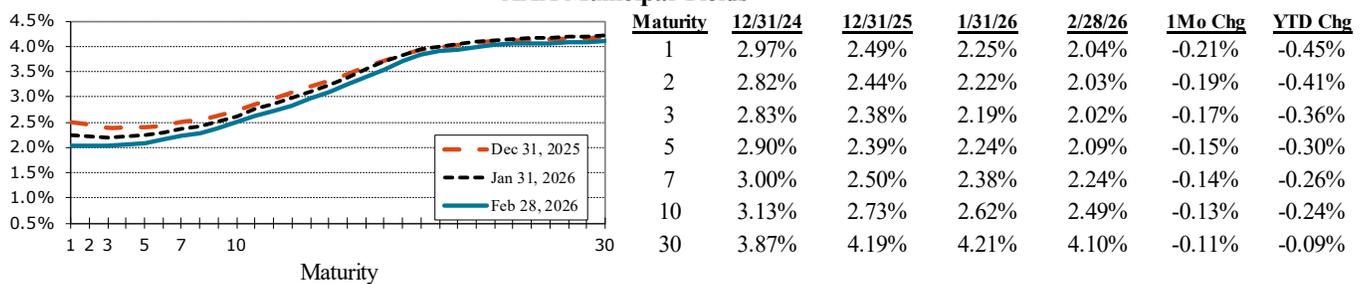


Baird Advisors
Municipal Fixed Income Market Commentary
February 2026

Tax-Exempt Yields Fall Amid Strong Demand

Tax-exempt yields declined in February, with short-term rates falling more than long-term rates, further steepening the yield curve. 2yr yields declined by 24 bps, while 10yr rates fell 13 bps. The 30yr yield, which had been rising steadily, reversed course and declined by 11 bps during the month. As a result, the AAA 10s30s curve slope ended February at +161 bps, its steepest level since October 2013. This pronounced steepness at the long end continues to incentivize investors to extend duration, as wider curve slopes enhance carry and roll-down potential for longer-dated bonds. Market performance in February was strong, supported by robust demand driven by record levels of principal and interest reinvestment, along with strong inflows into municipal mutual funds and ETFs. Municipal funds and ETFs recorded net inflows of \$11.2B during the month, bringing YTD inflows to \$18B—the third-strongest two-month YTD total on record. New-issue tax-exempt supply totaled \$39B, up 16% from February 2025 and a record for the month. After a slower start in January, YTD issuance now stands at \$73B, up 6% relative to 2025. Looking ahead, seasonal issuance patterns suggest supply should continue to increase as reinvestment demand begins to moderate. However, attractive tax-adjusted yields should continue to support investor interest in municipal mutual funds and ETFs.

AAA Municipal Yields



Municipal Utilities and AI

Since the early 19th century, municipal debt has played a central role in financing America’s infrastructure—from canals and roads to water systems, power grids, airports, and the foundations of modern cities. As the U.S. economy enters the digital era, that historical pattern is repeating. The rapid expansion of artificial intelligence and hyperscale data centers is driving a new wave of infrastructure demand, particularly for electricity and water, even though the data centers themselves are typically privately financed. Research highlights that municipal electric utilities and water and sewer authorities are increasingly responsible for funding the enabling infrastructure required to support this growth, including grid upgrades, transmission capacity, substations, and expanded water systems. Importantly, these sectors enter this period of elevated investment from a position of strong credit quality, with the Bloomberg Electric Index rated AA- on average and the Water and Sewer Index rated AA+, reflecting the essential-service nature and financial resilience of these credits. Issuance trends already reflect this shift: according to J.P. Morgan, municipal water and power borrowing is rising most sharply in states with elevated data-center activity, reinforcing the municipal market’s long-standing role as the financier of essential, long-lived public assets that underpin successive waves of economic development.

Positive February Returns

February posted positive returns, supported by a decline in yields across the curve. Long-duration bonds outperformed, reflecting their higher sensitivity to interest-rate moves, whereas the shorter Prerefunded sector trailed. Revenue bonds outperformed both GOs and Prerefunded issues. Lower-rated bonds also led returns, with BBB-rated securities outperforming higher-quality issues, and HY besting IG for the month after underperforming in 2025.

Total Returns of Selected Barclays Municipal Indices and Subsectors

<u>Bloomberg Index/Sector</u>	<u>February</u>	<u>YTD</u>	<u>Duration</u>	<u>Bloomberg Quality</u>	<u>February</u>	<u>YTD</u>	<u>Duration</u>
Municipal Bond Index	1.25%	2.20%	6.66	AAA	1.30%	2.21%	6.94
General Obligation bonds	1.13%	2.07%	6.33	AA	1.19%	2.13%	6.52
Revenue bonds	1.30%	2.25%	6.83	A	1.32%	2.31%	6.62
Prerefunded bonds	0.57%	1.32%	2.67	BBB	1.39%	2.35%	7.40
Long maturities (22+ yrs.)	1.67%	2.18%	11.31	High Yield	1.67%	2.67%	7.42
Intermediate maturities (1 - 17 yrs.)	1.01%	2.08%	4.83	HY, ex-Puerto Rico	1.74%	2.54%	7.44
Short maturities (1 - 5 yrs.)	0.60%	1.39%	2.34				

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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