

Market Review and Update

Overview

Despite a rocky start to the year, 2025 ended on a strong note with the lowest volatility levels since pre-pandemic, third Fed rate cut in December, record bond issuance volumes and strong inflows into bond funds. Entering 2026 the municipal market continues to see exceptionally high bond issuance volume. Markets continue to stabilize around ongoing trade disruptions and global conflict.

Interest Rates

- **Treasury Rates:** Following extreme pandemic-era volatility, Treasury markets shifted from a 2020 "dash for cash" and subsequent historic rate hikes (2022–2024) to a more stable, range-bound environment in 2025. Despite elevated long-term yields, volatility has plunged to lows not seen since 2021, with markets finding stability through late 2025 as the Fed began easing rates. Current long-term Treasury rates are at or close to the highest they have been over the past fifteen years. The 2-year treasury rate is currently 3.53% and the 30-year treasury rate is 4.83%.
- **Municipal Market Rates:** Tax exempt municipal bond rates, as represented by the AAA BVAL rates (benchmark for tax-exempt rates produced by Bloomberg) surged from near-zero pandemic lows to over 4% on long-term bonds by 2023-2024, remaining elevated through 2025. Over the last three months (late 2025–early 2026), yields have shown stability and a slight decline due to increased demand. The 30-year rate is currently at 4.09%.
- **Fed Funds Rate:** Citing labor market concerns, the Fed cut rates to 3.50% - 3.75% range at the December 2025 meeting, bringing the total to three cuts for the year. With that the Fed seems to be approaching a neutral policy stance and indicating it is unlikely to move rapidly with further cuts unless economic conditions, particularly labor, deteriorate further.
- **Municipal Market Supply-Demand Dynamics:** Tax-exempt municipal bond issuance volume hit all-time highs in 2025, exceeding \$500 billion in aggregate issuance volume. Following extreme volatility and massive outflows in 2022, the municipal tax-exempt market has recovered through 2024 and 2025 with \$50 billion in inflows, driven by strong credit fundamentals. Over the last 3 months, the market has entered 2026 with relative stability and high demand, with investors favoring high-quality, long-term bonds despite elevated, record-setting supply.
- **Equity Markets:** Equity markets in 2025 delivered strong, AI-driven, and broad-based gains with the S&P 500 rising roughly 17%. Early 2026 continues this bullish trend with expectations for further, though more moderate, growth, supported by steady earnings, decreasing interest rates, and active AI capital investment.

U.S. Economy

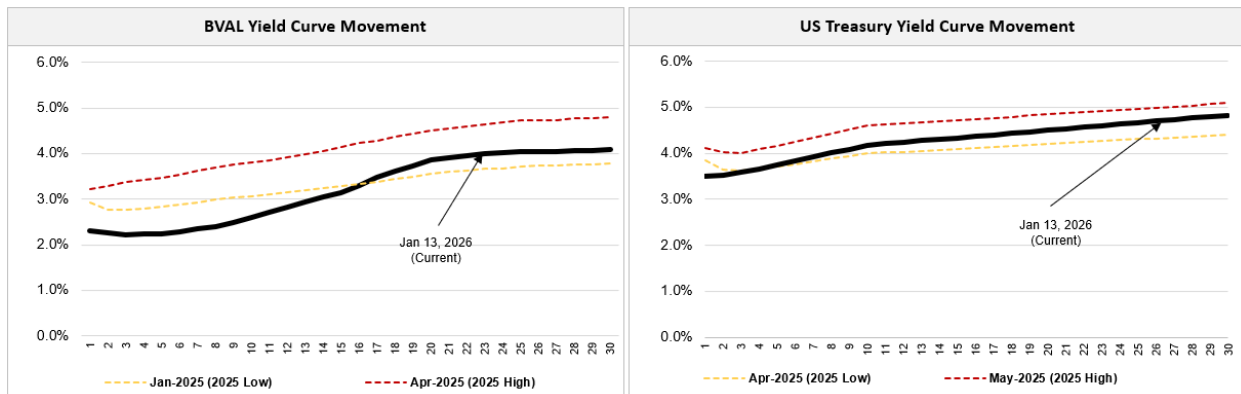
- **Jobs and Unemployment:** Initial Jobless Claims are holding near two-year lows, recently hovering around 200,000 in January 2026, indicating a stable labor market with low layoff activity. The unemployment rate edged down to 4.4% in December 2025, from a revised 4.5% in November. While an improvement, the elevated results continue to reflect a softening in the labor market, currently at the highest level of joblessness since October 2021.
- **GDP:** The US economy grew at a 4.4% annualized rate in the third quarter of 2025, well above initial estimates. The stronger figure reflected upward revisions in consumer spending, exports, and government spending.
- **Inflation:** The annual inflation rate remained at 2.7% in December, in line with market expectations. Annual core inflation, which excludes items such as food and energy, eased to 2.6% in December, the lowest since March 2021.
- **Personal Spending:** As one of the key drivers of the economy, personal spending rose by 0.5% in November 2025, extending the 0.5% increase from the previous month. This marks six months of

consecutive growth, extending the period of resilience from the US consumer despite heightened economic uncertainty and elevated borrowing costs.

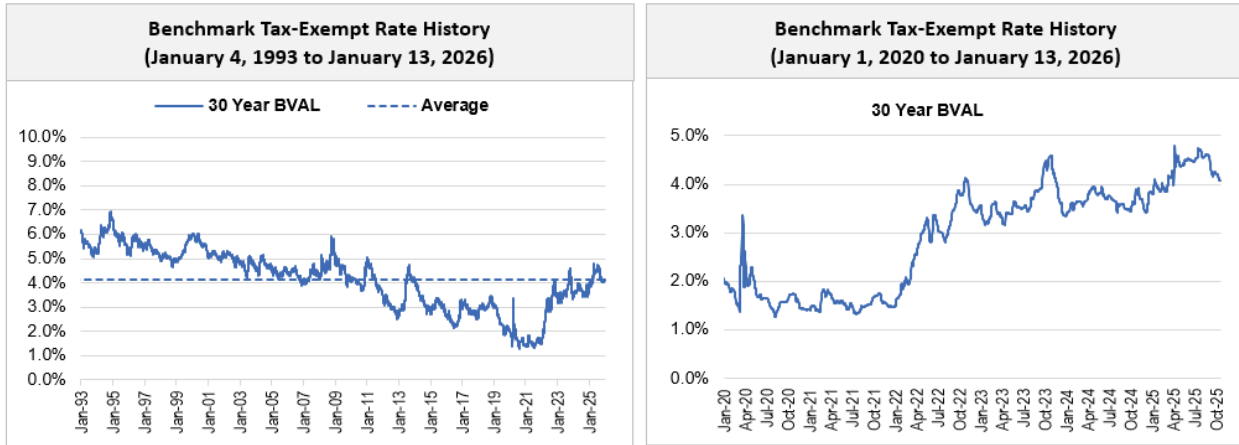
- **Retail Sales:** Retail sales in the US increased by 0.6% in November 2025, rebounding from a 0.1% decline in October and exceeding forecasts of a 0.4% increase.
- **Manufacturing and Service Data:** The S&P Global U.S. Composite Purchasing Managers Index (PMI) fell to 52.7 in December, the lowest in eight months. PMI above 50 indicates expansion in business activity, vice versa for readings below 50. The drop was driven by both the service sector (PMI 52.5) and manufacturing sector (PMI 51.8).
- **Consumer Sentiment:** The University of Michigan’s consumer sentiment index was revised up to 56.4 in January 2026, from a preliminary 54.0 and December’s 52.9. This marks a second straight monthly increase and the highest reading since August, with modest gains recorded across all major components of the index.

Long-Term Tax-Exempt and Taxable Interest Rates

The Bloomberg Valuation Service’s (BVAL) AAA yield curve (i.e., the “BVAL AAA” which is a widely accepted benchmark for tax-exempt municipal bond rates) has been volatile over the course of 2025 but was fairly stable over the last quarter. The two charts below show the current AAA BVAL yield curve and the current US Treasury yield curve (benchmark of taxable municipal bond rates) in comparison to the lowest and highest rates this year. As seen in the chart, the BVAL AAA curve has seen reductions along the curve and is currently below 2025 lows on the short end as the result of recent Fed cuts. The long-end of the BVAL AAA yield curve has also seen reductions, especially relative to peak 2025 levels, impacted by various headline news, most pertinently the softening labor market. On the short end, the BVAL yield curve maintain slight inversion in reaction to a variety of market uncertainties. Treasury rates remained in a narrow band over the course of 2025. In general, volatility defined markets in early 2025, as investors reacted to new trade, economic and government policies of the current administration. Market volatility eased in the fourth quarter, in response to the eventual Fed rate cuts that the market had been anticipating for a while.



The current 30-year BVAL AAA bond yield is 4.09%, which is 5 bps lower than its long-term average of 4.14%.

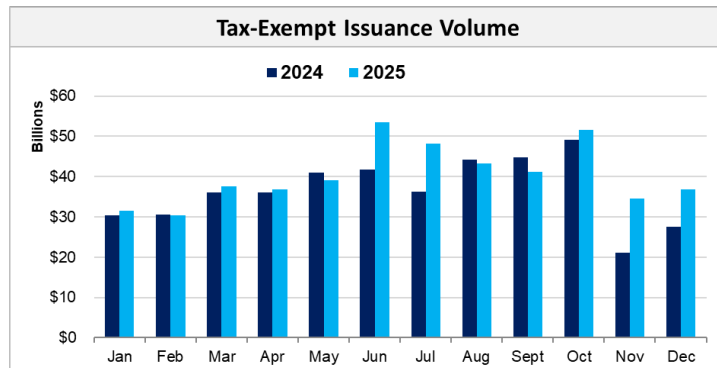


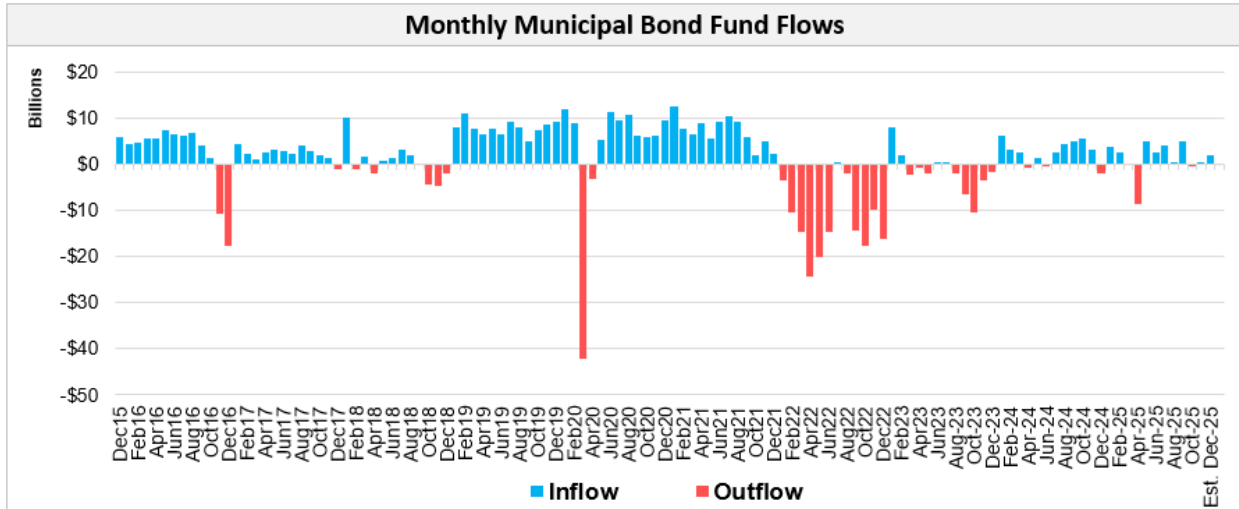
**The 1993-2010 data represents the AAA Municipal Market Data (MMD) data which is also a widely accepted tax-exempt benchmark rate. The 2011-2026 data represents the AAA BVAL rates*

Municipal Market Supply and Demand

2025 was a record year for bond issuance. Tax-exempt issuance volume rose 16.0% YoY, reaching \$522.6 billion in par for the year. The volume was driven primarily by new money issuance for projects. Refunding volume was down in 2025 relative to 2024.

Mutual funds are one of the largest investors in municipal bonds, and the net inflow or net outflow from mutual funds is indicative of demand for municipal bonds. There were outflows from municipal bond funds for the majority of 2022 and 2023 indicating weak investor appetite for municipal bonds owing to a very volatile interest rate environment. Over the past two years the course has changed and there have been robust inflows throughout 2024 and 2025, indicating an improving appetite for bonds.





Credit Spreads

Throughout 2025, credit spreads generally improved following the brief and disruptive shock of the initial tariff announcements. So far in 2026 spreads have remained relatively level, continuing trends from the end of 2025. The improvement in spreads was partly supported by the demand for municipal bonds driven by a prevailing risk-off sentiment among investors seeking safety amid global market uncertainty.

Interest Rate Forecasts

The Fed cut rates again at the end of 2025, lowering to 3.50-3.75% at its most recent meeting in December. Following that decision, the Fed indicated a pause in future cuts for the time being and a more cautious approach leading into 2026 with a potential of one additional rate cut during the year per the latest dot plot.

The next table provides an average of interest rate forecasts by industry professionals. These are surveyed and compiled by Bloomberg. The market is forecasting two further 0.25% rate cuts in 2026. The two-year U.S. Treasury rate is forecasted to lower 0.21% to 3.32% by the end of 2026. The ten-year U.S. Treasury rate is forecasted to lower by 0.07% to 4.11% by end of 2026. The 30-year U.S. Treasury rate is also forecast to lower by 0.16% to 4.67% by end of 2026.

Street's Interest Rate Forecast

Forecast	1/13/2026	Q1 26	Q2 26	Q3 26	Q4 26	Q1 27	Q2 27	Q3 27	Q4 27	Q1 28
30-Year UST	4.83%	4.72%	4.68%	4.66%	4.67%	4.63%	4.63%	4.63%	4.65%	4.59%
10-Year UST	4.18%	4.11%	4.10%	4.09%	4.11%	4.07%	4.08%	4.09%	4.10%	4.08%
5-Year UST	3.75%	3.65%	3.61%	3.61%	3.61%	3.61%	3.65%	3.67%	3.68%	3.66%
2-Year UST	3.53%	3.44%	3.37%	3.33%	3.32%	3.31%	3.33%	3.35%	3.35%	3.32%
3M Secured Overnight Financing Rate	3.65%	3.49%	3.29%	3.20%	3.16%	3.17%	3.17%	3.19%	3.19%	3.23%
Federal Funds Target Rate Upper Bound	3.75%	3.57%	3.40%	3.27%	3.22%	3.20%	3.21%	3.22%	3.21%	3.23%
Federal Funds Target Rate Lower Bound	3.50%	3.32%	3.15%	3.02%	2.97%	2.95%	2.96%	2.97%	2.96%	2.98%