MARKET COMMENTARY

JUNE 2026

Municipal bonds finished the first half of 2026 in positive territory despite elevated issuance, geopolitical volatility, and shifting Federal Reserve expectations. Positive returns across major muni indices reflected the market's continued resilience throughout June.

Demand remained a defining theme. June issuance reached approximately $54 billion, the second-highest June on record, while municipal fund inflows extended to ten consecutive weeks.

Longer maturities continued to outperform intermediate maturities, reinforcing APA’s view that active positioning, security selection, and thoughtful duration management remain critical drivers of municipal bond performance as investors enter the second half of the year.

CLOSING THE HALF HIGHER

- Positive returns were generated across the municipal market despite numerous headwinds. The ICE 1-12 Year Municipal Index returned 0.42% in June, while Single-A and BBB municipals returned 0.83% and 0.98%, respectively.

- June featured no shortage of market headlines, including geopolitical tensions in the Middle East, oil price volatility, and evolving Federal Reserve expectations.

Municipal bonds delivered positive returns despite elevated issuance, Treasury volatility, and geopolitical uncertainty.

- Treasury markets experienced meaningful volatility during the month as investors reassessed the path of monetary policy, while municipal bonds remained comparatively stable.
- Higher municipal yields remained a key contributor to returns during June. In APA's view, today's income levels continue to offer a compelling combination of tax-efficient income and portfolio stability.

RECORD SUPPLY

- Municipal issuance totaled approximately $54 billion during June, making it the second-highest June supply month on record.
- Year-to-date issuance reached approximately $268 billion, roughly 6% ahead of last year's pace and approximately 40% above the five-year January-through-June average.
- The continued expansion of issuance has kept the municipal market on its path toward the $5 trillion milestone.
- APA believes this elevated issuance serves as a positive for active managers, expanding the opportunity set across both new issues and the secondary market while creating additional opportunities to capture relative value.

Through June, muni issuance remained at a record-setting pace.

...WITH NO SIGNS OF DEMAND SLOWING

- Record supply was widely expected to pressure the market entering 2026, yet investor demand has consistently absorbed new issuance.
- Municipal bond funds recorded inflows in each of the four reported weeks in June, totaling nearly $3.9 billion.

Positive municipal fund flows extended to ten consecutive weeks.

- Approximately $37 billion of principal and interest payments are expected to return to investors during the first two weeks of July, creating a favorable seasonal technical backdrop.

ACTIVE MANAGEMENT MATTERS

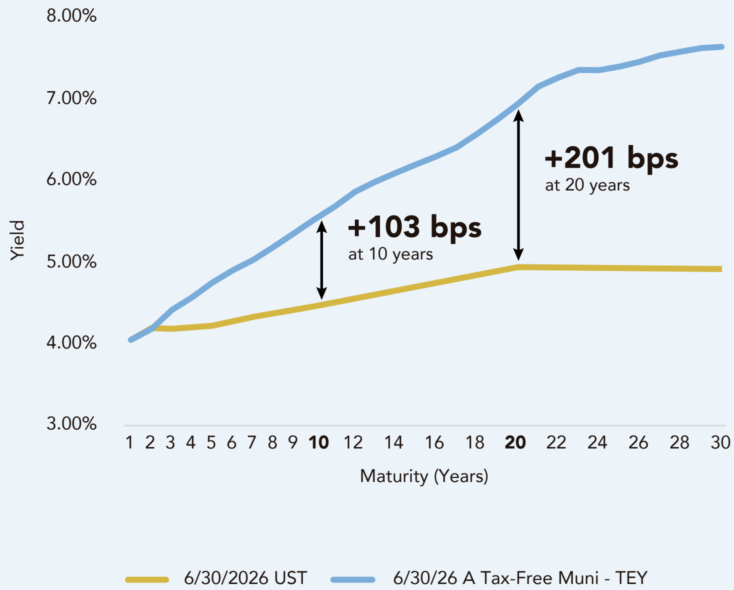
- Performance varied meaningfully across the municipal market during June. Year-to-date, intermediate maturities have lagged both shorter- and longer-dated portions of the curve.
- Through the end of June, a barbell mandate (where APA has consistently positioned clients) has outperformed a comparable ladder.
- APA believes these results emphasize the importance of thoughtful yield curve positioning. Attractive yields across intermediate and longer maturities continue to support APA's barbell approach, balancing flexibility and reinvestment opportunities with compelling tax-exempt income further out the curve.

Thoughtful yield curve positioning mattered in June, when diverging performance across maturities and ratings created opportunities for active managers.

YIELD OPPORTUNITY SET

- Tax-exempt yields continued to offer near decade-high taxable-equivalent levels through month-end, creating attractive after-tax income opportunities for municipal investors.
- The yield curve remained steep in June. Looking ahead, APA continues to favor a barbell to capture elevated long-end yields, while preserving front-end flexibility and downside protection.

TAX-FREE INCOME REMAINS COMPELLING ACROSS THE CURVE



Source:
The Municipal Market Monitor (TM3) & U.S. Department of the Treasury
[June 30, 2026]

NOT ALL CREDITS ARE CREATED EQUAL

- Credit fundamentals remained broadly stable during June, but recent rating actions highlighted increasing divergence across sectors and issuers. Strong balance sheets, prudent management, and essential-service revenue streams continued to be rewarded, while issuers facing operational or demographic challenges came under greater pressure.

- School districts remained an area of focus. Sacramento City Unified School District was downgraded below investment grade after reporting a $143 million deficit, with additional financial pressure expected as the district moves toward increased state and county oversight.

- Hospitals and healthcare systems continued to face operational and liquidity challenges. Oregon Health & Science University was downgraded to A1 from Aa3, while Methodist Le Bonheur Healthcare was downgraded to Baa2 from Baa1, reflecting broader pressures facing the healthcare sector.

- Public power credits provided a brighter story. MEAG's Plant Vogtle Project J & P bonds were upgraded following the successful commercial operation of Vogtle Units 3 and 4, reducing construction-related uncertainty and underscoring the strength of the project's long-term power purchase agreements.

- APA believes these developments reinforce the importance of issuer-level research as credit outcomes become increasingly driven by individual fundamentals rather than broad sector trends. Active credit surveillance remains critical to identifying both risks and opportunities across the municipal market.

LOOKING AHEAD: JULY BEGINS WITH SEASONAL TAILWINDS

- July begins with supportive technical conditions as seasonal reinvestment demand coincides with a lighter issuance calendar.

- Investor demand remains strong, supported by attractive tax-exempt income opportunities and continued fund inflows.

- Treasury volatility, Federal Reserve policy, and geopolitical developments will continue to influence market sentiment, but municipal bonds have remained resilient through similar challenges throughout the first half of the year.

Strong summer technicals are helping support the municipal market as it enters the second half of 2026.

- APA believes the combination of supportive summer technicals, elevated income levels, and increasing market dispersion should create opportunities to add value through both yield curve positioning and security selection.

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