

Municipal rates drifted lower during the first two months of 2026 with support from net negative supply and strong technicals. This trend reversed course in March with the onset of the Iran conflict amid weaker reinvestment flows. The 10-year AAA MMD yield began at 2.76% and finished at 3.12%, after bottoming at 2.52% in February, where it resided for nine consecutive days. The 2-year MMD yield began at 2.39% and finished at 2.42%, bouncing off the 2.03% low set in early March. Ten-year Treasuries climbed late in the quarter as rising oil prices and sticky inflation affected market sentiment. The benchmark began at 4.17% and finished at 4.30%, after hitting its low daily close of 3.94% on February 27.

The 10-year prime municipal/Treasury ratio opened at 66% and closed at 72%, after falling to 61% in early February. Two-year ratios began at 69% and finished at 64%. The municipal yield curve steepened with the 2-year yield rising three basis points and 10-year yields rising 36 basis points, while Treasuries flattened, with 2-year yields rising 33 basis points, and 10-year yields rising 13 basis points, respectively.

The all-muni funds category experienced inflows for the quarter and had 11 consecutive weeks of inflows to start the new year. LSEG Lipper reported a total inflow of \$24.1 billion, with open-end funds +\$14.2 billion, and ETF +\$9.9 billion, respectively.

Primary market issuance in the first quarter was \$124.5 billion (5% taxable), building on the record pace of 2025. Large borrowers continued their strong presence with 10 deals greater than \$1 billion, or 10% of overall new issuance. Secondary market selling mirrored that of the previous quarter with a daily average of \$963 million, with a steady uptick in volume but lower hit ratios at quarter-end.

Federated Hermes CW Henderson was rate and spread sensitive early in the quarter as demand overwhelmed supply and created a somewhat overbought environment, pushing ratios to the lower boundaries of our threshold. This tends to occur at the beginning of the year when large reinvestment and strong fund inflow outstrip a light new issue slate that typically does not normalize until late January. With a deep bid-side in the market, we sold seasoned structure and

repositioned further out the curve with new issue structure to take advantage of the upward sloping municipal yield curve. Late in the quarter, our portfolio managers were more active in the market as rising interest rates and ratios brought better buying opportunities. CWH continued to buy short-callable structures that offered significant yield pick-up versus non-callable bullets. Duration targets were mostly unchanged at 4.00 to 4.20 years.

At its March policy-setting meeting, the Federal Reserve left interest rates unchanged at the 3.50% to 3.75% target range and signaled one rate cut this year due to increased uncertainty from the war in the Middle East. Projections for the federal funds rate remained unchanged from the December meeting at 3.40%, 3.10%, and 3.10% for 2026, 2027, and 2028, respectively. The forecast for the unemployment rate in 2026 was unchanged at 4.40%, 4.30% in 2027, up from 4.20%, and 4.20% in 2028, unchanged from the previous estimate. The Fed now projects the median core PCE index to be 2.70% in 2026, up from 2.50%, 2.20% in 2027, up from 2.10%, and no change, longer run at 2.00%. Real GDP was revised upwardly in 2026 to 2.40% up from 2.30%, 2.30% in 2027, up from 2.00%, and 2.10% in 2028, up from 1.90%. The FOMC will continue to increase the System Open Market Account holdings of securities through purchases of Treasury bills and, if needed, other Treasury securities with remaining maturities of three years or less to maintain an "ample" level of reserves. It will also reinvest all principal payments of agency and Treasury securities into Treasury bills.

On March 20, two days after the adjournment of the Fed meeting, Treasury traders pivoted from the rate-cut conversation to Fed funds possibly needing to rise in 2026 to combat further inflationary pressures as the conflict in Iran drags on and a noteworthy development as we head into the second quarter.

Looking ahead, municipal yields have risen over the past month, and the market is entering a weaker seasonal period, which should present attractive entry points for new dollars. Second quarter net positive supply projections are north of \$50 billion and a return to palatable ratios would be a welcome development before market technicals strengthen in the summer

months. If municipal rates remain elevated from the past few months, we anticipate an uptick in our tax-loss harvesting program and will diligently monitor customer accounts for any swap opportunities.

Market Yields				
	3/31/2026	12/31/2025	9/30/2025	6/30/2025
1 yr. AAA Muni	2.39	2.46	2.38	2.57
5 yr. AAA Muni	2.67	2.41	2.32	2.67
10 yr. AAA Muni	3.12	2.76	2.92	3.26
30 yr. AAA Muni	4.47	4.24	4.24	4.54
10 yr. U.S. Treasury	4.30	4.17	4.15	4.23
10 yr. Muni/UST Ratio	72%	66%	70%	77%

Sources: Bloomberg and The Bond Buyer

Key Market Points & Commentary

- Supply was \$124.5 billion in the first quarter.
- The all-muni funds category net inflows totaled \$24.1 billion.
- The municipal yield curve steepened, with 2-year yields rising 3 basis points and 10-year yields rising 36 basis points.
- As always, Federated Hermes CW Henderson's focus remains on high-quality, liquid and thoroughly researched credits with good management teams. Credits owned are monitored on a regular basis.
- Intermediate product portfolio durations are targeted at 4.00 - 4.20 years.
- Ultra Short product portfolio durations are targeted at about 0.65 years.

DISCLOSURES

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Bond prices are sensitive to changes in interest rates, and a rise in interest rates can cause a decline in their prices.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

Yield Curve: Graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

Municipal bond income may be subject to the federal alternative minimum tax (AMT) and state and local taxes.

Personal Consumption Expenditure (PCE) Index: A measure of inflation at the consumer level.

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