

Shape of the Markets

I CAN'T STOP TALKING ABOUT MUNIS

FEBRUARY 2026

The 20-year spot on the Bloomberg Valuation (BVAL) AAA Municipal yield curve yielded 3.91% as of January 30th, 2026. **Yields at the 20-year spot on the Municipal curve have only been higher than today 7% of the time over the last 15 years!**¹

Furthermore, the difference between yields at the 20-year spot on the curve and yields at the 15-year spot on the curve – otherwise known as “steepness” – are at historically high levels. **In fact, there has not been a single instance in the last 15 years where the steepness between the 20- and 15-year part of the curve has been this great.**²

Higher yields (income) and steep rolldown potential translates to what we call a “head start” for a 20-year Municipal bond. This “head start” doesn’t just mean more attractive return potential – it makes bonds more defensive if rates rise, too. Let’s prove this.

There are a couple of facts we know:

- The 10-year spot on the BVAL AAA is yielding 2.60% (as of 1/30/2026). If held to maturity, the bond will return 26.00% over the 10-year time period, ignoring compounding (2.6% x 10 years).
- The 20-year spot on the BVAL AAA is yielding 3.91% (as of 1/30/2026). If held to maturity, the bond will return 78.20% over the 20-year time period, ignoring compounding (3.91% x 20 years).
- After the next ten years have passed, a 20-year Municipal bond will only have 10 years of life remaining. In other words, in ten years’ time, a 20-year Municipal bond will be a 10-year Municipal bond.

Given this information, we can calculate the future cash flows to determine how much Municipal rates would have to rise for the 20-year Municipal bond to “tie” the 10-year Municipal bond.



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Taylor acts as PTAM’s Client Portfolio Manager, serving as a liaison between investments, marketing, and sales. She is responsible for investment strategy updates and portfolio communications for all PTAM’s products. Taylor additionally leads production of various portfolio and market commentary as well as dedicated strategy content.

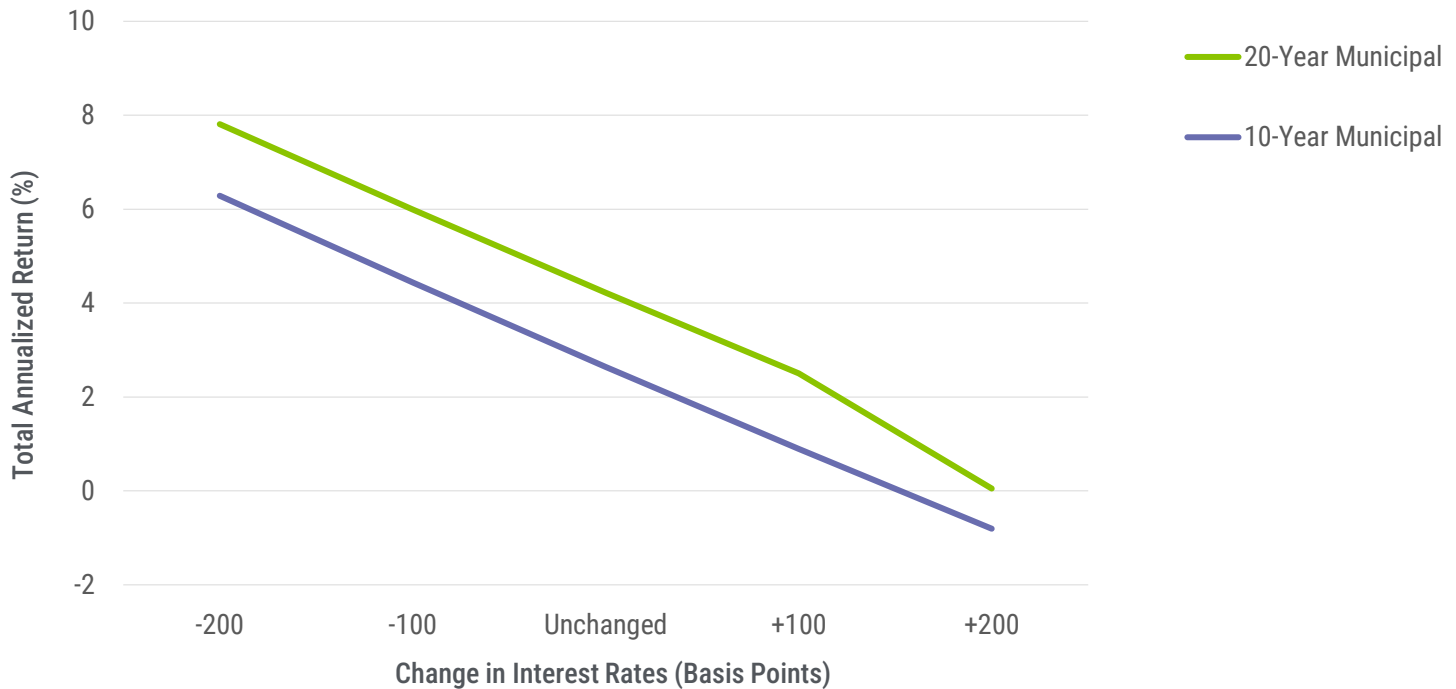
Taylor received a Bachelor of Arts from the Princeton School of Public and International Affairs from Princeton University. She is also a CFA® charter holder.

1- Source: Bloomberg. Data as of 1/30/2011-1/30/2026.

2- Source: Bloomberg. Data as of 1/30/2011-1/30/2026.

We make investment decisions through the lens of Shape Management, which implements yield (income) and yield curve roll considerations (among others). It also utilizes a 3-year horizon, a potential improvement in the investment decision process, when compared to the 20-year horizon required in our break-even analysis. Here's what the 20-year and 10-year bonds look like through Shape Management.

Three-year horizon total return analysis (Illustrative performance)



Sources: PTAM, Bloomberg as of 1/30/2026. Theoretical bonds were created using 1) yields according to the BVAL AAA curve as of 1/30/2026, 2) 5% coupons as associated with the BVAL AAA Municipal yield curve, and 3) static maturities for both the 10-year and 20-year bonds. For illustrative purposes only.

Assumptions: (1) a parallel shift in the yield curve (2) static allocation for 3 years (3) linear rate changes (4) sector specific spreads are held constant across five rate scenarios (5) reinvestment rate consistent with respective sector.

There's a reason I can't stop talking about Municipal bonds. The opportunity present at and around the 20-year spot of the Municipal yield curve is one rarely witnessed in recent history. When empowered by Shape Management, we do not need to know where interest rates will go in order to know which bond will generate more dollars of total wealth (total return) over time. We can't wait to see how go-forward returns – both absolute and relative – “Shape” out!

Glossary

Yield Curve refers to the U.S. Treasury yield curve rates.

Risks and Other Important Considerations

Investing involves risk; principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in asset-backed and mortgage-backed securities include risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. For a complete list of disclosures, please visit www.ptam.com.

When selecting a bond to invest in, most investors rely on what we refer to as “traditional fixed income metrics,” which are generally a combination of (1) taking a stance on whether interest rates will increase or decrease, (2) yield and (3) duration. Nearly 30 years ago, PTAM’s founders recognized the potential shortcomings in traditional bond metrics, and developed Shape Management, a math-based investment process that addresses each of these shortcomings by analyzing the risk return profile of a bond’s future cash flows. Shape Management is a mathematical calculation that analyzes the risk return profile of a bond’s or group of bonds’ future cash flows. By using Shape Management, PTAM creates projections of the performance of specific bonds or grouping of bonds. These projections are not the actual performance of any bond or product. As a result, Shape Management performance in this email were not actually achieved by any PTAM investment or product. The criteria and assumptions underlying the projected performance may prove to be incorrect. Prospective investors should not rely solely on such projected performance and should conduct a thorough independent analysis of the investment opportunity. The graphs included throughout this email are provided for illustrative and educational purposes only. Projected performance results may have many inherent limitations. No representation is being made that an investment will, or is likely to, achieve profits or losses similar to those shown. In fact, there are frequently significant differences between projected performance results and actual results subsequently achieved. Although projected performance may be useful to consider when making an investment decision. Investment decisions based on Shape Management information may not be profitable. All projected performance is shown as net performance, which includes management fees, reinvestment of interest payments, principal payments, and capital gains.

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