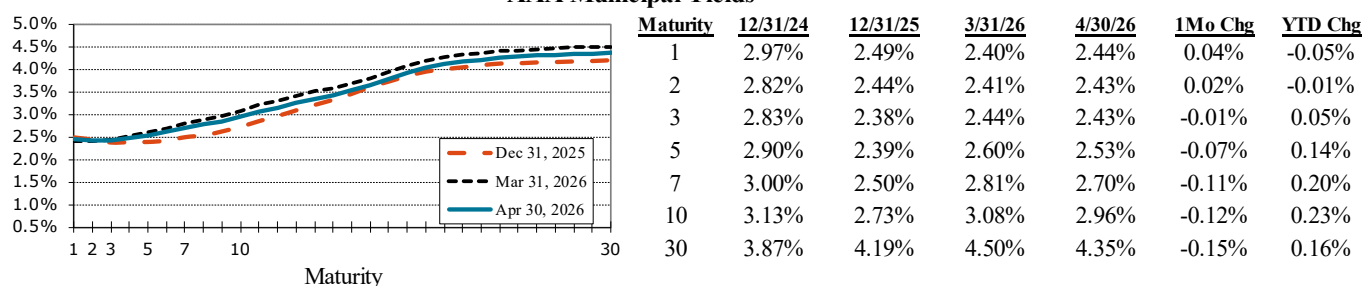


Baird Advisors
Municipal Fixed Income Market Commentary
April 2026

Tax-Exempt Yields Fall Amid Strong Demand

Tax-exempt yields declined in April across most of the curve, with the exception of the very front end. The 2yr yield rose by 2 bps, while 10yr and 30yr yields fell by 12 bps and 15 bps, respectively, flattening the curve. As measured by the 2s30s curve slope, the AAA municipal curve is still 14 bps steeper YTD, which, at +192 bps spread, remains much steeper than the +109 bps yield pickup available in the Treasury curve for investors looking to extend. In municipals, the yield plus roll-down total return potential is currently optimized in the 15- to 20-year maturity range for those willing and able to accept the corresponding average duration risk. Market performance in April was supported by strong demand, driven by approximately \$5.4B of industry net fund inflows, bringing YTD inflows to roughly \$29B—a strong start to the year. On the supply side, new-issue tax-exempt issuance totaled approximately \$44B for the month, down 2% compared to April 2025, but boosting YTD issuance to nearly \$167B, up 8% relative to last year's record pace. Looking ahead, seasonal technicals should improve with stronger reinvestment demand in May and the upcoming summer months, providing a favorable backdrop for the market over the next several months.

AAA Municipal Yields



Municipal Bond Banks

While most municipal borrowers access the market through standalone general obligation and revenue bond credits, the municipal market also includes pooled financing vehicles that allow issuers to borrow collectively. In that context, a bond bank enables multiple local issuers to finance projects through one combined bond sale instead of separate, standalone transactions. This pooled approach allows municipalities to meet rising infrastructure needs through transactions that are larger and more liquid than most borrowers could achieve independently, improving market access for both issuers and investors. Bond banks are typically structured with a strong emphasis on credit discipline, including diversified loan pools, overcollateralization, and dedicated reserve funds—attributes that have supported their consistently high-grade standing, with most financings rated AA or AAA. In recent months, municipal credit conditions have softened modestly at the margin, with S&P's upgrade-to-downgrade ratio remaining below 1.0 for four consecutive months and CreditWatch actions skewing more cautious. At the same time, overall municipal credit fundamentals remain strong, supported by essential-service revenues, solid balance sheets, and conservative fiscal management. Against this backdrop, bond banks offer an additional layer of resilience, helping finance long-lived public assets while providing investors with high-quality, liquid exposure in a market where fundamentals remain sound, but issuer-level differentiation is gradually increasing.

Positive April Returns

April returns were positive as yields declined across the curve. Longer maturities outperformed shorter curve segments, reflecting the greater duration sensitivity. Prerefunded issues, given their shorter duration, lagged other market sectors with Revenue issues outperforming GOs for the month. Lower-rated bonds also led returns in April, with securities rated BBB outperforming higher-quality issues. HY continued to outperform Investment Grade YTD.

Total Returns of Selected Barclays Municipal Indices and Subsectors

| <u>Bloomberg Index/Sector</u> | <u>April</u> | <u>YTD</u> | <u>Duration</u> | <u>Bloomberg Quality</u> | <u>April</u> | <u>YTD</u> | <u>Duration</u> |
|---------------------------------------|--------------|------------|-----------------|--------------------------|--------------|------------|-----------------|
| Municipal Bond Index | 1.15% | 0.97% | 6.65 | AAA | 1.18% | 0.84% | 6.90 |
| General Obligation bonds | 1.09% | 0.76% | 6.36 | AA | 1.10% | 0.90% | 6.54 |
| Revenue bonds | 1.18% | 1.05% | 6.79 | A | 1.14% | 1.11% | 6.58 |
| Prerefunded bonds | -0.06% | 0.37% | 2.66 | BBB | 1.52% | 1.44% | 7.27 |
| Long maturities (22+ yrs.) | 1.83% | 1.60% | 10.99 | High Yield | 1.36% | 2.09% | 7.29 |
| Intermediate maturities (1 - 17 yrs.) | 0.80% | 0.53% | 4.92 | HY, ex-Puerto Rico | 1.38% | 2.01% | 7.33 |
| Short maturities (1 - 5 yrs.) | 0.19% | 0.62% | 2.33 | | | | |

Disclosures

Fixed income is generally considered to be a more conservative investment than stocks, but bonds and other fixed income investments still carry a variety of risks such as interest rate risk, credit risk, inflation risk, and liquidity risk. In a rising interest rate environment, the value of fixed-income securities generally decline and conversely, in a falling interest rate environment, the value of fixed-income securities generally increase. High yield securities may be subject to heightened market, interest rate or credit risk and should not be purchased solely because of the stated yield.

The Bloomberg Municipal Bond Index is a broad-based, total-return index. The bonds are all investment-grade, tax-exempt, and fixed-rate securities with long-term maturities (greater than 2 years). They are selected from issues larger than \$50 million. The components listed below the Municipal Bond Index (long maturities, intermediate maturities, short maturities, prefunded bonds, general obligation bonds and revenue bonds) are subsectors of the Bloomberg Municipal Bond Index and do not represent separate indices.

The Bloomberg High Yield Municipal Index includes bonds with a par value of at least \$3 million and must be issued as part of a transaction of at least \$20 million. The maximum rating for inclusion is Ba1/BB+/BB+ using the middle rating.

For more information about the Bloomberg Municipal Bond Index or Bloomberg High Yield Municipal Index, please visit https://index.barcap.com/Home/Guides_and_Factsheets.

Municipal securities investments are not appropriate for all investors, especially those taxed at lower rates. The alternative minimum tax (AMT) may be applicable, even for securities identified as tax exempt. Past performance is not a guarantee of future results.

Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest). Investment grade investments are those rated from highest down to BBB- or Baa3.

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