BNY | INVESTMENTS

MUNICIPAL BONDS: ARE THEY HAVING A MOMENT?

October 2026

KEY POINTS

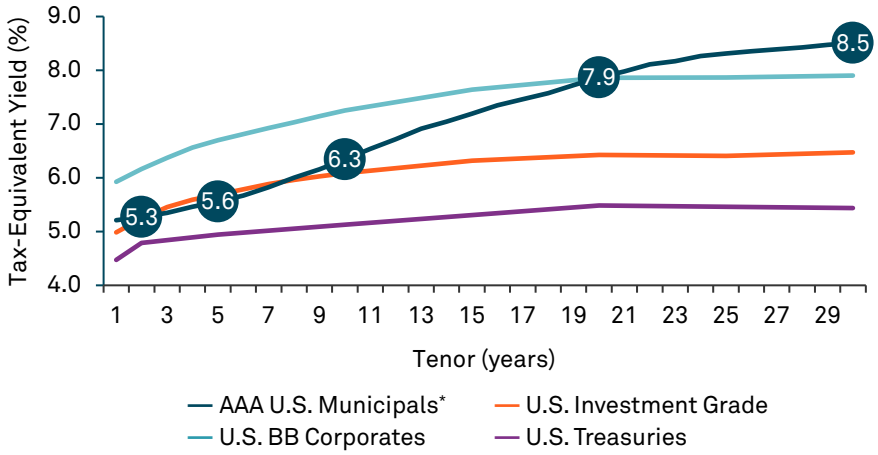
- Municipal (muni) bonds may present attractive after-tax income opportunities, particularly for investors in the highest tax bracket.[1]
- In our view, the scale and complexity of munis can create opportunities for active managers to generate value beyond income.
- Munis are generally considered to be high quality, with historically low default rates compared to corporate bonds.

Despite its size and quality, the $4.4 trillion municipal bond market is often overlooked in core fixed income portfolios. However, at certain maturities, the highest-quality AAA municipal bonds can sometimes offer higher after-tax yields than high yield corporates. In our view, the market's size and complexity can create opportunities for active managers to add value.

Municipal bonds currently offer their highest yields since 2008, climbing close to 7.9% on a calculated tax-equivalent yield basis for investors in the highest tax bracket.[2]

Longer-dated AAA municipal yields are even higher and may surpass equivalent BB high yield corporate yields on a tax-equivalent basis for the highest taxpayers, potentially reflecting material relative value and inefficient pricing.[3]

AAA Municipal Yields are Potentially Attractive, Even Against High Yield Corporates



Source: Bloomberg, Bloomberg Evaluated Pricing Solutions (BVAL), as of September 28, 2026. *The municipal tax-equivalent yield (TEY) is calculated using a 40.8% tax bracket, which includes a 37.0% top federal marginal income tax rate and a 3.8% Net Investment Income Tax (NIIT). Chart is for illustrative purposes. Past performance is not indicative of future results.

These yields indicate that municipal bonds may be able to deliver compelling income potential through their coupon payments.

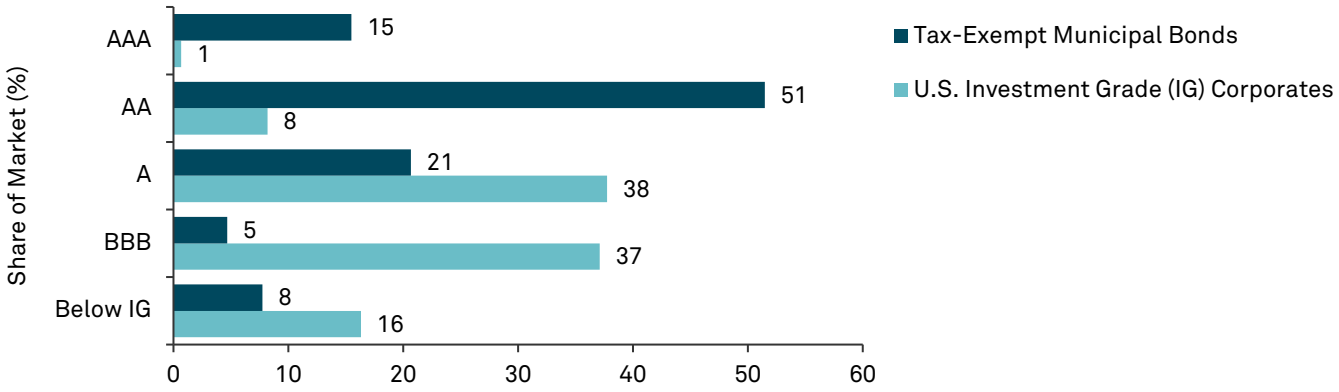
Additionally, municipal bonds may benefit from price appreciation over time. Because the municipal yield curve is steeper than those of Treasury and corporate bonds, investors may benefit from the "roll-down" effect, where a bond's yield falls over time (and thus its price rises) if the yield curve remains steep and credit conditions are stable.

Further, we believe that if wider macroeconomic and global interest rate volatility subsides, high grade municipal bonds could be favorably positioned to rebound from their current levels.

Municipals' High Credit Quality May Offer Stability

72% of the tax-efficient municipal bond market is rated AA or above, versus only 10% of the U.S. investment grade corporate bond market. In addition, 10-year historical municipal bond default rates have been 0.15%, compared to 10.82% for global corporates.[4]

Municipal Bonds May Provide an Opportunity to Access Predominantly AAA- to A-rated Bonds



Source: Bloomberg (Bloomberg Municipal Bond Index, Bloomberg U.S. Corporate Investment Grade Index), October 23, 2026. Chart is for illustrative purposes. Past performance is not indicative of future results.

We believe munis could provide diversification benefits to a core fixed income allocation. They also present a direct opportunity to invest in local communities, financing infrastructure such as hospitals, schools, transportation, and utilities.

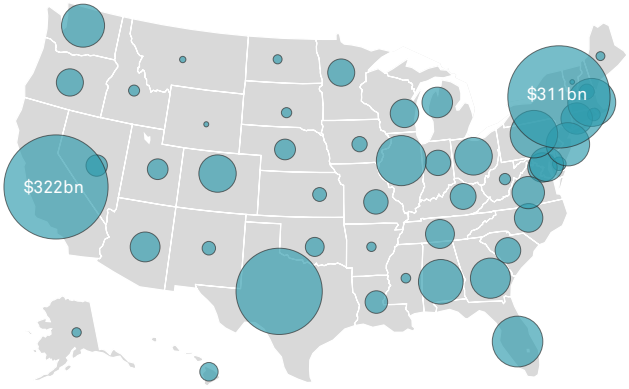
Potential Opportunities for Active Managers

The scope of municipal bonds is vast, with over 65,000 investment grade tax-exempt municipal bonds available – far surpassing the total available in related bond markets.[5]

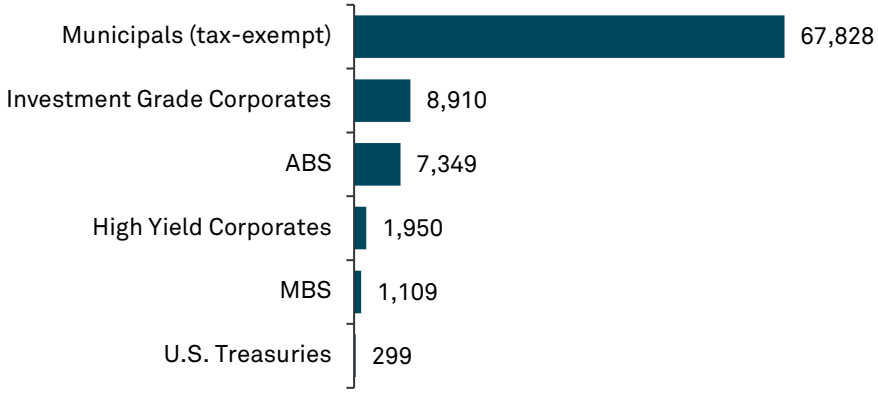
California and New York account for about a third of the tax-exempt municipal bond market. As a result, national municipal strategies may hold bonds issued outside an investor's home state, and depending on the applicable tax rules, income from such bonds may be subject to state or local taxes.

Passive Approaches May Miss Distinct Opportunities

Investment Grade Tax-Exempt Municipal Bond Market



Number of Bonds



Source: Bloomberg (Bloomberg Municipal Bond Index, Bloomberg U.S. Aggregate Bond Index, Bloomberg U.S. MBS Index, ICE BofA U.S. ABS & CMBS Index, Bloomberg U.S. Corporate Investment Grade Index, Bloomberg U.S. High Yield Corporate Bond Index), September 28, 2026. ABS = Asset-Backed Securities; MBS = Mortgage-Backed Securities. Chart is for illustrative purposes. Past performance is not indicative of future results.

Many municipal bonds are small issues spread across local governments throughout the U.S. As a result, comprehensively covering the full market can be difficult, particularly for investors without significant resources.

We believe credit spread pricing is inefficient and there are mispricing opportunities across the universe. In many cases, our internal credit assessments differ from those of the rating agencies.

In our view, active managers can seek significant value through independent credit research and opportunistic trading.

Outcomes Matter

Learn more about Insight Investment's capabilities, philosophies & solutions:

Getting to Know Insight Investment

ABOUT INSIGHT INVESTMENT

BNY Investments' fixed income platform can deliver a wide range of solutions, and leverages Insight Investment's deep active fixed income expertise across traditional, specialized, municipal bond, and absolute return strategies.

Endnotes

1. Municipal bonds currently offer attractive tax-equivalent yields for investors in the highest federal tax bracket; at certain maturities, AAA municipal tax-equivalent yields may exceed yields on certain below-investment-grade corporate bonds.
2. Bloomberg (Bloomberg Municipal Bond Index), September 28, 2026. The municipal tax-equivalent yield (TEY) is calculated using an assumed 40.8% tax bracket, which includes a 37.0% top federal marginal income tax rate and a 3.8% Net Investment Income Tax (NIIT).
3. At certain longer maturities, AAA municipal tax-equivalent yields may exceed yields on comparable BB-rated corporate bonds for investors subject to the assumed 40.8% federal tax rate.
4. Moody's, 1970-2024, July 2025.
5. Source: Insight Investment, Bloomberg Municipal Bond Index, October 2026.

Risks

All investments involve risk including loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

Bonds are subject to interest rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. The amount of public information available about **municipal securities** is generally less than that for corporate equities or bonds. Legislative changes, state and local economic and business developments, may adversely affect the yield and/or value of municipal securities. Other factors include the general conditions of the municipal securities market, the size of the particular offering, maturity of the obligation, and the rating of the issue. Income for national municipal funds may be subject to state and local taxes. 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.

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 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. **Bond ratings** are an evaluation of a bond's credit quality and the issuer's ability to meet scheduled interest and principal payments, assigned by NRSROs on a scale from AAA (highest) to D (default). Ratings of BBB- and above are investment grade; BB+ and below are non-investment grade (speculative/high-yield), with BB, B, and CCC representing progressively higher credit risk. Tax-equivalent yield (TEY) calculates the pre-tax yield a taxable bond needs to offer to match the after-tax return of a tax-free investment. Roll-down return is the potential price appreciation a bond may experience as it approaches maturity. Net Investment Income Tax (NIIT) is an additional federal tax that applies to investment income above certain income thresholds.

Bloomberg Municipal Bond Index tracks the performance of the USD-denominated long-term tax-exempt bond market in the United States. **Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Bloomberg U.S. Corporate Investment-Grade Index** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate bond market. **Bloomberg U.S. High Yield Corporate Bond 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. MBS Index** tracks fixed-rate agency mortgage-backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). **ICE BofA U.S. ABS & CMBS Index** tracks the performance of U.S. dollar-denominated asset-backed and commercial mortgage-backed securities rated investment grade. **Bloomberg BVAL** is Bloomberg's independent, transparent evaluated pricing service that produces daily model-based fair-value prices for over 2.7 million fixed income and derivative securities, used by financial institutions for portfolio valuation, NAV calculation, regulatory reporting, and risk management. An investor cannot directly invest in an index.

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