

Macro Markets Podcast Episode 93: Municipal Bond Yields Are the Highest in a Generation

Date: October 2026

***This transcript is computer generated and may contain inaccuracies. ***

Jay Diamond: Our baseline US economic outlook calls for real gross domestic product to grow slightly more than 2% this year and into next. Consumer spending will likely moderate as tax refunds deplete, wage growth cools, and high gasoline prices erode purchasing power. But a stable labor market should provide a floor. The Federal Reserve is in play with a hike in September, and most market participants are expecting another at its December FOMC meeting. We have higher starting yields, solid growth and limited scope for Treasury yields to move materially higher from here, which create a generally appealing environment for fixed income.

Now, with this backdrop, it seems an ideal time to discuss municipal bonds, a sector that is an income workhorse for many investors. And sharing his insights today is Allen Li, a managing director and a portfolio manager on our Municipal Income Fund, who oversees the team responsible for tax exempt and taxable munis, an important sector in many of our portfolios. I'm Jay Diamond, head of thought leadership for Guggenheim Investments, and I'll be hosting today. We're recording this episode on October 23rd, 2026. With that, Allen, thanks for joining us today.

Allen Li: Thank you, Jay. Happy to be here again.

Jay Diamond: Let's start by talking about the operating environment for municipal bond issuers. How has the current interest rate environment and macroeconomic backdrop affected the fiscal condition of municipal bond issuers?

Allen Li: Macro conditions are generally supportive of municipal credit quality. Sales taxes and individual income taxes, two of the most important revenue sources at the state level, continue to register low to mid-single digit gains year over year. Corporate income tax receipts are growing solidly in the double digits versus 2025. Rainy day funds or unrestricted reserves cover over about 12% of annual budgets for the 50 states, with some states like Alaska, Texas and Wyoming exceeding 30%.

And that said, there are sector specific pressure points. Healthcare issuers are facing pressure from the expiration of enhanced ACA marketplace subsidies, with stricter Medicaid eligibility set to begin in calendar 2027. Also, school districts in charter schools face constraints from the decline in school age population and expanded availability of taxpayer funded vouchers. However, credit conditions remain mostly benign. The rising rate environment has caused some issuers to delay their new issuance, especially on deals that refund existing debt as the net present value of savings from refunding declines or goes away altogether. I do expect refunding activity to pick back up if Muni yields experience a sustained rally.

Jay Diamond: Thanks for that backdrop. Now, how have municipal bonds the investment been performing lately? And from an investor's perspective, what's the value proposition today?

Allen Li: Well, tax exempts had a severe drawdown toward the end of the third quarter before partially recovering over the last 2 to 3 weeks. The Bloomberg Municipal Bond Index declined nearly 5% in September before rebounding more than 2% this month. This is caused by two factors—the self-off in Treasuries, which has impacted most fixed income asset classes, and a supply/demand imbalance that is specific to munis. Seasonally, September through Thanksgiving typically see heavy tax-exempt supply that exceeds organic reinvestment demand from

principal and interest payments, tilting the muni market into a net supply surplus. This year, the seasonal effect was compounded by the steady selloff in Treasuries, and the result is the highest all-in yields since the Great Financial Crisis, higher than experienced during past episodes of market dislocation, such as Covid in 2020 and taper tantrum in 2013.

On an after-tax basis, munis exceed the yields on investment grade corporates and Treasuries. They become even more attractive for residents in high tax states who invest in munis from their own state.

Jay Diamond: Now, you mentioned this briefly about technicals. Supply and demand. So it's very important in muniland what's happening on the supply side with issuance. And how does this year compare to an average year?

Allen Li: On the new issuance side, we're running ahead of last year's record pace. For 2026 so far, new issuance totaled \$490 billion, which is up 6% year over year. Now for October supply is down 10% versus October 2025, which has helped munis recover some of the losses from September. We do expect to see a heavier calendar over the next few weeks, opening a window for investors to diversify their muni holdings at pretty attractive levels.

Jay Diamond: And how has demand held up for munis here?

Allen Li: So net retail flows have been supportive. Mutual funds have experienced outflows but that looks to be driven by tax swaps. The exchange traded funds have experienced inflows that more than offset the outflows in open end products. Given the backup in Muni yields, we are seeing more participation from crossover buyers such as banks and insurance companies.

Jay Diamond: Now, municipal bond land is not a uniform market. Are there any idiosyncratic credits or story bonds that you're following right now?

Allen Li: Not specifically, but at the sector level we do think healthcare and charter schools will present interesting opportunities in the next 1 to 2 years. As mentioned at the start, hospitals face looming challenges to their revenue base from the One Big Beautiful Bill Act and charter schools face increased competition for a declining pool of school age children. If these sectors underperform the broader market, there will be individual names within those areas that hold up better than the rest, and we're spending time to identify them.

Jay Diamond: So where are you finding value in the market right now, and is there anything that you're avoiding?

Allen Li: Sure. Right now we think high coupon bonds with long call protections are interesting. Most 5% coupon bonds have fallen below the de minimis price, making price accretion subject to ordinary income taxes instead of capital gains taxes. Thus, we are focused on bonds with coupons at or above 5% and at least 6 to 7 years of call protection. High yield munis continued to trade relatively tight to investment grade munis. So we're avoiding incremental high yield exposure at this point, but there are still one-off issuers within areas such as nursing homes and charter schools that we think present opportunities for investors.

Jay Diamond: Turning to a slightly different aspect of the market, what impact do you think the midterm election will have on municipal bonds, and how should investors think about positioning for the range of outcomes?

Allen Li: So at the national level, tax exemption generally has had bipartisan support, especially among congressional leaders. Past chairman and chairwoman of the powerful committees such as Ways and Means, generally had a good understanding of the value of the tax exemption to state and local issuers, so I expect little impact from the midterm elections at the national level, regardless of the potential changes to the party in control.

Now, at the local level, there are multiple states with local ballots that could impact property taxes, and a lot of those issuers in those states have bonds outstanding that pay from property tax levies. So to the extent that the property

tax regimes at the local level are changed. I will be careful about reassessing investing in property tax bonds from those states.

Jay Diamond: Allen, thanks again for taking the time to talk with us today and how busy you are. Before I let you go, what are the main takeaways you'd like to leave for our listeners today?

Allen Li: Yes, Jay. I just want to emphasize that all-in yields in tax-exempts have not been this high since the Great Financial Crisis—over a generation. So right now, for most investors, they can achieve greater yields on tax-exempt munis than they can from investment grade corporates, Treasuries, and most other fixed income asset classes. The technical pressures that have driven the sell off should be temporary based on past seasonal patterns and credit conditions in munis are broadly supportive.

So at today's entry point, income-oriented investors should do well over time. Right now, a five-year triple-A muni yields 3.1%: taxable-equivalent basis, assuming that investor is at the highest federal income tax bracket, the yield is north of 5%. A ten-year triple-A tax-exempt muni yields around 3.6%, but on taxable equivalent basis, that is north of 6%.

Finally, a 30-year triple-A tax-exempt muni yields around 4.9%, which is equivalent to north of 8% on a taxable basis. Now, if you go into double-A and single-A issuers, the yield also will be higher.

Jay Diamond: Any final thoughts you have before we wind up here?

Allen Li: Yes, munis are exciting again and Guggenheim has invested in munis for over two decades, and we're very happy to share our expertise at any time. Thank you for tuning in.

Jay Diamond: And thank you again for your time. Allen. I hope you come again and visit with us soon. And thanks to all of you who have joined us for our podcast. If you like what you're hearing, please rate us five stars. If you have any questions

for Allen or any of our other podcast guests, please send them to Macromarkets@GuggenheimInvestments.com, and we'll do our best to answer them on a future episode or offline.

I'm Jay Diamond, and we look forward to gathering again for the next episode of Macro Markets with Guggenheim Investments. In the meantime, for more of our thought leadership, including our recently published Fixed-Income Sector Views, which has a sector view from Allen on the municipal bond market, please visit GuggenheimInvestments.com/perspectives. So long.

Disclosure

Important notices and disclosures. This podcast is distributed or presented for informational or educational purposes only, and should not be considered a recommendation of any particular security strategy or investment product, or is investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities.

The content contained herein is not intended to be and should not be construed as legal or tax advice and or a legal opinion. Always consult a financial, tax and or legal professional regarding your specific situation. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and nonproprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable, but are not assured as to accuracy.

No part of this material may be reproduced or referred to in any form without express written permission of Guggenheim Partners, LLC. There is neither representation nor warranty as to the current accuracy of, nor liability for decisions based on such information. All investments have inherent risks.

The market value of fixed income securities will change in response to interest rate changes and market conditions, among other things in general. Bond prices rise when interest rates fall and vice versa. High yield securities present more liquidity and credit risk than investment grade bonds, and may be subject to greater volatility. Municipal bonds may be subject to credit, interest, prepayment, liquidity, and valuation risks. In addition, municipal securities can be affected by unfavorable legislative or political developments and adverse changes in the

economic and fiscal conditions of state and municipal issuers or the federal government in case it provides financial support to such issuers. Income from municipal bonds may be subject to the federal Alternative Minimum Tax.

Guggenheim Investments represents the investment management businesses of Guggenheim Partners, LLC. Securities are distributed by Guggenheim Funds Distributors, LLC.