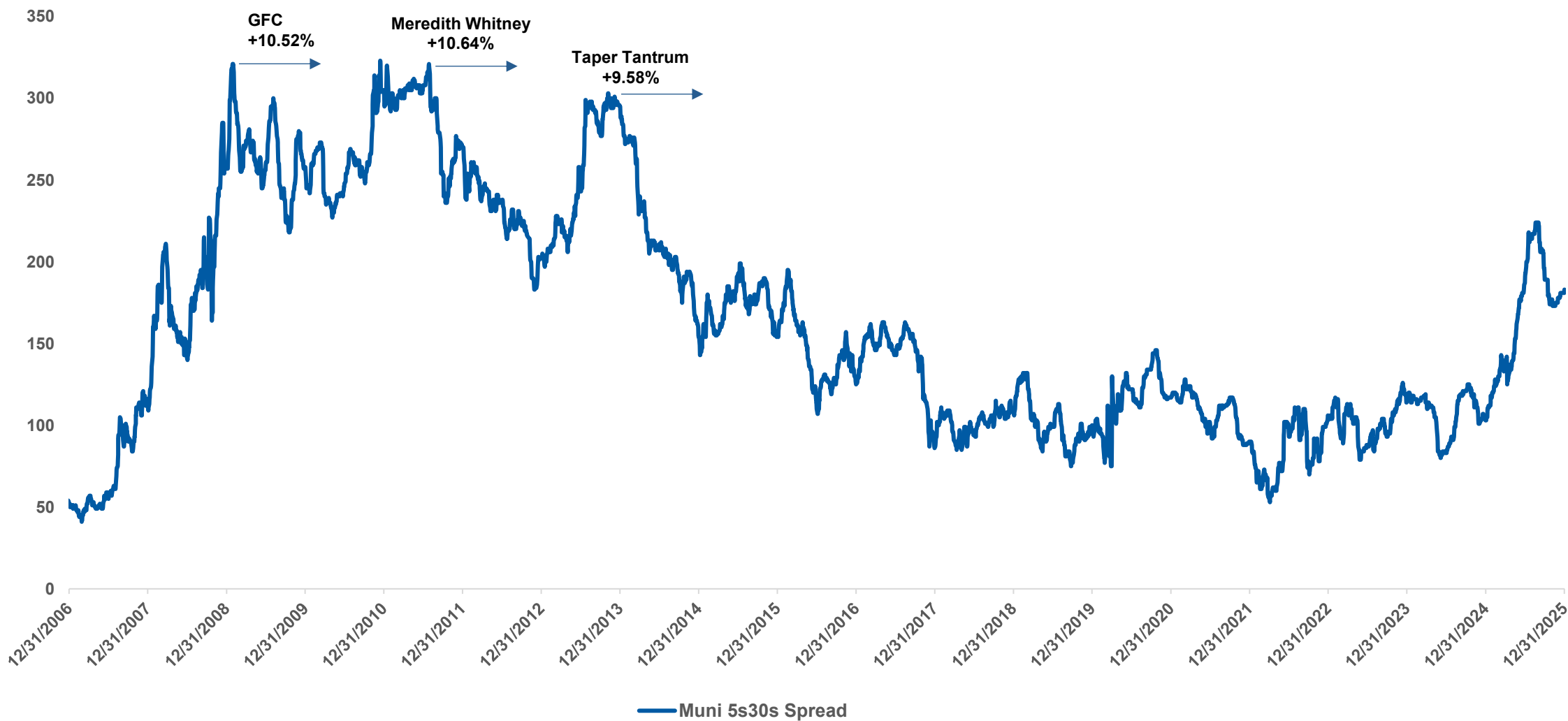
Bloomberg High Yield Municipal Index YTW



Source: Barclays and Bloomberg, as of 12/31/2025. The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.**

**Steep N’ Cheap:** In the past, steep yield curves have been accurate predictors of strong 12-month forward returns

MMD AAA Municipal 5s/30s Yield Curve

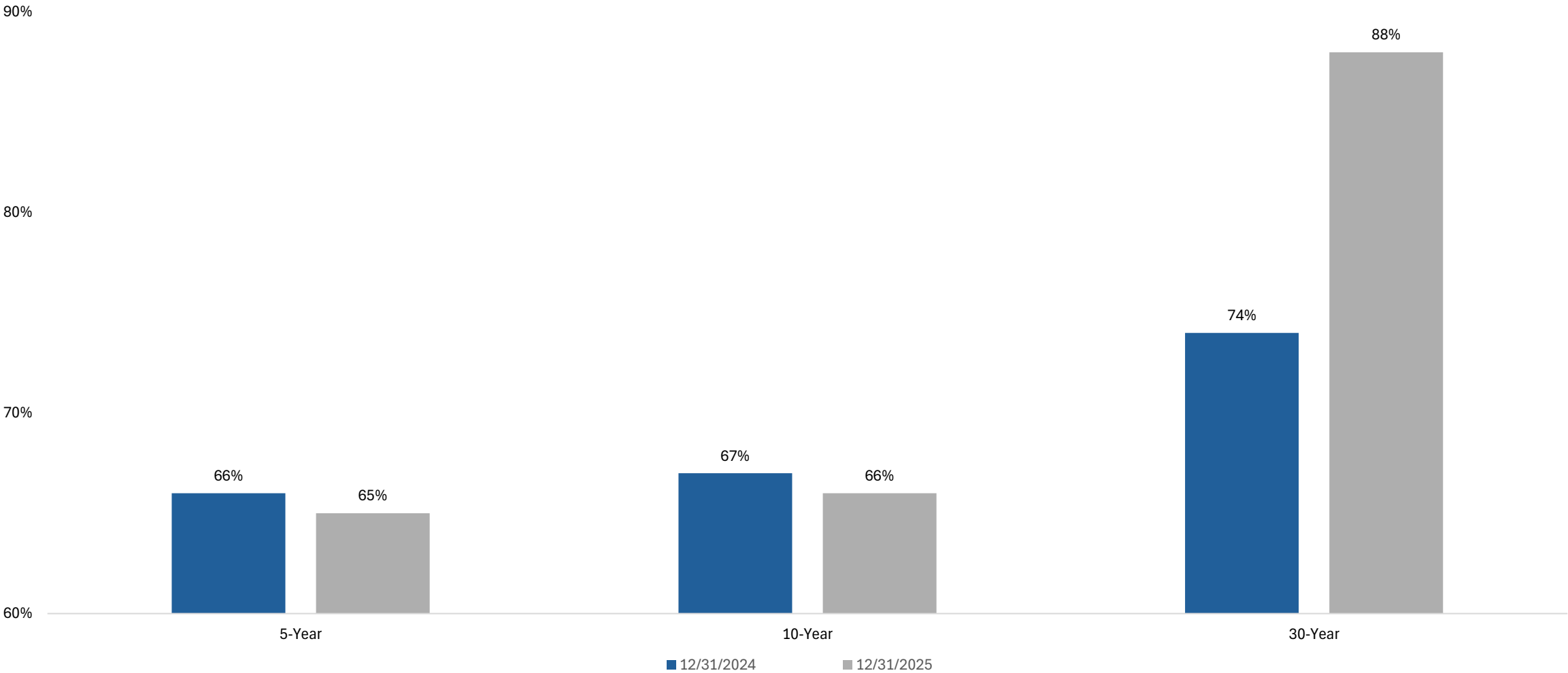


Source: Refinitiv as of 12/31/2025. Data provided is for informational use only. **Past performance is not a reliable indicator of future results.**

# Steep N’ Cheap: Longer duration municipals continue to look attractive relative to short and intermediate maturities

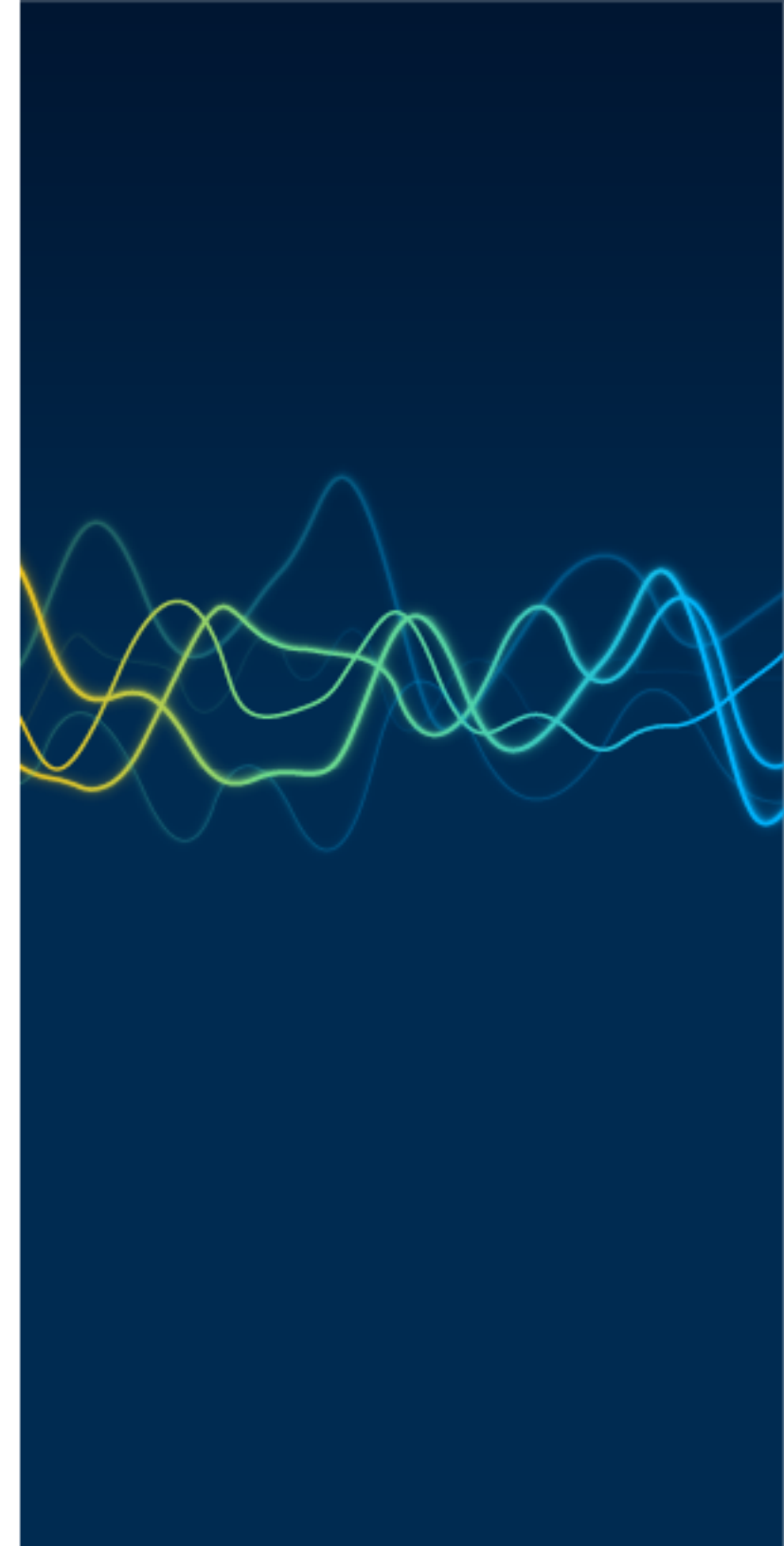
## Muni/Treasury Ratios

Muni/Treasury Ratios 12/31/24 and Present



Source: Bloomberg as of 12/3/25. **Past performance is no guarantee of future results.** See end of report for important additional information.

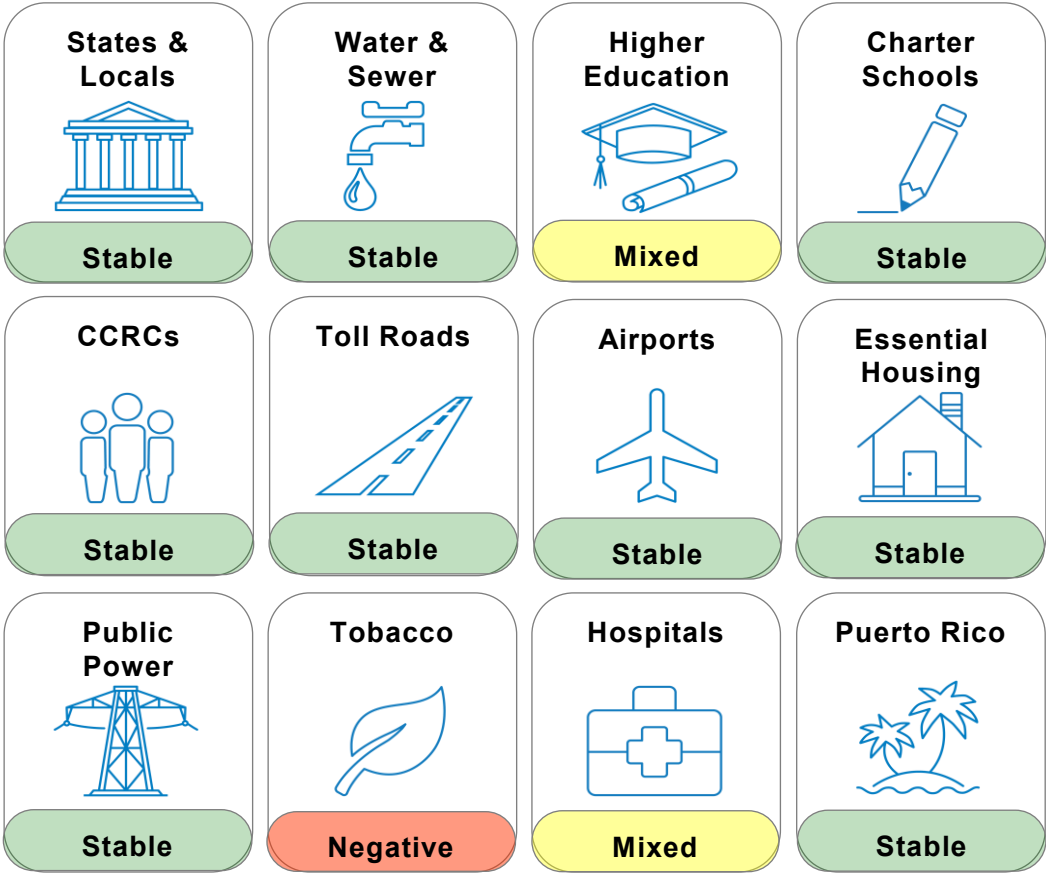
# Municipal Credit Overview



# Credit Fundamentals: Most sectors will likely experience stable credit quality in 2026

However, we believe credit pressure could arrive amid new administration federal policy decisions

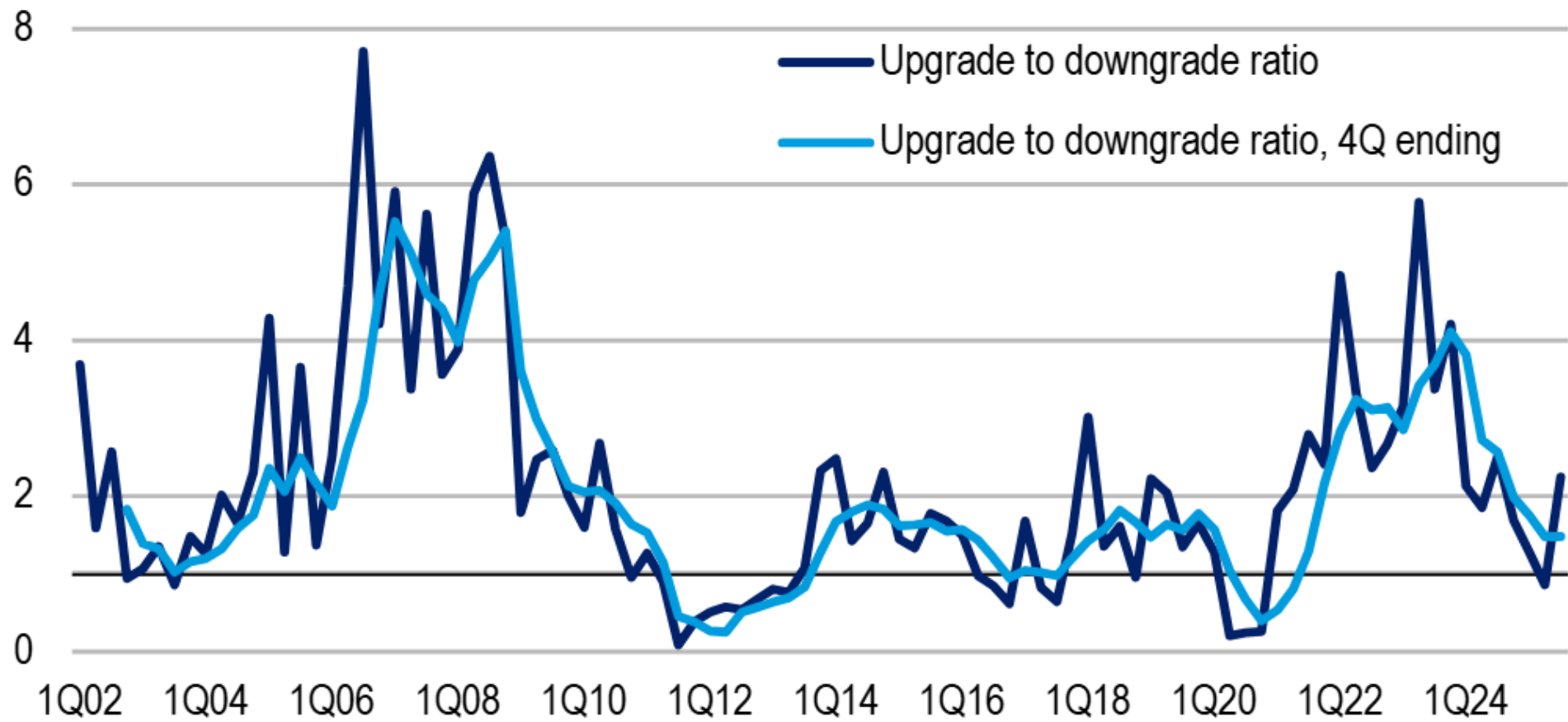
- **State and Local Governments outlook remains stable.** The median rainy day fund balance has decreased slightly from its previous high but remains at 12.8% of expenses. Revenues have risen; however, the number of states falling below estimates has increased modestly. Costs for Medicaid, pension funding, and SNAP are expected to increase. Medicaid costs could rise further if states choose to replace federal funding beginning in 2027. States may need to compensate for reduced FEMA funding in the future.
- **Higher education is mixed, and credit bifurcation continues to widen.** Strong institutions are holding their market position with healthy balance sheets while struggling schools face enrollment declines leading to weak operating performance and potential liquidity issues.
- **Healthcare is also mixed.** Hospital performance continues to recover as patient volumes normalize, and revenue diversification and expense efficiency measures take hold. Cash reserves provide meaningful support. However, profitability gains are slowing, and pressures from rising labor costs, inflation, and workforce shortages persist. OBBA will significantly cut Medicaid funding and expand the uninsured population, disproportionately affecting safety-net and rural hospitals. Expiration of ACA premium subsidies, governmentally imposed staffing and pricing mandates, and payer shift toward Medicare managed care, are expected to weigh on margins.
- **We have a negative outlook on the Tobacco sector.** The negative outlook is primarily driven by US smoker demographics, proliferation of smoking alternatives and price inflation.



Source: Eaton Vance. For informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or do adopt any specific investment strategy.

**State Credit Fundamentals:** Municipal credit quality has weakened in recent months but remains positive overall

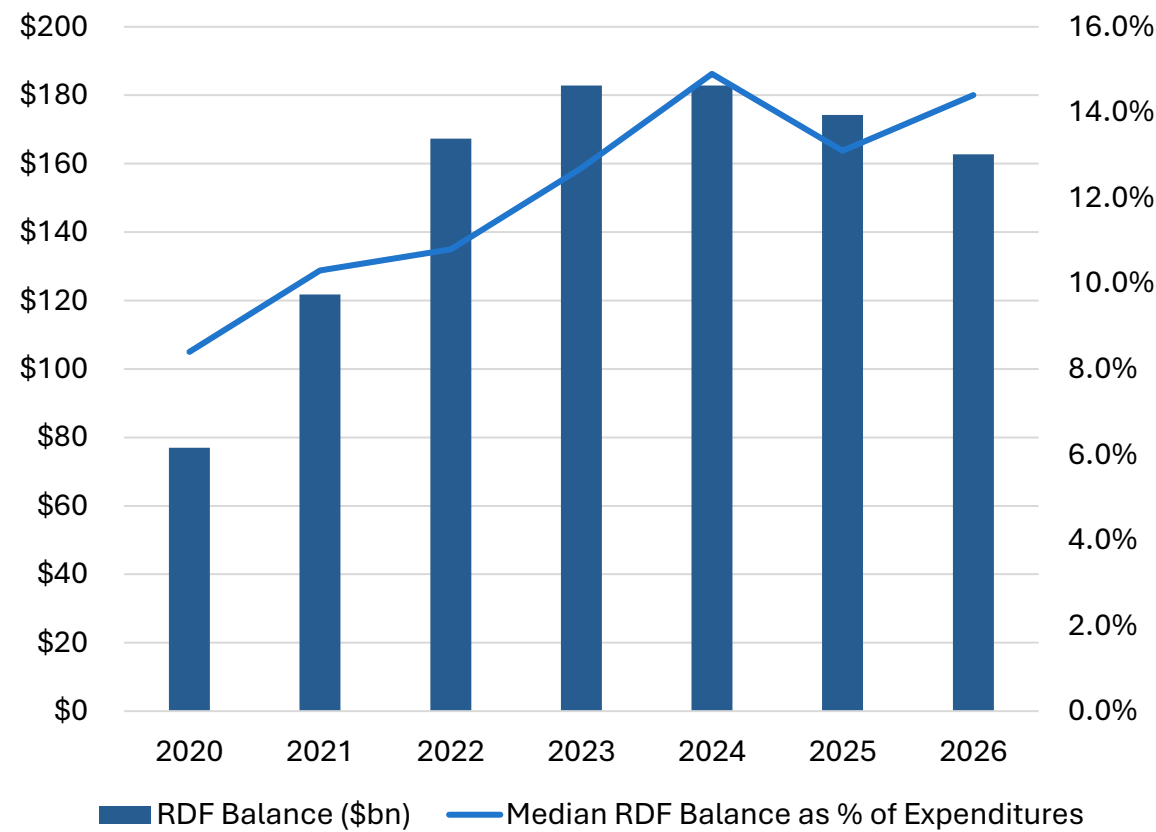
YTD Upgrade/Downgrade ratio of 1.4 is the weakest since Q1 '22



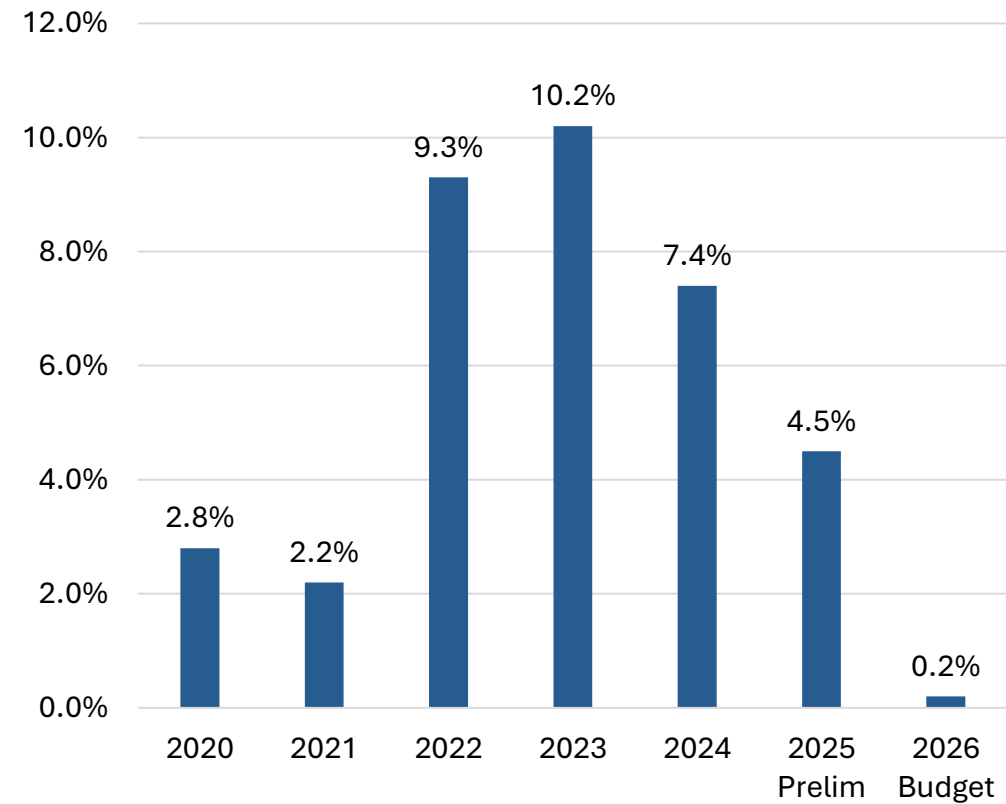
Source: BofA Global Research, Moody's Ratings, S&P Ratings as of 9/30/25

State Credit Fundamentals: Elevated rainy day fund balances and conservative spending growth give states the financial means to navigate federal funding uncertainties.

State Rainy Day Fund Balances & Median Balance as % of Expenditures



Median Y/Y Change in General Fund Spending

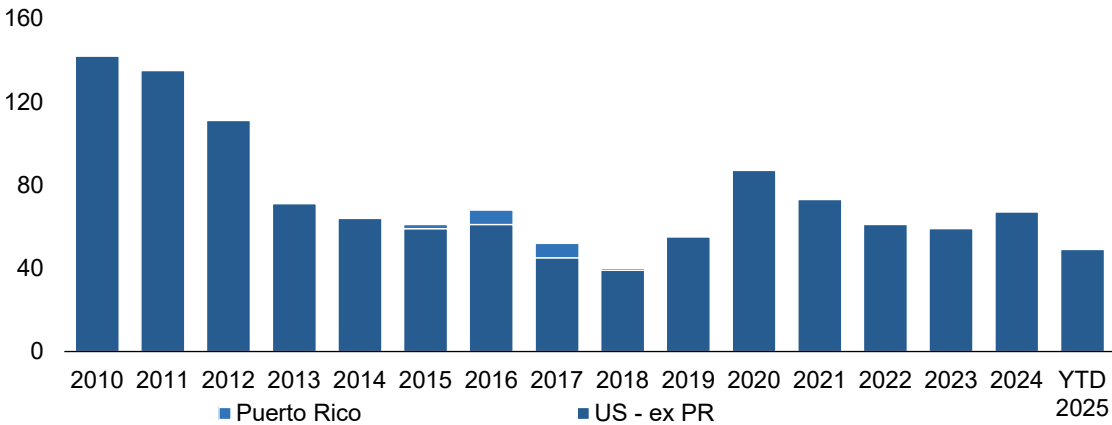


Source: National Association of State Budget Officers, JPM. Rainy Day Funds and General Fund Spending: Fiscal 2025 data represents preliminary actuals and fiscal 2026 data represents projections in enacted budgets.

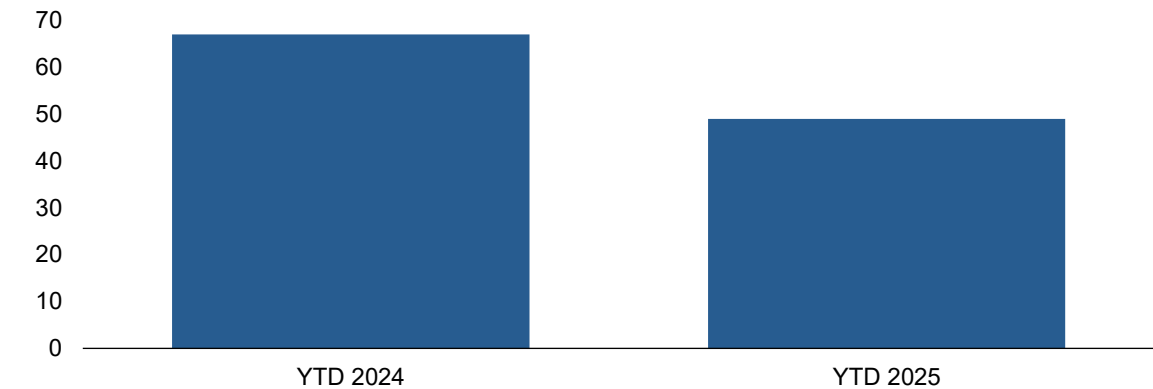
# The number of municipal defaults has consistently declined since 2020

## Number of Unique Annual Defaults

Number of Unique Defaults

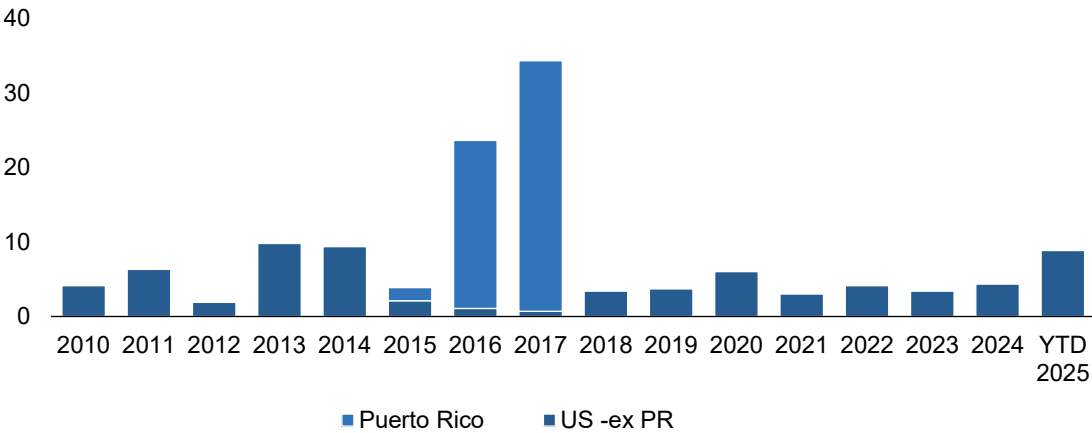


## YTD 2025 Number of Unique Defaults Decreased 26% YoY

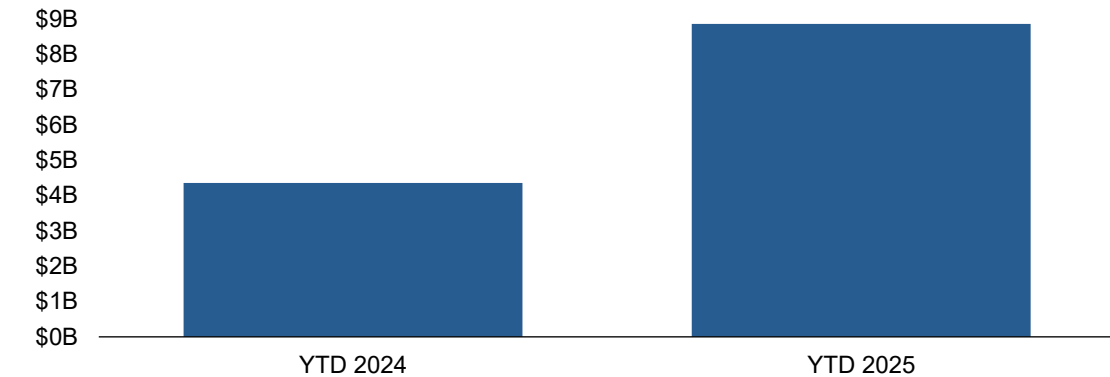


## Dollar Value of Annual Defaults (\$ Billions)

Dollar Value of Defaults (\$ Billions)



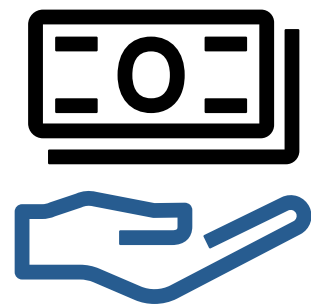
## YTD 2025 Dollar Value of Defaults Increased by 100% YoY, but Concentrated Around One Large Issuer\*



Source: MMA. Default data as of 12/31/2025 \* Brightline Trains Florida LLC



One Big Beautiful Bill Act (OBBBA) signed on July 4<sup>th</sup> by President Trump, impacted a few key areas of the municipal bond market



**MUNICIPAL BOND TAX EXEMPTION  
UNCHANGED**

Most importantly, the tax-exempt status of the municipal bond market remains unchanged.



**MEDICAID COVERAGE CHANGES**

Major reforms to Medicaid results in cuts of approximately \$990 billion over 10-years, starting in 2026.



**STATE AND LOCAL TAXES (SALT)**

Increasing SALT cap means some taxpayers will be able to deduct up to \$40K of state taxes from federal returns. In 2030, the cap returns to \$10K

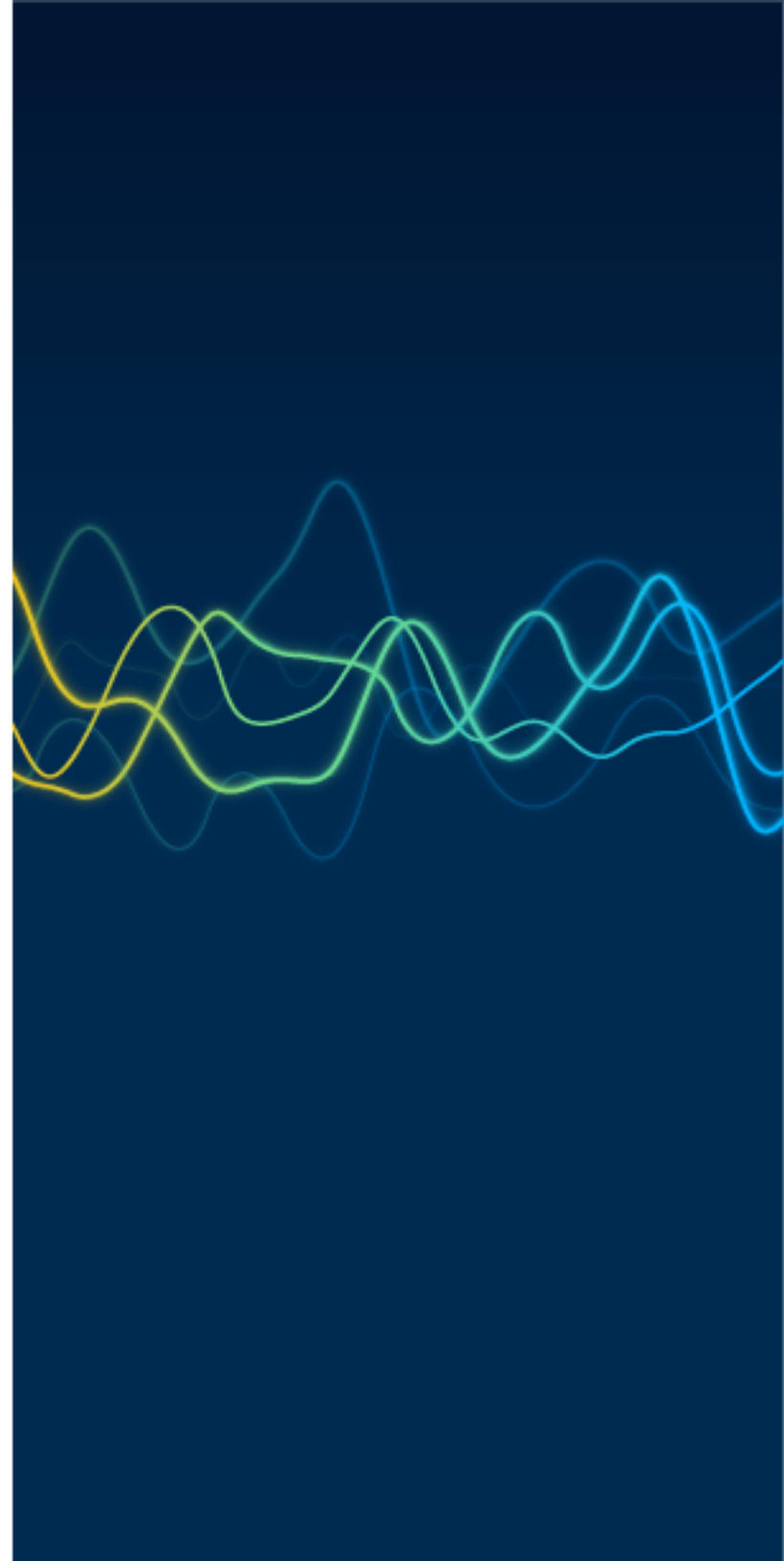


**ENDOWMENT TAXES**

Universities with an endowment per student of \$2+ million see an increased tax rate of 8.0%. For universities with endowments greater than \$750K but less than \$2 million per student, tax rate increases to 4%. All others are unchanged.

Source: Parametric and Eaton Vance. The One Big Beautiful Bill Act (OBBBA) was signed into law by President Trump on 7/4/2025.

# Disclosures



## RISK CONSIDERATIONS

An imbalance in supply and demand in the municipal market may result in valuation uncertainties and greater volatility, less liquidity, widening credit spreads and a lack of price transparency in the market. There generally is limited public information about municipal issuers. Investments in income securities may be affected by changes in the credit worthiness of the issuer and are subject to the risk of non-payment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. As interest rates rise, the value of certain income investments is likely to decline. Diversification cannot ensure a profit or eliminate the risk of loss. Debt securities are subject to risks that the issuer will not meet its payment obligations. Low rated or equivalent unrated debt securities of the type in which a strategy will invest generally offer a higher return than higher rated debt securities, but also are subject to greater risks that the issuer will default. Unrated bonds are generally regarded as being speculative.

## ADDITIONAL INFORMATION

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There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. **A separately managed account may not be appropriate for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required. For important information about the investment managers, please refer to Form ADV Part 2.**

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ADDITIONAL INFORMATION

Important Information and Disclosure

TERMS

**Municipal-to-Treasury Yield Ratios** are relative value indicators that measure the richness or cheapness of Municipal bond yields to comparable maturity Treasury bond yields.

**Yield to Worst** is a measure which reflects the lowest potential yield earned on a bond without the issuer defaulting. The yield to worst is calculated by making worst-case scenario assumptions by calculating the returns that would be received if provisions, including prepayment, call or sinking fund, are used by the issuer.

INDEX DEFINITIONS

**Bloomberg Municipal Bond Index** is an unmanaged index of municipal bonds traded in the U.S.

**Bloomberg High Yield Municipal Bond Index** is an unmanaged index of non-Investment Grade Municipal bonds traded in the U.S.

**Bloomberg Taxable Municipal Bond Index** is an unmanaged index of Taxable Municipal Bonds traded in the U.S.

**Bloomberg U.S. Treasury Index** measures public debt instruments issued by the U.S. Treasury.

**Bloomberg U.S. Aggregate Index** is an unmanaged index of domestic investment-grade bonds, including corporate, government and mortgage-backed securities.

**Bloomberg U.S. Corporate High Yield Index** measures USD-denominated, non-investment grade corporate securities.

**Bloomberg U.S. Corporate Index** is an unmanaged index that measures the performance of investment-grade corporate securities within the Barclays Capital U.S. Aggregate Index.

**S&P/LSTA Leveraged Loan Index** is an unmanaged index of the institutional leveraged loan market.

**Standard & Poor’s 500 Index** is an unmanaged index of large-cap stocks commonly used as a measure of U.S. stock market performance.

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