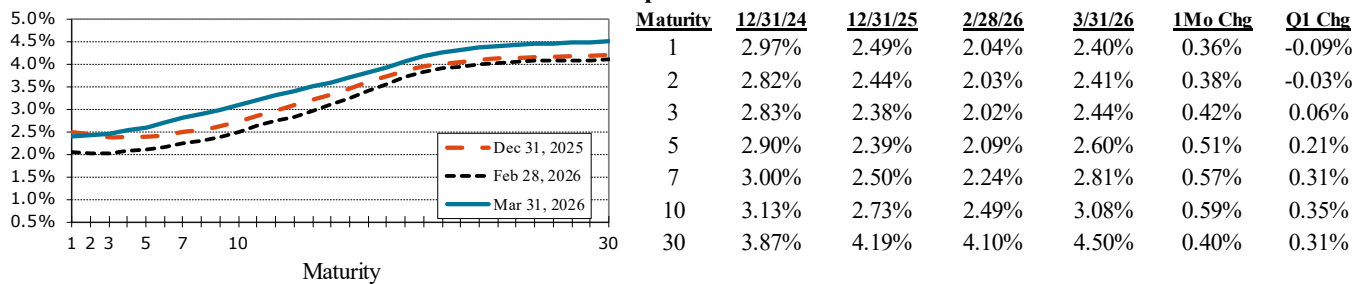


Baird Advisors
Municipal Fixed Income Market Commentary
March 2026

Municipal Curve Steepens as Yields Rise in Q1

Tax-exempt rates climbed in March, led by the intermediate segment of the curve. Municipal yields responded to the escalation of the U.S. conflict with Iran, rising oil prices, and the resulting selloff in the Treasury market. Over the full quarter, however, municipal yields pivoted around the 2-year maturity, with short-term rates declining by 9 basis points while long-term rates rose by 31 basis points. By quarter-end, the yield spread between the 2-year (2.41%) and 10-year (3.08%) maturities widened to +67 basis points, up from just +29 basis points at the start of the year. This steepening provided an incentive for investors to extend out the curve to lock in higher absolute yields and enhance roll-down potential. Municipal funds recorded positive flows in 11 of the 12 weeks during the quarter with total net fund inflows of \$6.5 billion in March and \$24 billion year-to-date. The Treasury market selloff and the relative underperformance of municipals in Q1 also improved the relative value of the tax-exempt market, as municipal yields rose more than Treasury yields across much of the curve. For example, the AAA municipal-to-Treasury yield ratio increased to 71% from 63% in the 10-year maturity over the quarter, making municipals increasingly attractive for tax-paying investors. New-issue supply remained heavy throughout the quarter and was a key contributor to the rise in municipal yields, with first-quarter tax-exempt issuance of \$122B, up 12.2% relative to 2025's record issuance pace.

AAA Municipal Yields



Gambling Revenue Madness

As the NCAA basketball tournament captures national attention each March, it also underscores the continued expansion of legalized sports betting and its growing—though still modest—role in state and local finances. Since legalization broadened, sports betting has become an increasingly reliable source of incremental revenue, generating \$3.0 billion in state tax revenue in 2024, with \$2.7 billion collected through the first nine months of 2025 alone, according to USAFacts. Importantly, sports betting revenue is highly seasonal, peaking in the first quarter of the year around marquee events such as the Super Bowl and March Madness; in Q1 2025, sports betting generated nearly \$1 billion in tax revenue nationwide. For municipal investors, this distinction matters: while sports betting revenues can provide a meaningful supplemental funding source—often earmarked for education, infrastructure, or other public purposes—it remains a small share of total state and local government revenue, not yet large enough to materially alter credit fundamentals on its own. With the federal share of state expenditures set to decline, it is possible more states will look toward this funding source—along with other non-traditional taxes—as a means of revenue diversification. That said, betting-related revenues remain economically sensitive and subject to regulatory and consumer-spending cycles, reinforcing that municipal credit quality continues to be driven primarily by broader tax bases, reserve levels, and long-term economic conditions.

Negative Returns in March Erode YTD Results

Returns were negative in March due to the sharp rise in municipal yields, which pushed most YTD returns into modestly negative territory. Short-term maturities outperformed both intermediate and longer maturities for the month and quarter. Across market sectors, Prerefunded issues maintained a positive Q1 return, outperforming other longer-duration, sectors of the market. From a credit perspective, the A-rated category outperformed other Investment Grade issues, while High Yield provided the best returns overall for the quarter.

Total Returns of Selected Barclays Municipal Indices and Subsectors

<u>Bloomberg Index/Sector</u>	<u>March</u>	<u>Q1</u>	<u>Duration</u>	<u>Bloomberg Quality</u>	<u>March</u>	<u>Q1</u>	<u>Duration</u>
Municipal Bond Index	-2.32%	-0.18%	6.81	AAA	-2.49%	-0.34%	7.05
General Obligation bonds	-2.34%	-0.32%	6.51	AA	-2.28%	-0.20%	6.70
Revenue bonds	-2.33%	-0.13%	6.96	A	-2.28%	-0.03%	6.74
Prerefunded bonds	-0.88%	0.42%	2.69	BBB	-2.37%	-0.08%	7.52
Long maturities (22+ yrs.)	-2.35%	-0.22%	11.26	High Yield	-1.90%	0.71%	7.63
Intermediate maturities (1 - 17 yrs.)	-2.31%	-0.27%	5.02	HY, ex-Puerto Rico	-1.87%	0.62%	7.62
Short maturities (1 - 5 yrs.)	-0.95%	0.43%	2.36				

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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