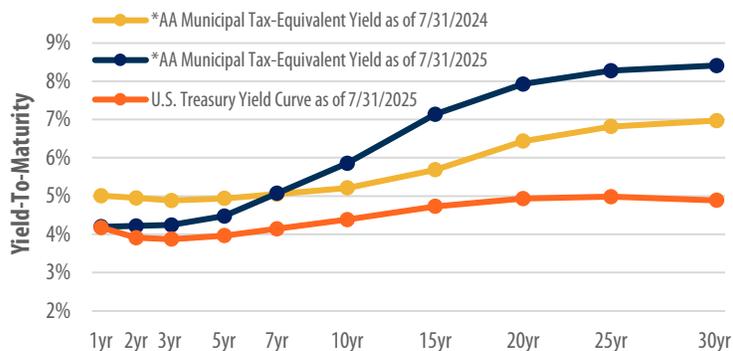




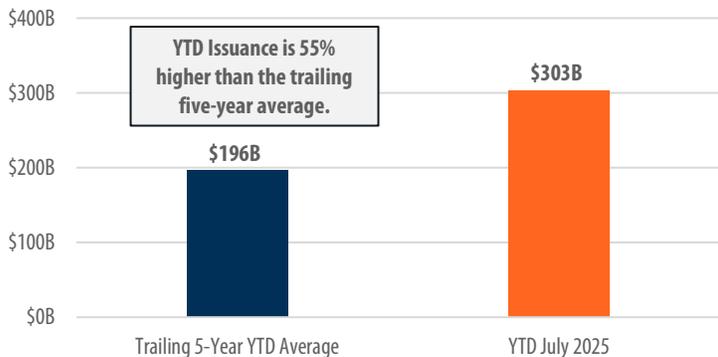
William Housey, CFA
Managing Director of Fixed Income,
Senior Portfolio Manager

Chart 1: Municipal Yield Curve



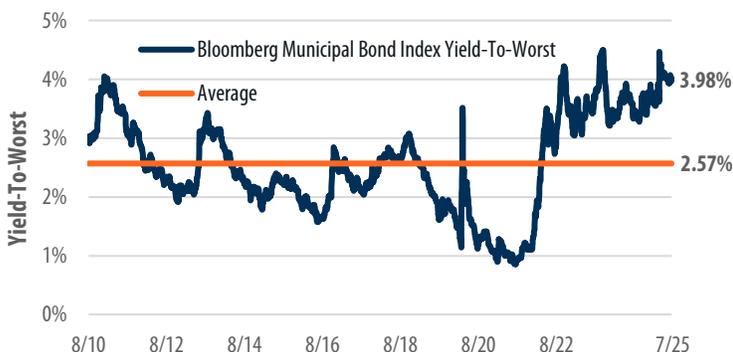
Source: Bloomberg. As of 7/31/2025. **Past performance is no guarantee of future results.**
*Yield-To-Maturity represents the Tax-Equivalent Yield (TEY) for the highest federal tax bracket of 37% plus a Medicare tax rate of 3.8% for a total tax rate of 40.8%.

Chart 2: Tax Exempt New Issuance for Municipal Bonds



Source: J.P. Morgan. As of 7/31/2025.

Chart 3: Bloomberg Municipal Bond Index Yield-To-Worst



Source: Bloomberg. Data from 8/19/2010 to 7/31/2025. **Past performance is no guarantee of future results.**

Economist Hyman Minsky once observed that markets often swing from stability to instability in sudden, dramatic fashion—a so called “Minsky Moment.” Ironically, the municipal bond market this year has lived through its own version of this. Fears earlier this year about sweeping policy changes rattled investors and introduced pockets of stress, but those same fears have now faded, and as such, we believe have led to one of the most compelling opportunities in the municipal bond market in years.

New Issue Supply: Policy-driven uncertainty surrounding the One Big Beautiful Bill Act (OBBBA) has led to a deluge of municipal bond issuance and higher municipal bond yields, especially for bonds with stated final maturities over 10 years [Chart 1]. While concerns over the loss of tax-exemption for municipal borrowers has proven completely unfounded, we believe that the potential for curtailing the exemption led to a burst in new issue supply. Over the first seven months of 2025, gross new issuance increased 20% year-over-year to \$330 billion (\$303 billion tax-exempt and \$26 billion taxable). Incredibly, this year-to-date supply exceeds the trailing five-year average for the period by 55% (\$196 billion) [Chart 2].

Credit Concerns: In addition to record setting supply, credit anxieties for municipal borrowers emerged as the Trump Administration’s policies affected certain sectors of the municipal market. For example, Medicaid-reliant hospitals face heightened scrutiny from OBBBA’s federal policy changes, which will cut Medicaid spending, likely boost uninsured rates, and thus increase bad debt and charity care costs—especially since states are unlikely to offset revenue losses or added burdens. In addition, universities face a higher level of Federal oversight and scaled back scientific research funding, raising questions about higher education stability. These developments may create mispricings by lumping municipal borrowers in affected sectors together, which we believe has led to attractive entry points. For instance, hospital bonds’ year-to-date underperformance offers opportunities in systems with leading market positions, low Medicaid exposure, and strong balance sheets.

5th Percentile Opportunity: From a valuation perspective, municipal bond yields are rarely this compelling. Currently sitting in roughly the 5th percentile of historical ranges, yields are at levels typically seen only during periods of market stress. On a taxable-equivalent basis, high-quality municipal bonds now offer 7%–8%+ yields—levels that are both unusual and highly attractive for investors seeking income with tax efficiency [Chart 3].

The municipal bond market’s recent turbulence has been its own “Minsky Muni Moment” — a swing from fear to opportunity. While the surge in new issue supply and headline risks has temporarily pressured prices, it also may offer active portfolio managers opportunities to selectively capture historically attractive yields. With reaffirmed tax benefits, moderating sector concerns, abundant supply, and these yields, we believe disciplined and patient investors are well-positioned.

Definitions:

Bloomberg Municipal Bond Index - Tracks the performance of the tax-exempt bond market. *Indices are unmanaged and investors cannot invest directly in an index.*

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