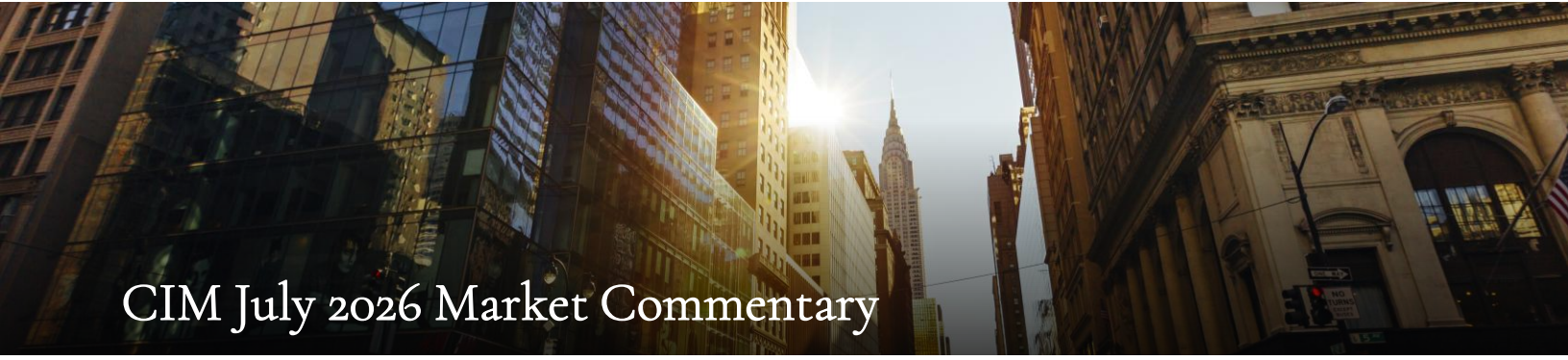




CIM July 2026 Market Commentary

Municipal Bond Taxable Equivalent Yields Now Rival Those of Private Credit

- Clinton Investment Management's Municipal Credit Opportunities yield-to-worst of 4.31% equates to roughly 9% when compared to corporate bonds or over 7.25% when compared to Treasuries, for those in the highest tax bracket living in a high tax state like New York.
- Contrasting with the private credit market, an asset class that has attracted sizeable capital inflows over the past several years, the relative value proposition shifts heavily toward municipals.
- We are of the firm belief that the structural fundamentals of municipal bonds provide a superior layer of investor protection compared to the opaque world of private corporate lending.
- The domestic economic engine experienced a pronounced slowdown, with advanced gross domestic product estimates revealing the U.S. economy decelerated sharply to a 1.5% annualized growth rate, a steep drop from the 2% expansion recorded in the first quarter of the year.
- The outlook for the municipal bond market remains exceedingly advantageous, in our view, as the convergence of slowing economic growth, a softening labor market, and a constrained central bank creates a constructive fundamental and technical backdrop for the asset class.

The second quarter of 2026 marked a pivotal transition period for global capital markets, characterized by a pronounced deceleration in domestic economic activity and an increasingly complex monetary policy landscape. For high-net-worth investors navigating this shifting macroeconomic terrain, the fixed-income markets offered divergent paths. On one hand, the broader corporate and private lending landscape began to exhibit symptoms of late-cycle fatigue, compressed spreads, and rising credit vulnerabilities. On the other hand, the municipal bond market emerged as an exceptionally resilient and fundamentally mispriced asset class.

As tax burdens continue to erode nominal investment returns for individual investors in the highest tax brackets, the structural benefits of municipal securities have become glaringly apparent. Underneath the short-term market noise, macroeconomic data points to an economic cooling cycle that favors high-quality, fixed income assets. For capital allocators analyzing the relative value landscape, the tax-exempt arena currently presents an asymmetric risk-reward profile that outclasses highly leveraged corporate alternatives.

A rigorous evaluation of asset class fundamentals reveals that high-grade municipal bonds offer some of the most compelling taxable-equivalent yields observed in the post-pandemic era. For example, Clinton Investment Management's Municipal Credit Opportunities yield-to-worst of 4.31%¹ equates to roughly 9% when compared to corporate bonds or over 7.25% when compared to Treasuries, for those in the highest tax bracket living in a high tax state like New York². Contrasting with the private credit market, an asset class that has attracted sizeable capital inflows over the past several years, the relative value proposition shifts heavily toward municipals. Private credit has traditionally positioned itself as a high-yielding alternative to traditional fixed income, yet its returns are fully taxable, severely diluting the net yield delivered to wealthy individuals. Furthermore, the private credit landscape is experiencing a rapid degradation in credit quality, with middle-market corporate borrowers facing intense margin compression from sustained elevated borrowing costs. The municipal market, however, offers investors exposure to sectors such as public infrastructure, utility systems, and state and local governments that possess tax autonomy, pricing power given essentiality of services they provide, together with historically stable, predictable revenue streams. In addition, municipal tax revenues are projected to increase, given widescale AI adoption at the enterprise level and resultant data center construction.

We are of the firm belief that the structural fundamentals of municipal bonds provide a superior layer of investor protection compared to the opaque world of private corporate lending. Historically, high-grade municipal securities have exhibited exceptionally low default rates, remaining well below one percent over multiple decades, according to Moodys' Credit Default Study, 2024 data³. This sharply contrasts with the private credit market, where industry analysts are observing escalating corporate fragility and default rates climbing toward six percent among over-leveraged middle-market companies, according to Fitch⁴. This vast gulf in credit risk is exacerbated by the exorbitant fee structures embedded in private credit funds, which frequently charge two percent management fees alongside twenty percent performance hurdles for funds exposed to a meaningful degree of leverage. Heavy fee drag can result in a significant reduction of private credit investor returns over time, whereas active municipal asset management utilizes transparent, lower cost Separately Managed Account structures that maximize the pass-through of interest income to the underlying client. The liquidity dynamics of the two asset classes also illustrate the operational advantages inherent in the municipal bond market. Private credit vehicles routinely protect their illiquid underlying portfolios by implementing restrictive redemption terms, including the frequent deployment of multi-year capital lock-up periods and liquidity gates. During periods of economic stress, investors in these private funds often find themselves trapped, unable to reallocate capital as credit conditions deteriorate.

Municipal bonds, conversely, typically trade within a deep, highly transparent institutional secondary market, allowing for continuous portfolio optimization, tax-loss harvesting, and a high level of liquidity without arbitrary holding penalties or withdrawal restrictions. This operational freedom ensures that wealth managers can dynamically adjust portfolio positioning as macroeconomic variables evolve. The structural contrast extends to the type of interest rate exposure embedded in these respective asset classes. Private credit is fundamentally built upon floating-rate debt instruments, a feature that benefited investors during the Federal Reserve's aggressive tightening cycle but has now transformed into a distinct vulnerability. As the broader economy slows, corporate borrowers under floating-rate arrangements face immense debt-service pressure, and looming maturity walls, while investors are exposed to the risk of rapidly declining yields once monetary policy begins to ease. Municipal bonds are predominantly structured with fixed coupon rates, allowing informed investors to lock in high terminal yields for an extended period, should interest rates remain stable or decline over time, as is our expectation. By capturing these fixed rates at the cyclical peak of the interest rate cycle, municipal bond investors can further reduce their portfolio exposures to reinvestment risk which will inevitably plague floating-rate private credit strategies as benchmark yields move lower. It is important to remember that municipal bonds provide liquidity within one business day, in most circumstances, providing investors with the flexibility to adjust exposures as market conditions shift rather than when the investment manager deems the timing appropriate, as is currently the case for many investors currently gated in private credit vehicles.

The necessity of locking in these fixed yields is underscored by the macroeconomic data that defined the second quarter of 2026. The domestic economic engine experienced a pronounced slowdown, with advanced gross domestic product estimates revealing the U.S. economy decelerated sharply to a 1.5% annualized growth rate, a steep drop from the 2% expansion recorded in the first quarter of the year. This cooling economic trajectory was reinforced by a sudden and severe softening in the domestic labor market. The June 2026 non-farm payrolls report delivered a downward surprise to market participants, expanding by a mere 57,000 jobs and missing consensus expectations by more than half. This data illustrates that the labor sector, which had long served as the primary pillar of economic resilience, is no longer running hot and may be succumbing to the restrictive monetary environment.

While a volatile geopolitical energy landscape has kept headline inflation figures sticky and prevented an immediate, aggressive pivot toward monetary easing, this combination of anemic gross domestic product growth and a weakening employment backdrop is likely to pressure the Federal Reserve, Chairman Kevin Warsh and the Federal Open Market Committee. Recognizing the fragility of the economic expansion, the central bank opted to hold benchmark interest rates steady within the 3.50% - 3.75% range at its most recent meeting. The Federal Reserve is effectively handcuffed, constrained from pursuing further policy tightening by explicit signs of economic fatigue, yet hesitant to cut rates prematurely due to lingering, and potentially transient, localized price pressures. This prolonged pause by the monetary authorities establishes a highly favorable environment for fixed-income assets, as it removes the threat of further upward rate shocks while signaling that the next structural move in interest rates may be a cut as opposed to a hike.

Looking ahead, the outlook for the municipal bond market remains exceedingly advantageous, in our view, as the convergence of slowing economic growth, a softening labor market, and a constrained central bank creates a constructive fundamental and technical backdrop for the asset class. As cash yields on short-term instruments begin to lose their luster, we expect a meaningful rotation of capital out of money market funds and preferred savings vehicles back into long-term fixed-income securities, creating a powerful technical tailwind that will support valuations. Investors who proactively extend duration within municipal portfolios offering higher yields, stand to achieve not only elevated tax-free cash flow but may also enjoy significant capital appreciation alongside highly durable, tax-sheltered income streams. In an environment where corporate balance sheets may be pressured by rising input costs and the inability to pass on those higher costs to consumers already under financial strain, at the same time that private market vehicles are limiting redemptions, the clarity, safety, and attractive taxable-equivalent yields of the municipal bond market represent a haven for capital preservation and compelling tax-free cash flow. Active portfolio management and disciplined credit selection will remain paramount in separating premier underlying credits from localized areas of fiscal stress, enabling investors to fully capitalize on these unique macroeconomic conditions, against an uncertain economic and geopolitical backdrop.

Important Disclosure Information

This material has been provided for informational purposes only and is not intended by Clinton Investment Management to provide and should not be relied on for tax, legal or accounting advice. If such advice is required, please consult with your own tax, legal and accounting advisors.

Please remember that past performance may not be indicative of future results. Net-of-fee performance returns are calculated by deducting the actual Clinton Investment Management, LLC investment management fee from the gross returns. Performance returns include the reinvestment of income and capital gains. Actual results may differ from the composite results depending upon the size of the account, investment objectives, guidelines and restrictions, inception of the account and other factors. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product, made reference to directly or indirectly in this newsletter (article), will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter (article) serves as the receipt of, or as a substitute for, personalized investment advice from Clinton Investment Management, LLC. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Please consult with an investment professional before making any investment using content or implied content from any investment manager. A copy of our current written disclosure statement discussing our advisory services and fees is available upon request.

The views and opinions expressed are not necessarily those of the distributing firm or any affiliates. Nothing discussed or suggested should be construed as permission to supersede or circumvent your firm's policies, procedures, rules, and guidelines.

¹Yield Data is derived from our Municipal Credit Opportunities composite as of 07/31/2026 and is subject to change.

²The taxable equivalent yield (TEY) is calculated by dividing the tax-exempt yield by 1- the maximum federal income tax rate of 40.8% (37% federal + 3.80% NII tax) + the maximum NY income tax rate of 6.85% applicable to a joint filer in the taxable income bracket between \$323,201 and \$2,155,350 + the NYC Local income tax rate of 3.88%. Taxable income above this bracket will result in a higher TEY.

³Moody's: [US municipal bond default and recovery rates, 1970-2024 | Default Report | Moody's](#)

⁴Fitch Ratings-U.S. Private Credit Default Rates Remains at Record High 6.0% in May 2026, June 15, 2026.