MARKET COMMENTARY

JULY 2026

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Market volatility returned in July with tax exempt yields moving higher, allowing a stronger entry point for new cash and opportunities to employ active tax loss harvesting.

Municipal fundamentals on both the credit and demand fronts remained resilient despite a more challenging environment.

While the credit backdrop remains broadly stable, we feel issuer selection is becoming increasingly important as the stronger credits distance themselves from the weaker.

THE VOLATILITY RETURNS

- Municipal bonds entered July with much of the support investors typically hope to see during the summer months. Reinvestment demand remained favorable, investor appetite for tax-exempt income stayed healthy, and municipal bond funds absorbed approximately $1.4 billion during the first week of the month.
- Positive flows continued through mid-month, reinforcing a constructive technical backdrop that historically would have supported municipal performance.
- However, rising Treasury yields, higher energy prices, and renewed geopolitical uncertainty increasingly influenced market direction.

- By month-end, municipal yields had moved sharply higher across much of the curve, serving as a reminder of the impact of a significant shift in interest-rate expectations.

MUNICIPAL YIELDS MOVE HIGHER

Higher yields and improved valuations expanded opportunities for investors.

- Long-term Treasury yields moved sharply higher during July, culminating in a significant late-month selloff that pressured fixed income markets broadly and drove municipal performance lower alongside Treasuries with the Bloomberg Municipal index posting a total return of -1.9%.

- Municipals initially demonstrated resilience relative to Treasuries but eventually followed the broader market repricing as rate volatility intensified.

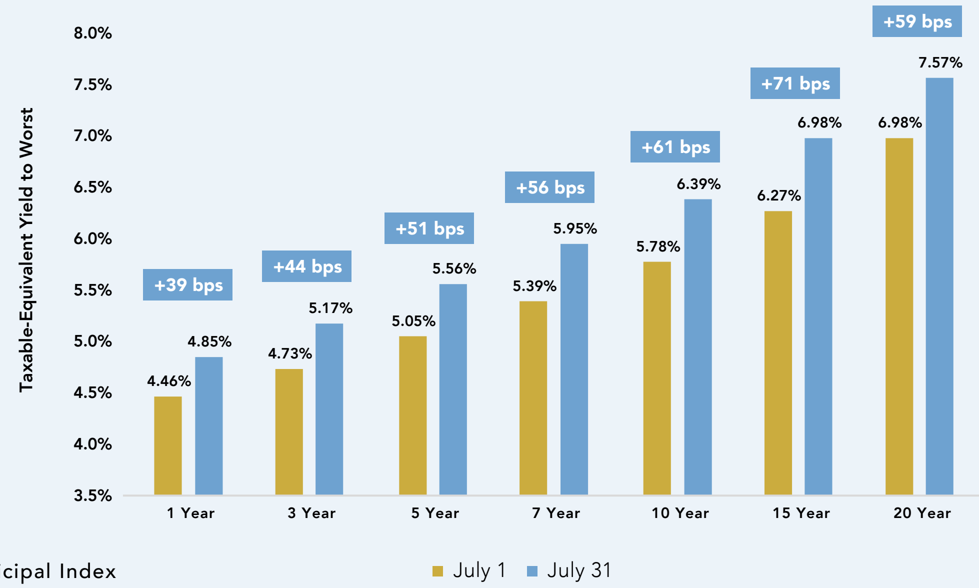
- While July proved challenging from a total return perspective, the weakness was driven primarily by rising interest rates rather than a broad deterioration in municipal credit fundamentals.

A BETTER ENTRY POINT... AND ACTIVE TAX LOSS HARVEST OPPORTUNITY

- July's repricing left investors with a meaningfully different market entering August, as higher yields and improved valuations expanded opportunities across the municipal curve.

- From the beginning of July through month-end, yields across the curve moved significantly higher, with taxable-equivalent yields in the 10- and 15-year portions of the curve rising by 61 and 71 basis points, respectively.

YIELDS RESET HIGHER



Source: Bloomberg Municipal Index
[July 31, 2026]

- This increase allows for a better entry point into the market for new cash while also creating opportunities for active managers to realize tax losses for clients and produce a higher future income with the re-purchases.

ACTIVE TAX LOSS HARVESTING: AIMING TO INCREASE PORTFOLIO INCOME

YIELD	VALUE AFTER 10 YEARS	INCREMENTAL VALUE VS. 2.75%
2.75%	$1.31MM	
3.00%	$1.34MM	+$33K
3.25%	$1.38MM	+$68K
3.50%	$1.41MM	+$103K
3.75%	$1.45MM	+$139K
4.00%	$1.48MM	+$174K

Source: APA Analysis
[August 4, 2026]

Assumes a $1 million investment compounded annually for 10 years. Illustrative purposes only.

THE FED REINFORCED THE HIGHER-FOR-LONGER NARRATIVE

- The Federal Reserve left the federal funds target range unchanged at 3.50%-3.75% at its July meeting. The decision was approved on a 9-3 vote, with three policymakers favoring a 25-basis-point rate increase, underscoring continued concern about inflation pressures.

- Although June inflation and employment data showed some signs of cooling, policy-makers maintained their focus on restoring price stability, reinforcing the market's view that rates could remain restrictive for an extended period.

- Investor attention increasingly shifted toward Federal Reserve communication, particularly after Chair Kevin Warsh emphasized a reduced reliance on forward guidance. Reports that the Fed may consider fewer policy meetings and press conferences added to market uncertainty and contributed to higher long-term yields.

- The meeting capped a month marked by rising Treasury yields, persistent inflation concerns, and growing uncertainty surrounding the future path of monetary policy.

BUYERS STAYED ENGAGED, BUT MORE SELECTIVELY

- Positive fund flows and reinvestment demand continued supporting the municipal market through much of July. Year-to-date municipal fund inflows totaled approximately $59.1 billion, helping absorb a heavy new-issue calendar.

- Supply remained elevated, with several weeks featuring more than $10 billion of scheduled issuance and year-to-date municipal issuance totaling approximately $299 billion. Despite the volume, demand generally remained available.

- As volatility increased, demand softened modestly compared to the recent record levels of inflows. Weekly inflows slowed to $174 million during the week ended July 22, marking the lightest inflow week since April 15 and signaling a slightly more cautious tone among buyers. Even so, investors continued to value tax-exempt income and the relative stability of municipal bonds, although they were able to become increasingly selective as yields moved higher.

CREDIT FUNDAMENTALS REMAINED STABLE, BUT CRACKS EMERGED

- Municipal credit fundamentals remained broadly stable during July, though rating activity became increasingly mixed across sectors. Education remained an area of focus as both K-12 and higher education issuers continued to face pressure from structural enrollment declines, heightened competition, and constrained revenue growth.

- Los Angeles Unified School District (LAUSD), one of the nation's largest K-12 issuers, was downgraded by Moody's and Fitch, with both agencies maintaining Negative Outlooks. The rating actions reflected the district's approximately $1.4 billion FY2025 general fund deficit, projected operating deficits through 2027, declining reserves, rising labor and capital costs, elevated debt burden, and increased fiscal oversight.

- In contrast, Santee Cooper received positive rating actions as Fitch upgraded the utility to A from A- and Moody's revised its outlook to Positive, reflecting improving liquidity, stronger debt service coverage, growing electric sales, and declining leverage.

- Fitch and S&P also downgraded the City of Buffalo, New York to A from A+ with Negative Outlooks, citing operating deficits, declining reserves, and uncertainty regarding the city's ability to stabilize its financial position.

- Taken together, recent rating actions suggest that municipal credit conditions remain stable overall, but issuer selection is becoming increasingly important as demographic trends, financial flexibility, reserves, and management decisions continue to separate stronger credits from weaker ones.

Credit fundamentals remain broadly stable, but rating activity suggests issuer-specific risks are becoming increasingly important.

THE MARKET ENTERS AUGUST WITH HIGHER YIELDS

- August begins with substantial reinvestment demand, including approximately $32 billion of principal and interest payments returning to investors.

- Although municipal fundamentals remain generally stable and technical conditions remain supportive, July demonstrated that Treasury yields can ultimately outweigh favorable municipal market dynamics. As a result, investors enter August with a more attractive opportunity set, but one that may reward disciplined credit research, thoughtful duration positioning, and careful security selection as markets continue adjusting to a higher-rate environment.

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