

Municipal Bond Investor Weekly

High Net Worth Wealth Solutions and Market Strategies // Fixed Income Solutions



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THE WEEK AHEAD

1. Redemptions for September fall to nearly half of that of previous months. This reduction, coupled with a steady flow of new issuance, may result in a supply/demand imbalance, enhancing yields across the curve.
2. The yield curve remains steep, rewarding investors for extending and taking on a bit more duration. The current sweet spot of the yield curve is between the 10 to 20-year part of the curve.



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MONDAY'S COMMENTARY

Financing America's Classrooms: A Look at K-12 School District Bonds
Illustrative Portfolios

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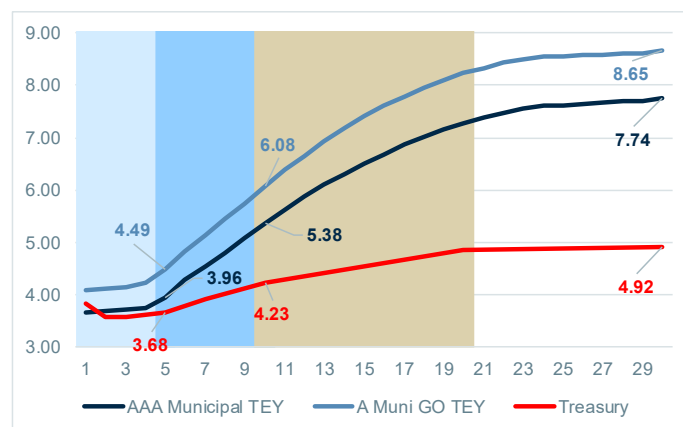
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THE NUMBERS THIS WEEK

Yields were mixed last week. Treasury yields fell across the short and intermediate part of the curve by 3 to 9 basis points while the long end of the curve rose by 4 basis points. Municipal yields were lower across the curve, but only marginally as the benchmark AAA curve fell by 1 to 2 basis points.

Year		Treasury	Municipal (AAA)	Municipal (A)	Municipal TEY* (AAA)	Municipal TEY* (A)	Muni (AAA)/Tsy Ratio	Muni TEY* (AAA)/Tsy Ratio
1	2026	3.83	2.17	2.42	3.67	4.09	57%	96%
2	2027	3.59	2.19	2.44	3.70	4.12	61%	103%
5	2030	3.68	2.35	2.66	3.96	4.49	64%	108%
10	2035	4.23	3.18	3.60	5.38	6.08	75%	127%
20	2045	4.86	4.31	4.87	7.28	8.23	89%	150%
30	2055	4.92	4.58	5.12	7.74	8.65	93%	157%

*Taxable equivalent yield @ 40.8% tax rate



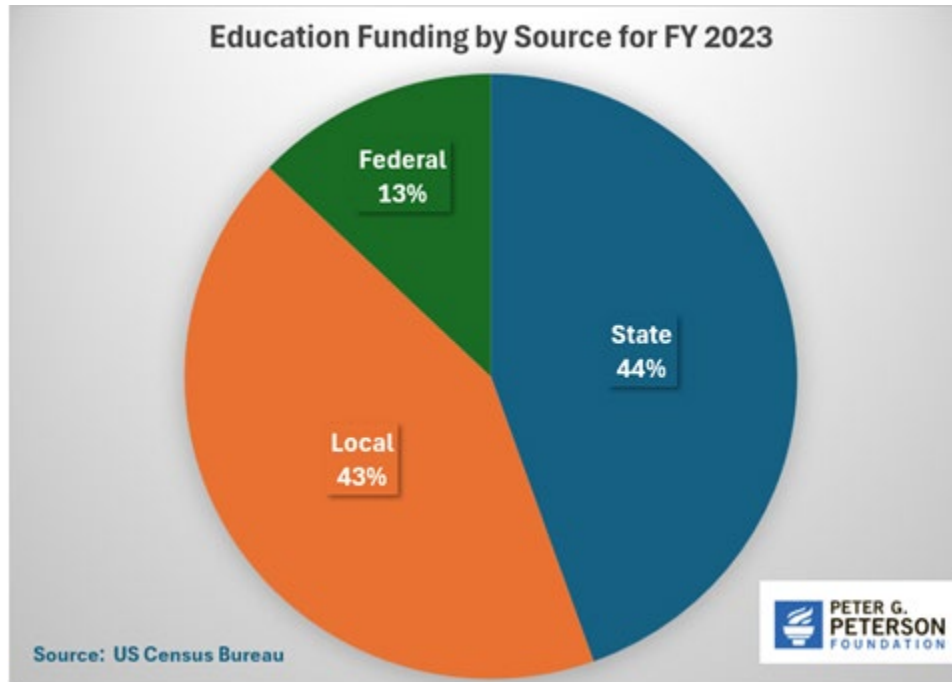
FINANCING AMERICA'S CLASSROOMS: A LOOK AT K-12 SCHOOL DISTRICT BONDS

As the 2025 - 2026 academic year begins, school buses have already resumed their routes across much of the Southeastern United States, with the remainder of the country following suit this week. Regardless of the start date, we extend our best wishes for a safe, productive, and enriching school year to all your children and grandchildren.

With the start of the new academic year, it is a perfect opportunity to review the current financial health of our K-12 school districts. US public school districts are primarily funded from three main sources: state, local, and federal funding. The largest source of state funding typically comes from income taxes, sales taxes, and other revenues. The local funding is derived mainly from property taxes, while the federal government contributes a small percentage through various programs and grants. In the past few years, the federal economic contribution has been extremely favorable due to the School Emergency Relief Program, initiated during the COVID pandemic. This federal funding will be phased out at the end of fiscal year 2026; however, median reserves are expected to remain above pre-pandemic levels.

The municipal bond market serves as a critical financial lifeline for K-12 school districts nationwide. Districts routinely issue municipal bonds to finance capital improvements, including new school construction, facility renovations, and technology upgrades. Many of these bond measures require voter approval and appear on local ballots. If voters approve these referendums, they are generally agreeing to an increase in taxes to fund their local school districts.

In December 2024, Moody's Investors Service revised its outlook for the U.S. K-12 school district sector from stable to negative, citing a more challenging operating environment. Moody's states that districts are facing a declining enrollment environment, increased costs, a reduction in federal funding from COVID, and rising competition. **It is important to note, however, that approximately 87% of K-12 funding is sourced from state and local governments**, with each state determining its own allocation methods.

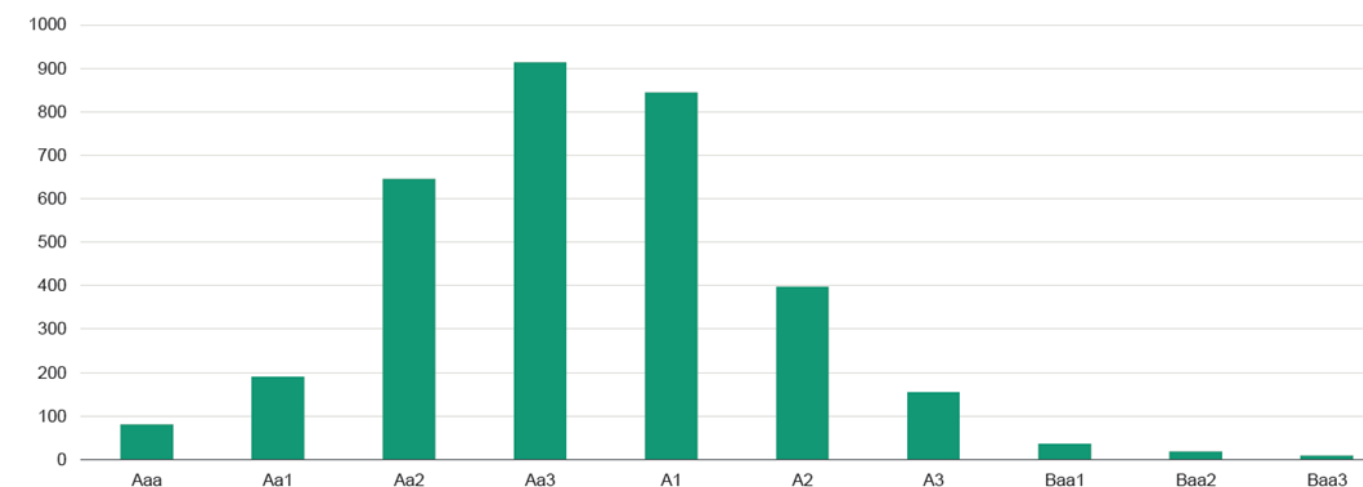


To further support school district financing, 25 states have implemented credit-enhancement programs that back municipal bonds issued by districts. These programs help lower borrowing costs by providing additional security to investors. Many of these programs are typically in low-income districts and for charter school programs. While the structure and strength of these enhancements vary by state, **they offer an extra layer of protection in the unlikely event of a debt service default.**

Some states are also navigating the implications of school voucher programs, which critics argue may divert funding and enrollment from public schools. In response, several states have introduced incentives for school consolidation to reduce fixed costs and have enacted new governance frameworks to enhance district adaptability.

When evaluating credit quality within the K–12 sector, analysts consider these factors (among others) to assess financial resilience. Despite the evolving landscape, the impact on most districts is expected to be limited. As of October 2024, Moody's reported that only 34 districts were under review and 36 held a negative outlook, out of nearly 3,300 issuers. The median credit rating for U.S. public school districts seen below, remains strong at Aa3.

US K-12 public school district rating distribution
Median rating for US K-12 public school districts is Aa3



Ratings as of October 2024
Source: Moody's Ratings

What does this mean for investors?

K–12 school district bonds continue to represent high-quality investment opportunities. As noted, the majority of districts are rated A1 or higher, with a significant portion falling within the AA category, reflecting strong creditworthiness. Additionally, credit enhancement programs implemented by 25 states provide an added layer of payment protection, further strengthening the appeal of these securities. This week, the new issue volume for K–12 school districts is projected to total approximately \$560 million. Last week, we were the senior manager on a Pennsylvania new issue for Methacton school district, rated Aa2 with the state aid intercept program. The bonds offered investors opportunities to purchase longer dated bonds with 5.0 – 5.25% coupons all callable in 2032, with tax-exempt yields of ~5.0% --- which, for investors in the top federal bracket and subject to the Net Investment Income Tax, **is a taxable equivalent yield of ~8.40%.** **Investors seeking stable, tax-advantaged income may find these offerings particularly attractive. We encourage you to consult with your financial advisor to determine whether an allocation to K–12 municipal bonds align with your portfolio objectives and risk profile.**

ILLUSTRATIVE PORTFOLIOS

Our illustrative proposals reflect three opportunities along the yield curve with bonds maturing from 1 to 30 years. Municipal yields were slightly lower across the curve by 1 to 2 basis points. Strategically, our 10–20-year maturity illustration continues to offer an excellent tax efficient solution. **Looking to maximize yield?** The 20 – 30-year range offers an additional ~50+ basis points (over 10 – 20 years), without significantly increasing volatility (modified duration 7.0 on 10 - 20 years vs 7.5 on 20-30 years). A 20 to 30-year portfolio rated A or better produces a tax-free yield to worst of ~4.80%, which equates to a **taxable equivalent yield to worst of ~8.10%** for an investor in the top federal tax bracket and subject to the net investment income tax. If the callable bonds are not called, the yield

to maturity increases slightly to ~4.90%, which equates to a **taxable equivalent yield to maturity of ~8.29%**. This option has an average coupon of 4.95% and a market price of ~100.59. The **current yield is ~4.92%**. An investment with \$1 million par value (~\$1,005,965 market value with accrued interest) will generate a federally tax-exempt annual coupon cash flow of \$49,500.

National Municipal Bond Illustrative Portfolios

Week of September 02, 2025

1 – 10 Years

10 – 20 Years

20 – 30 Years

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,049,247
Accrued Interest	\$11,819
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,061,066
Next 12mo Cpn Cash Flow	\$44,000
Generic Annual Cpn Cash Flow	\$44,000
Weighted Averages	
Coupon*	4.400%
Maturity**	5.33 yrs
Duration	3.25
Yield to Worst	2.824%
Yield to Maturity	3.180%
Market Price*	104.925
Tax Lots Holdings Included	20 of 20

*Par-Wtd, all else Mkt-Wtd.

**Avg life used for principal paydowns, and perpetual securities are assigned a 40 year maturity.

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,020,564
Accrued Interest	\$10,344
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,030,909
Next 12mo Cpn Cash Flow	\$44,912
Generic Annual Cpn Cash Flow	\$47,250
Weighted Averages	
Coupon*	4.725%
Maturity**	15.21 yrs
Duration	6.97
Yield to Worst	4.274%
Yield to Maturity	4.506%
Market Price*	102.056
Tax Lots Holdings Included	20 of 20

*Par-Wtd, all else Mkt-Wtd.

**Avg life used for principal paydowns, and perpetual securities are assigned a 40 year maturity.

Totals & Averages @ Market	
Summary Totals	
Original Face	\$1,000,000
Current Face (Par)	\$1,000,000
Market Principal	\$1,005,964
Accrued Interest	\$11,267
Cash & Cash Alternatives	\$0
-	-
-	-
Total Portfolio Value	\$1,017,231
Next 12mo Cpn Cash Flow	\$46,997
Generic Annual Cpn Cash Flow	\$49,500
Weighted Averages	
Coupon*	4.950%
Maturity**	25.25 yrs
Duration	7.51
Yield to Worst	4.802%
Yield to Maturity	4.909%
Market Price*	100.596
Tax Lots Holdings Included	20 of 20

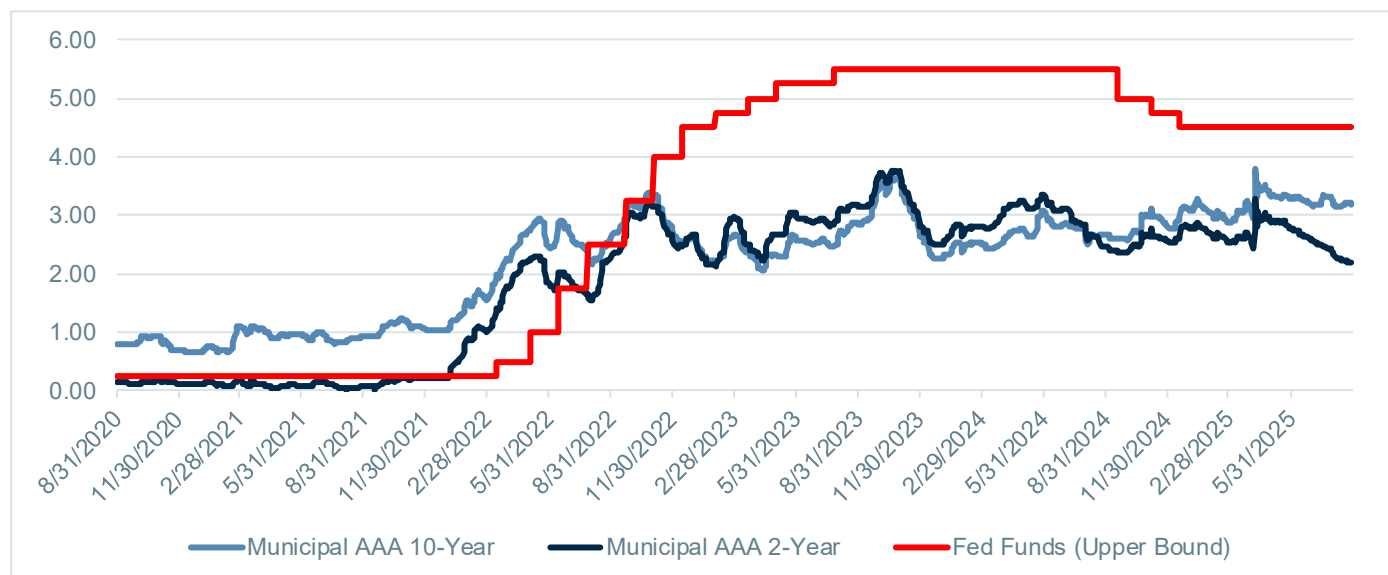
*Par-Wtd, all else Mkt-Wtd.

**Avg life used for principal paydowns, and perpetual securities are assigned a 40 year maturity.

NAVIGATING TODAY'S MARKET

New issuance is expected to be \$7.5 billion this week according to The Bond Buyer. Some of the larger deals include: the Dormitory of the State of New York (Aa1/-/AA+) is selling \$2.3 billion of general purpose state personal income tax revenue bonds; the Massachusetts School Building Authority (-/AA/AA+) is bringing a \$1.9 billion deal to market; the Michigan State Housing Development Authority (-/AA+) is issuing \$360 million of rental housing revenue bonds; the Georgia Housing and Finance Authority (-/AAA) is selling \$225 million of single family mortgage bonds; and the Los Angeles Department of Water and Power (Aa2/-/AA-) is bringing a \$166 million water system revenue bond deal to market. See table below for additional new issuance.

HISTORICAL YIELDS



Date	Amount	Issuer	ST	Description	Moody's/S&P/Fitch	Maturity
09/02/2025	\$20MM	Georgia Hsg & Fin Au	GA	Single Family Mortgage Bonds	--/AAA--	2026 - 2031
09/02/2025	\$225MM	Georgia Hsg & Fin Au	GA	Single Family Mortgage Bonds	--/AAA--	2027 - 2055
09/04/2025	\$19MM	Borden-Henryville Sch Bldng Corp	IN	Ad Valorem Property Tax First Mortgage	--/AA+--	2027 - 2045
09/04/2025	\$99MM	Colorado Hsg & Fin A	CO	COLORADO HOUSING AND FINANCE	Aaa/AAA/NR	2026 - 2055
09/04/2025	\$50MM	Colorado Hsg & Fin A	CO	COLORADO HOUSING AND FINANCE	Aaa/AAA/NR	2055 - 2055

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Sourced from Bloomberg: Treasuries: US Fed H15 CMT Curve - The H15 curve is comprised of the constant maturity treasury rates as published daily by the Federal Reserve in the H15 report. Municipal (AAA): BVAL Municipal AAA Yield Curve (Callable) - The curve is populated with high quality US municipal bonds with an average rating of AAA from Moody's and S&P. The yield curve is built using non-parametric fit of market data obtained from the Municipal Securities Rulemaking Board, new issues, and other proprietary contributed prices. The curve represents 5% couponing. The 3 month to 10 year points are bullet yields, and the 11 year to 30 year points are yields to worst for a 10-year call. Municipal (AA): US General Obligation AA Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured AA General Obligation bonds. Municipal (A): US General Obligation A+ A A- Muni BVAL Yield Curve - The BVAL curve is populated with pricing from uninsured A+, A, and A-rated General Obligation bonds. Fed Funds (Upper Bound): The federal funds rate is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee as part of its monetary policy. US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

The illustrative portfolios are intended as a starting point for a conversation on individual bonds. They are not intended as specific recommendations and bonds are shown for illustration purposes only. The bonds listed in the illustrative portfolios are rated A or better, with average ratings from Moody's and Standard and Poor's of Aa2 / AA. The yields shown in the proposals are based on pricing models, not current market offers. Yields shown are indicative of general market levels but are not a guaranteed result. Prices and yields are not inclusive of any fees or commissions.

US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.

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