

Q2 2026 REVIEW & OUTLOOK

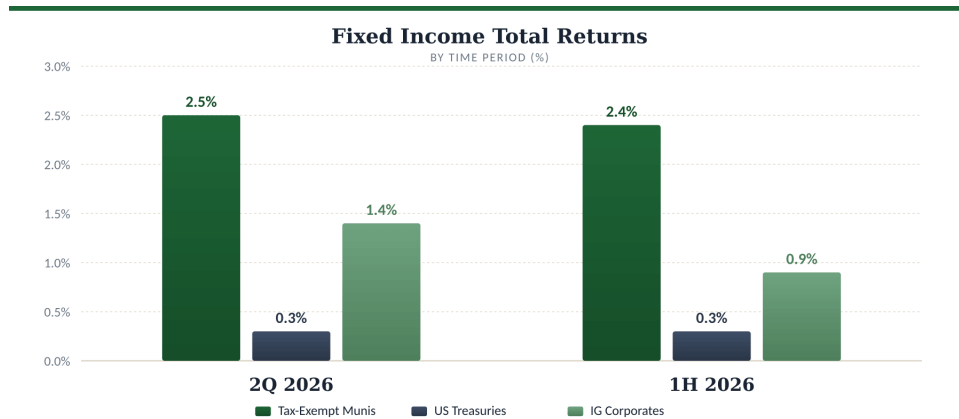
Munis Best Fixed Income Sector in 1H26

A quarterly perspective on the municipal bond market from the MTAM investment team.

3.50–3.75% Fed Funds Rate Target	+2.4% 1H 2026 Muni Total Return	>\$100B 3Q Reinvestment Capital
--	---	--

Following flat 1Q26 performance (**-0.1%**), tax-exempt munis rebounded over the past three months, gaining **2.5%** on a total return basis. By comparison, US Treasury securities (**0.3%**) as well as investment grade corporate debt (**1.4%**) posted softer results over the second quarter. We attribute the better relative performance from munis in large part to renewed investor demand for tax-exempt income after a bout of rate volatility seen in March.

Examining returns for 1H26 also shows that munis have outperformed their taxable fixed income counterparts. As a point of reference, over the first six months of the year, municipal bonds gained **2.4%**. At the same time, US Treasury securities (**+0.3%**) and corporate bonds (**0.9%**) also produced positive total returns, but at less magnitude (see chart).



Source: Bloomberg fixed income indexes total returns as of 30 June 2026

Fed Holds Rate Steady...For Now

In June, the Federal Open Market Committee voted unanimously to hold its benchmark federal funds rate target in a range of **3.5% to 3.75%**. At the same time, Fed officials signaled growing support for rate hikes this year amid inflation concerns. That said, Fed Chair Kevin Warsh has reiterated his commitment to lowering inflation to the central bank's 2% target and acknowledged that inflation risks have eased in recent weeks. At present, markets are now pricing in at least **one 25bps rate hike by year-end**.

OUR VIEW

“With over \$100 billion of reinvestment capital coming due in July and August, and absolute tax-exempt yields still attractive versus five-year averages, we expect net cash inflows to munis to stay strong in the near term, barring a sudden and abrupt increase in US Treasury yields.”

Reinvestment Capital to Fuel Demand

In this early part of the third quarter, reinvestment capital from maturing and called municipal bonds is high, at **more than \$100 billion** anticipated over July and August. At the same time, absolute tax-exempt yields remain attractive compared to the average levels seen over the past five years. As a result, we anticipate that net cash inflows to the muni asset class will remain strong in the near-term, barring a sudden and abrupt increase in US Treasury yields.

Favor Quality on Tight Spreads

Credit quality spreads remain tight thus far in 2026. Therefore, positioning assets in high-quality municipal bonds rather than chasing yield in weaker sectors remains our core strategy for muni portfolio construction. We favor **tax-backed general obligation debt** and **essential-service revenue bonds** such as water, utility, and transportation.

By contrast, we avoid the high yield segments of the market—tobacco settlement securitization, charter schools, certain areas of the not-for-profit healthcare sector, and smaller private higher-education institutions serve as examples.

WE FAVOR

- Tax-backed general obligations
- Water & sewer systems
- Electric utilities
- Essential-service transportation

WE AVOID

- Tobacco settlement securitizations
- Charter schools
- Weaker not-for-profit healthcare
- Small private higher education

Key Takeaways

- Munis were the best fixed income sector in 1H26, gaining 2.4% versus 0.3% for USTs and 0.9% for IG corporates; munis returned 2.5% in Q2 alone.
- The Fed held its policy rate at 3.5–3.75% in June, but with inflation still above target, markets are now pricing in at least one 25bps rate hike by year-end.
- More than \$100 billion of reinvestment capital is expected in July and August, and absolute tax-exempt yields remain attractive versus five-year averages—supportive of continued net inflows.
- With credit quality spreads tight, we stay focused on tax-backed GOs and essential-service revenue bonds and avoid the high yield corners of the market.

About the Authors

Kathleen McNamara, CFA

INVESTMENT COMMITTEE MEMBER: MUNICIPAL STRATEGY

Joined MTAM in 2026 as a member of the Independent Investment Committee. Four decades in the municipal industry, including 16 years as Senior Municipal Strategist at UBS, responsible for strategy, market analysis, and relative-value work. Previously at Lehman Brothers and Smith Barney.

The Municipal Bond Management Team

Jim Langley

HEAD MUNICIPAL BOND
PORTFOLIO MANAGER

Hunter Frey

CEO

Dominick Mirenda

DIRECTOR OF PORTFOLIO
ADMINISTRATION

Scott Brown

OPERATIONS SPECIALIST

Disclosures: This commentary reflects the views of Miller Tabak Asset Management (MTAM) as of the date indicated. Information is from sources believed to be reliable but is not guaranteed. Opinions are subject to change without notice. Past performance is not indicative of future results. This material is not an offer to sell or a solicitation to buy any security. Fixed income investments are subject to interest rate, credit, liquidity, and market risks. Please consult your tax or financial advisor before investing.