SEPTEMBER 2026

APA MARKET COMMENTARY: SEPTEMBER 2026

01 September's rise in yields created some of the most attractive tax-exempt income opportunities available in over a decade, allowing strong entry points for new cash and opportunities for active managers to harvest losses and lift portfolio income.

02 Record-breaking secondary market activity, continued elevated issuance, and market volatility expanded the opportunity set across sectors, structures, and maturities allowing for more selectivity with purchases for client accounts.

03 Whether prioritizing liquidity, intermediate income generation, or longer-term yield opportunities, September left municipal investors with greater flexibility across the curve to improve portfolio income, upgrade portfolio characteristics, and enhance long-term return potential.

THE WORST SEPTEMBER RETURN SINCE 2008

- September began with investors evaluating whether August's volatility would continue. Elevated yields provided a more attractive entry point than was available earlier in the summer, but concerns around inflation, fiscal policy, and long-term rates remained front and center.

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- As the month progressed, markets increasingly focused on inflation expectations, Treasury supply, fiscal deficits, and long-term rates. Long-term Treasury yields climbed to levels not seen in decades, with the 10-year Treasury ending September at 5.29% and the 30-year Treasury ending at 5.61%, the highest levels since 2007 and 2002, respectively.
- Municipal bond performance came under pressure as yields moved sharply higher across the curve. The Bloomberg Municipal Bond Index returned (-4.36%) during September, the worst September return since 2008. While the month's repricing was challenging for returns, it also created one of the most attractive municipal income environments investors have seen in years.

YET NEW ISSUANCE REMAINED ELEVATED

- September's market turbulence was not enough to derail new issuance, with borrowers continuing to access the market amid higher project costs, shrinking COVID-era funding support, and expectations for future rate hikes.
- While the new issue calendar remained robust through most of the selloff, several larger month-end deals were moved to day-to-day status, helping market conditions stabilize during the final days of September. Even with some issuance rolling into October, September supply reached a record monthly total.

The highest September total on record.

- Issuance finished north of $55 billion across 784 deals, up 13.7% year over year, marking the highest September total on record.

...AND THE SECONDARY MARKET BOND BUFFET EXPANDED

- Record-breaking secondary market activity created one of the most attractive security-selection environments in years. Bids-wanted volume across dealer and electronic trading platforms exceeded $7 billion per day during the final week of September, dramatically expanding the inventory of bonds available to investors.

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Secondary market offerings exceeded $7B per day during the final week of September.

- As a result, investors gained access to a broader inventory of bonds across sectors, structures, maturities, and coupon profiles than at any point earlier this year, creating additional opportunities for active managers to be more selective across the curve.
- With 2026 issuance remaining on pace for another annual record and secondary market activity elevated, APA believes the current environment provides ample opportunities across both the new issue and secondary markets for active managers to customize portfolios around income needs, duration targets, and tax objectives.

VOLATILITY CREATED OPPORTUNITIES FOR ACTIVE MANAGEMENT

- Elevated secondary market activity and changing relative values expanded opportunities for tax loss harvesting and portfolio repositioning. In many cases, tax loss harvesting allowed investors to rotate into higher coupons, stronger credit quality, and improved income characteristics than were available just a few months ago.
- APA actively utilized tax loss swaps where appropriate, seeking to enhance after-tax outcomes while improving long-term portfolio construction. We will continue to look at portfolios on a bond-by-bond basis as we aim to improve client portfolios through tax loss swap opportunities.

THE OPPORTUNITY COST OF CASH INCREASED

- September's rise in yields dramatically improved tax-exempt income levels across much of the municipal market.
- The curve continued to offer extension value; however, September's shift was especially pronounced on the front end of the curve. One- through five-year yields increased approximately 90-100 basis points during September, allowing investors to earn substantially more income without extending significantly out the curve.

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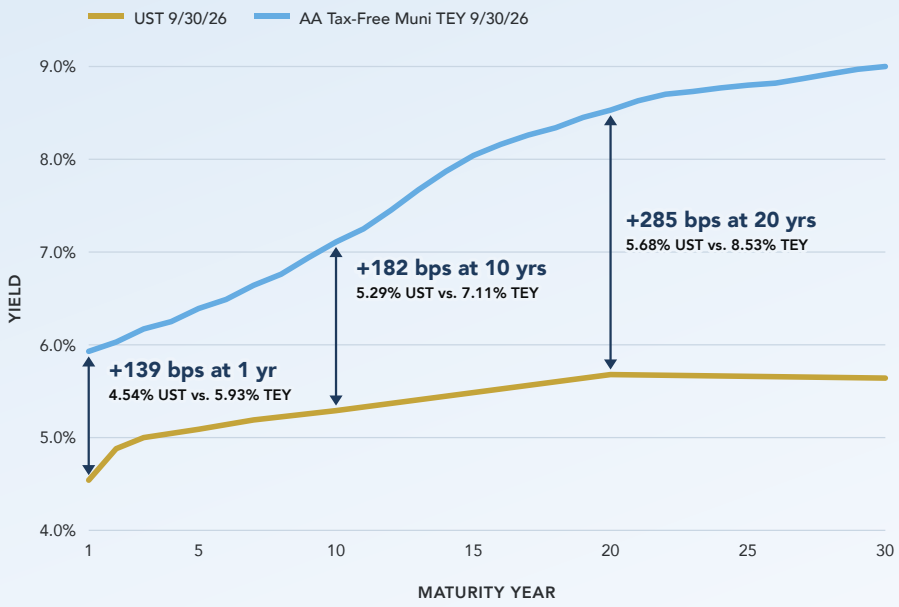
- Taxable-equivalent municipal yields now exceed comparable Treasury yields by a wide margin across short, intermediate, and long maturities.

INVESTORS ARE BEING PAID TO MOVE OUT OF TREASURIES



Source: The Municipal Market Monitor (TM3) & U.S. Department of the Treasury

TAXABLE-EQUIVALENT YIELDS RIVAL EQUITY RETURNS

September's correction offered municipal investors with yields rivaling equity returns.

- September's reset resulted in taxable-equivalent yields exceeding 10% in portions of the curve for investors in high-tax states, with comparable levels not seen since January 2009. In this market, investors can earn levels of tax-efficient income that rival traditional equity return expectations.

4%-5% MUNI YIELDS PRODUCE TAXABLE-EQUIVALENT INCOME RIVALING EQUITY RETURNS

Tax-Free Yield Example	CA	NY	OR	MN	MA	CT	VA	UT	SC	GA	NC
4.00%	8.71%	8.28%	8.11%	8.11%	7.97%	7.66%	7.48%	7.31%	7.41%	7.38%	7.25%
4.50%	9.80%	8.60%	8.47%	8.47%	8.30%	8.01%	7.83%	7.67%	7.90%	7.86%	7.73%
5.00%	10.89%	10.35%	10.14%	10.14%	9.96%	9.58%	9.35%	9.14%	9.26%	9.23%	9.06%
	Estimated Taxable-Equivalent Yield*										

Illustrative taxable-equivalent yields assuming the highest applicable federal and state income tax rates. See Disclosures page for additional details.

Source: APA Analysis

HIGHER COUPONS CONTINUED TO EARN THEIR KEEP

- APA has favored higher-coupon bonds in client portfolios throughout the year, and September's volatility provided another reminder of the benefits these structures can offer during periods of market stress.

Higher coupons outperformed during September's volatility.

- Higher-coupon bonds generally outperformed lower-coupon bonds during the month, demonstrating their ability to better withstand periods of repricing and elevated volatility.
- September's selloff also created opportunities to further upgrade portfolios through tax loss swaps and new cash deployment, allowing APA to add higher-coupon structures while seeking attractive relative value.

CREDIT DIFFERENTIATION CONTINUED

- Municipal credit fundamentals remained generally stable during September, but recent rating activity continued to reinforce a theme APA has highlighted throughout the year: municipal credit remains broadly stable, but outcomes are becoming increasingly issuer specific.

- The transportation sector was an area of strength during the month, with upgrades across several toll road and transportation-related issuers, including the Central Texas Regional Mobility Authority, Tampa Hillsborough Expressway Authority, and Delaware Transportation Authority. Illinois also received another positive rating action, with S&P upgrading the state's rating to A from A-, reflecting continued improvement in the state's credit profile.
- Not all credits experienced similar outcomes. Fayette County School District, Kentucky was downgraded to BBB+ from AA following significant deterioration in its financial position, concerns surrounding governance and internal controls, and uncertainty surrounding the validity of prior accounting information.
- While broader healthcare sector headwinds persist, Stanford Health Care and Covenant Health both received upgrades supported by stronger balance sheet performance and expectations for continued stability.

ENTERING OCTOBER FROM A STRONGER STARTING POINT

- September was a memorable month for municipal investors, as the market's repricing pushed taxable-equivalent yields in portions of the curve to levels that rival traditional equity return expectations.
- Volatility expanded opportunities for active managers to harvest losses, improve portfolio income, upgrade structures, and improve credit quality in ways that were significantly more difficult just a few months ago.
- While uncertainty remains and rates may continue to fluctuate, recent trading activity suggests market conditions have begun to stabilize in the initial days of October.
- APA remains constructive on municipal bonds, as many of the risks that pressured the market throughout the first three quarters of the year are now reflected in valuations, and today's combination of tax-exempt income, portfolio flexibility, and opportunity across the curve provides one of the strongest foundations for long-term municipal investors that we have seen in several years.

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*Tax-equivalent yield (TEY) is calculated by dividing the portion of the account's yield that is tax-exempt by one minus the applicable tax rate and adding that amount to the portion, if any, of the account's yield that is not tax-exempt. Estimated TEYs shown are calculated using the highest federal income tax bracket of 37%, the 3.8% net investment income tax (NIIT) that applies to individuals whose modified adjusted gross income (MAGI) exceeds certain thresholds, and state income tax rates of 13.3% (CA), 10.9% (NY), 9.9% (OR), 9.85% (MN), 9.0% (MA), 6.99% (CT), 5.75% (VA), 4.5% (UT), 5.21% (SC), 4.99% (GA), and 3.99% (NC). TEY does not reflect tax credits, exemptions, deduction limitations, or alternative minimum tax (AMT). This calculation is for illustration purposes only and is not intended to be a substitute for specific, individualized tax planning advice. In light of individual circumstances, APA recommends consultation with a qualified tax advisor or CPA.

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