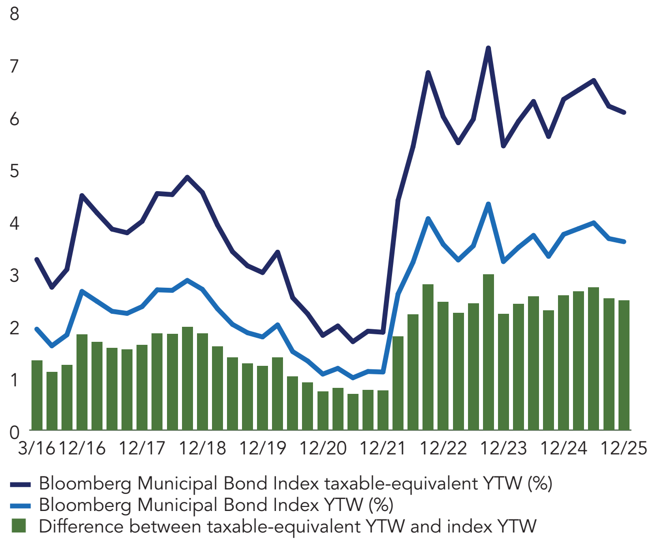
# Municipal bonds – the power of taxable-equivalent yields

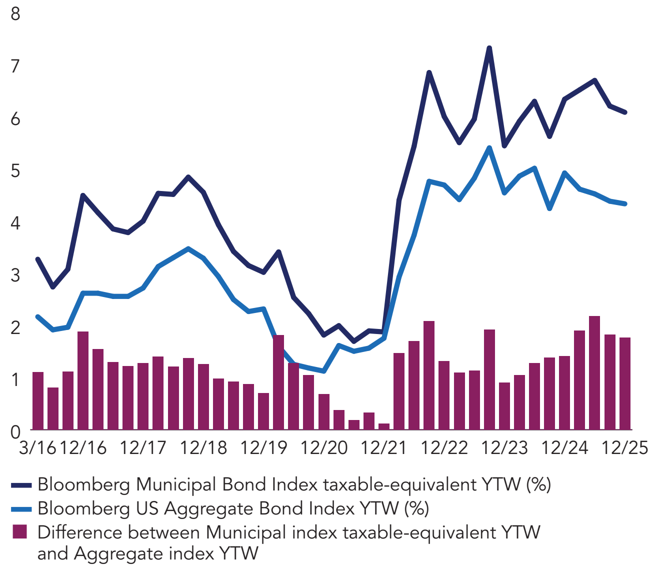
Federated Hermes

With intermediate-to-long-term rates expected to remain range-bound, we believe income will be the primary driver of total return for bonds in 2026. For high-income earners, municipal bonds may represent an attractive choice for non-qualified fixed income allocations, given their higher taxable-equivalent yields* potential compared to taxable alternatives.

## Value of the municipal tax exemption has increased




## Yield advantage over the broad taxable market on a taxable-equivalent basis




* A taxable equivalent yield (TEY) is the rate that a taxable investment would need to offer in order to be comparable to the yield of the tax-free investment.
Sources: Bloomberg, Federated Hermes, Inc. as of 12/31/25.
Yield to Worst (YTW)

## Relatively higher taxable equivalent yields

Recently, municipal bonds have offered greater income relative to multiple taxable fixed income asset classes with attractive taxable equivalent yield.

| Index and taxable-equivalent yield calculations | Yield to worst (%) | Effective duration (years) |
|---|---|---|
| **Bloomberg Municipal Bond Index** | 4.32 | 6.37 |
| **Bloomberg Municipal Bond Index taxable-equivalent yield** | 7.30 | 6.37 |
| **Bloomberg US Credit Index** | 6.27 | 6.69 |
| **Bloomberg US Aggregate Bond Index** | 5.39 | 6.15 |
| **Bloomberg Municipal High Yield Index** | 6.25 | 7.93 |
| **Bloomberg Municipal High Yield Index taxable-equivalent yield** | 10.56 | 7.93 |
| **Bloomberg US Corporate High Yield 2% Issuer Capped Index** | 9.23 | 3.57 |

Source: Bloomberg Indices as of 12/31/25.

**Past performance is no guarantee of future results.** The above charts and table are for illustrative purposes only. Not representative of any specific investment. The above charts and table assume a top rate of 40.8% (37% top federal income tax rate plus 3.8% on net investment income).

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The amount of public information available about municipal securities is generally less than that for corporate bonds. Special factors, such as legislative changes and local and business developments, may adversely affect the yield or value of municipal securities.

Diversification does not guarantee a profit nor protect against loss.

Views are as of March 2026 and are subject to change based on market conditions and other factors.

This should not be construed as a recommendation regarding tax information.

Consult your tax professional for more information.

There is no guarantee that any specific investment approach will be successful.

Income from municipal securities may be subject to the federal alternative minimum tax and state and local taxes.

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

High-yield, lower-rated securities generally entail greater market, credit/default and liquidity risks, and may be more volatile than investment grade securities.

**Yield to Worst (YTW):** On a callable bond, the yield to worst is the lowest yield that a buyer can expect among the reasonable alternatives, such as yield to maturity, yield to call, and yield to refunding.

**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.

**Bloomberg US Aggregate Bond Index:** Is an unmanaged index composed of securities from the Bloomberg Government/Corporate Bond Index.

**Bloomberg Municipal Bond Index:** Is composed of long-term tax exempt bonds.

**Bloomberg Municipal High Yield Index:** Is an unmanaged index made up of bonds that are non-investment grade, unrated or rated below Ba1 by Moody's Investors Service with a remaining maturity of at least one year.

**Bloomberg US Credit Index:** Is composed of all publicly issued, fixed-rate, nonconvertible, investment-grade corporate debt. Issues are rated at least Baa by Moody's Investors Service or BBB by Standard & Poor's, if unrated by Moody's. Collateralized Mortgage Obligations (CMOs) are not included. Total return comprises price appreciation/depreciation and income as a percentage of the original investment for each loan, which is the percent change in the value of each loan during the measurement period. Total return is the sum of three components: principal, interest and reinvestment return.

**Bloomberg US Corporate High Yield 2% Issuer Capped Index:** Is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to justify 2 of the total market value and redistributes any excess market value index wide on a pro-rated basis. The index was created in 2002, with history backfilled to January 1, 1993.

Indexes are unmanaged and cannot be invested in directly.

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