



LORD ABBETT®

MUNICIPAL BONDS

2026 Midyear Investment Outlook

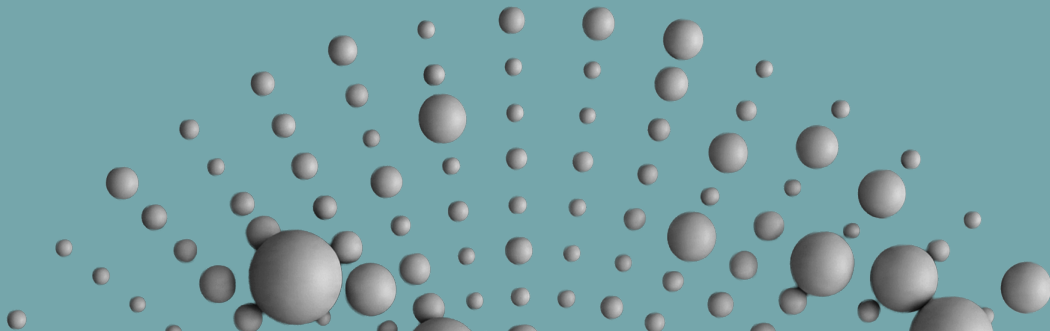
A Supportive Backdrop for Municipal Bonds

Daniel Solender, CFA®

Partner, Director of Tax-Free Income

Key Takeaways

- At midyear, starting yields on municipal bonds remain near the highest levels of the past decade; meanwhile, the municipal yield curve remains steep, with the spread between 10- and 30-year bonds near multi-year highs.
- Looking at high yield municipal bonds, market fundamentals are near the strongest levels in recent history, and yields are just off historically high levels.
- We see other supportive factors for the broader muni-bond space, including stable overall credit quality, a healthy supply of newly issued bonds, and solid demand from buyers seeking attractive levels of tax-exempt income.
- In our view, the current muni market, characterized by complexity and significant dispersion across sectors, structures, coupons, and credit profiles, presents an expanded opportunity set for experienced active managers.



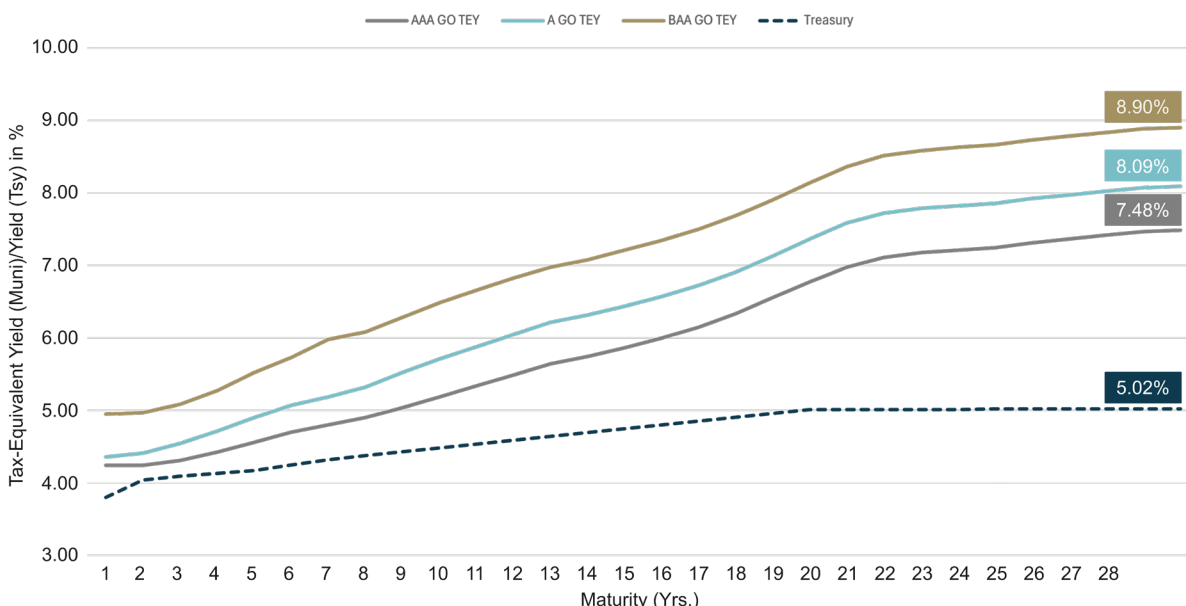
Municipal bonds benefited from the tailwinds we outlined in our 2026 year-ahead outlook published last December, and those conditions remain largely in place as we enter the second half of the year. We believe the muni market is well positioned, supported by historically attractive yields, resilient credit fundamentals, and favorable market technical factors. That is evident in the performance of key muni-bond benchmarks, with the Bloomberg Municipal Bond Index returning 1.34%, year to date through May 29, while the Bloomberg High Yield Municipal Bond Index has returned 2.72%.

Yields across the municipal market remain near the highest levels seen in recent years. In our view, today’s starting yields continue to provide a compelling entry point for investors seeking tax-advantaged income and long-term total return potential. (See Figure 1.)

Figure 1.

Municipal Bonds Offer Historically Attractive Tax-Equivalent Yield

Tax-equivalent yield (%) as of May 26, 2026



Source: Bloomberg. Data as of May 26, 2026. Muni AAA, A, and Baa tax-equivalent yield refers to taxable-equivalent yields on municipal bonds in those rating categories of corresponding maturity. Please see Glossary and Index Definitions, below, for additional information on credit ratings and rating agencies. “Treasury” refers to yields on U.S. Treasury securities of corresponding maturities. The tax-equivalent yield is the return that a taxable bond would need in order to equal the yield on a comparable tax-exempt municipal bond. Taxable-equivalent yield assumes the top marginal tax bracket of 40.8%, which includes the 37.0% income tax rate and the 3.8% in Medicare tax. Please see Glossary and Index Definitions, below, for additional information on credit ratings and rating agencies.

Past performance is not a reliable indicator or guarantee of future results. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

Given these factors, we believe active investors can find compelling opportunities throughout the municipal market. One of the most striking features of today's municipal market is the steepness of the yield curve, with the spread between 10- and 30-year yields near multi-year highs.

For investors emphasizing capital preservation and lower duration exposure, **short-dated municipal bonds (maturities of five years or lower) continue to offer attractive after-tax income** relative to Treasury bills and cash alternatives. (As a point of comparison, U.S. government debt such as T-bills is currently rated 'AA'; one quarter of the Bloomberg Municipal Bond Index is rated 'AAA,' and roughly 50% stands at 'AA.')

For the risk-averse, the short end could be an appealing choice. The market is seeing a lot of demand for this maturity range, especially cash coming from T-bills and money market funds, which have seen declining yields in recent years.

Meanwhile, **longer-dated municipals (maturities greater than 10 years) provide elevated income and possibly total return potential for investors** willing to accept greater interest-rate sensitivity. This strategy has proved popular in the current environment, as evidenced by the \$21 billion in inflows to longer-dated muni funds, year to date through May 14, based on data from Lipper and J.P. Morgan.

In our view, **the intermediate portion of the curve—roughly five to 10 years—currently offers the most compelling balance between yield opportunity and duration risk.** Investor demand shows that there is an appetite for that positioning preference, with \$11.1 billion in fund flows concentrated in intermediate maturities, year to date through May 14, based on data from Lipper and J.P. Morgan.

In our view, today's starting yields provide a compelling entry point for investors seeking tax-advantaged income and long-term total return potential.

One final observation on yields: Many people look at the yield ratio of AAA-rated muni bonds to Treasuries as a starting point to determine relative value. While the ratios were recently near historical averages, we would point out that there are a lot of different ways to get more yield in the market, whether through bond selection (especially various coupons), stepping down in credit quality, extending duration, or choosing different bond structures such as shorter calls.

Favorable Supply-and-Demand Conditions

Technical factors have underpinned the market thus far in 2026. Municipal issuance has remained exceptionally strong following record supply levels in both 2024 and 2025. Through April 30, 2026, new issuance was running ahead of the prior year's pace, according to Bloomberg data.

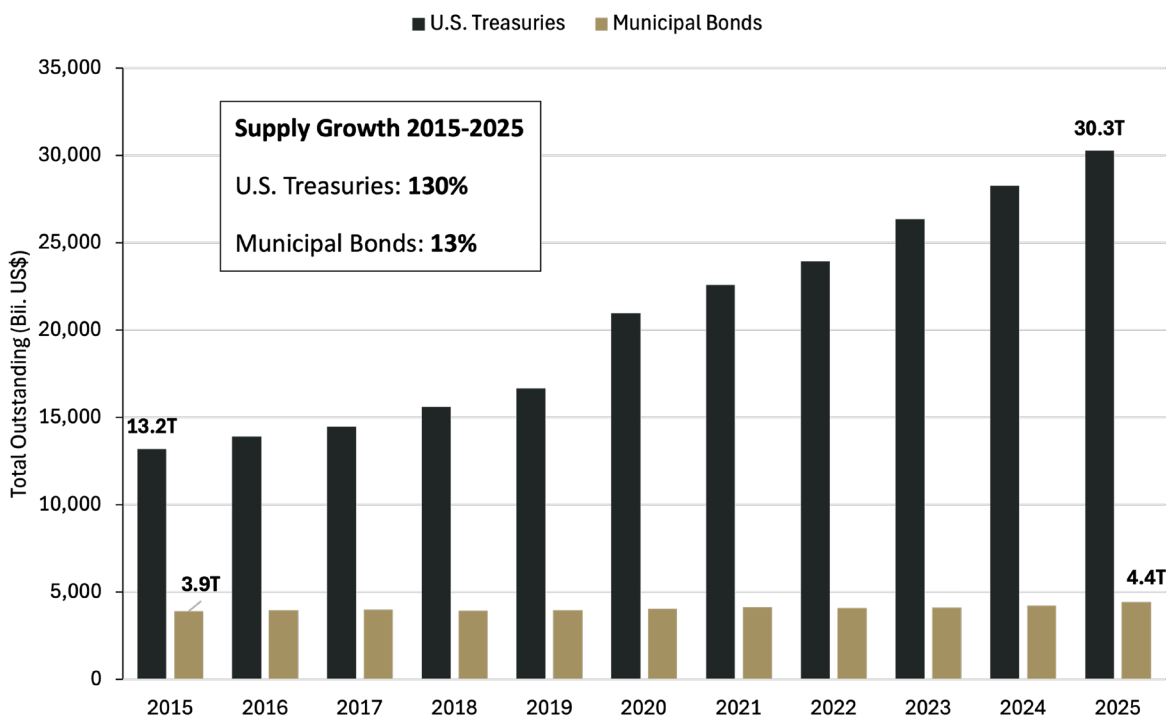
Several factors continue to support elevated issuance activity. Refinancing transactions remain an important contributor, but higher issuance also reflects sustained infrastructure investment across sectors including transportation, water and sewer systems, and healthcare facilities. Importantly, issuers have continued to access the market despite higher interest rates, suggesting underlying financing demand remains durable, and borrowers are comfortable tapping the market at these yields.

Despite the elevated issuance over the past couple of years, the supply of outstanding municipal bonds has only increased about 13% over the past decade, while the amount of U.S. Treasury bonds has risen 130%, with Treasury issuance setting records in each year of the past decade. (See Figure 2.) This large differential in issuance is primarily due to balanced budgets at the state level and revenue bond issuers only bringing new bonds to the market if they have the steady income to support the borrowing. By contrast, Treasury issuance reflects deficit financing at the federal level. We believe that the municipal bond issuance and supply trends we’ve outlined here should continue in the future, and that the muni market should handle these conditions well.

Figure 2.

Muni Supply Remains Healthy, Growing at a Modest Pace Compared to Treasuries

Data for the period 2015–2025



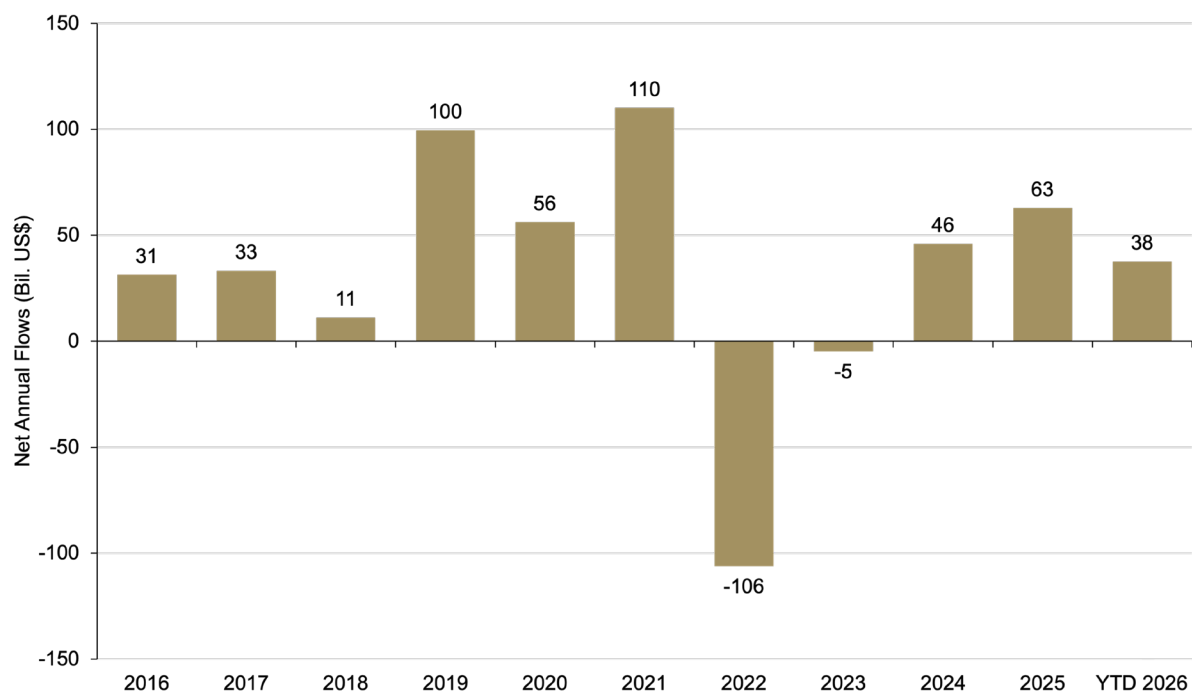
Source: SIFMA. As of 04/30/2026. Most recent available calendar year data. For illustrative purposes only.

One reason for that view is that the demand picture remains solid, as indicated earlier. Mutual fund flows have been consistently positive following their rebound from the weakness seen in 2022, a trend that has continued thus far in 2026, though the strong pace of inflows this year has not led the funds to fully recover the outflow totals from 2022. This suggests that the pace could lead to continued steady inflows if the level of rates supports individual investor demand. (See Figure 3.)

Figure 3.

Municipal Bond Fund Inflows Have Exhibited Strength in Recent Years

Annual flows into municipal bond mutual funds, 2016-2026 (through April 30)



Source: Lord Abbett and LSEG Lipper. For illustrative purposes only.

Part of what triggered the change in fund flows was the decision by the U.S. Federal Reserve (Fed) to lower rates near the end of last year. The individual investors who make up over two-thirds of the municipal market holders (based on Fed data) appear to be more comfortable with the asset class when interest rates are stable or declining. While there is much discussion about the direction of Fed policy at mid-2026, we would note that the likelihood of a significant upward move in rates seems low, which represents a potential positive for the municipal bond market. (Note that there is no guarantee that these conditions will continue in the future.)

We have also observed that demand for municipal bonds from separately managed accounts continued to be extremely strong through the first five months of 2026, especially for bonds with maturities of 10 years or shorter.

Muni Credit Quality Reflects Overall Strength and Stability

Credit fundamentals across the municipal market remain broadly stable, in our view, supported by conservative budgeting practices by state and local governments, strong reserve balances, and manageable debt burdens across many state and local issuers.

While investors continue to focus on broad areas like sectors, regions, or states for signs of fiscal stress, we currently view risks as largely issuer-specific rather than systemic. Even among issuers that periodically become the focus of market concern or political headlines, underlying credit fundamentals generally remain sound.

As a domestically oriented asset class, municipal bonds are generally less sensitive to geopolitical shocks than many other sectors.

In the case of U.S. states, rainy day fund balances—financial reserves that could be used to cover state operations if revenues come in below expectations—remain near historically high levels, potentially offering a meaningful cushion against economic headwinds. Though there has been some moderation in overall fund levels from the post-pandemic period of budgetary strength, a recent report from the Pew Charitable Trusts noted that most states still have stronger rainy-day funds than they did just before the COVID-19 pandemic. We will continue to monitor tax collections and state budget developments amid signs of slowing economic growth and rising operating costs. In general, though, we have observed states paying greater attention to maintaining higher rainy-day fund balances.

Finally, we would like to emphasize two points we made earlier this year about the municipal bond sector following the market volatility that ensued at the start of the U.S.-Iran conflict:

1. As a domestically oriented asset class with limited direct exposure to global supply chains or energy production, municipals are generally less sensitive to geopolitical shocks than many other sectors.
2. The essential-service nature of most municipal revenue streams, including utilities, healthcare systems, transportation infrastructure, and education, has historically supported stability through the full range of economic cycles.

Positive Signals for High Yield Munis

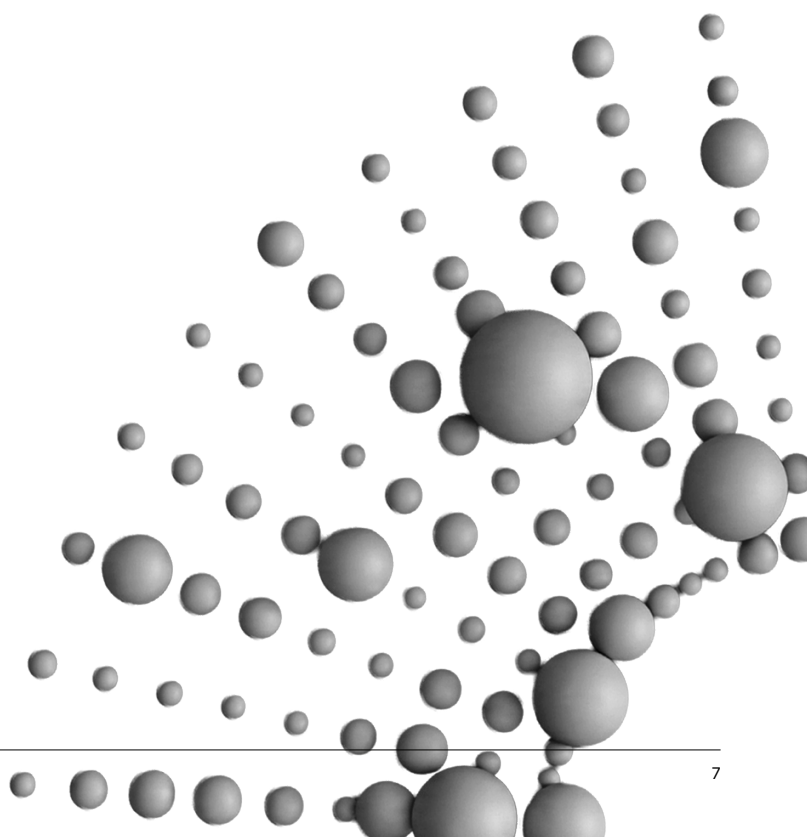
High yield municipal fundamentals also remain constructive, with default activity continuing to run at relatively low levels. According to Moody's, long-term cumulative default rates for high yield municipals have historically remained well below those of comparable corporate bonds.

Importantly, municipal credit deterioration often develops gradually, allowing disciplined credit research to typically identify potential stress signals before default occurs. At present, we continue to observe limited signs of broad-based distress across the high yield market.

Meanwhile, though there have been numerous headlines about the compression in spreads for taxable high yield bonds, we would note that spreads for high yield munis are tougher to quantify, even as some analysts state that they might be slightly tighter than average. Basic spread analysis would suggest that current spreads are near average levels, but there is often a huge discrepancy between different parts of the high yield muni market. For example, there are some bonds in the high yield muni index with yields in the 5% range, but there are many others in the 6% to 7% range or even higher, making it hard to come up with one opinion about spreads. There are actually several areas of the market that are still attractive in terms of credit spreads, in our view.

Supply in the high yield space has not kept up with other areas of the muni market, given today's higher rates. But demand remains positive. This augments the favorable technical backdrop for high yield munis.

We noted in a previous commentary that, in our view, today's environment makes for an attractive entry point into the asset class, as the market fundamentals are near the strongest levels in recent history, and yields are just off historically high levels. With the Bloomberg High Yield Municipal Bond Index yielding 5.53%, as of May 29, 2026, this brings a tax-equivalent yield of 9.34%, assuming the top U.S. tax rate of 40.8%. In other words, an investor locking in today's attractive yields on lower-rated municipal bonds has the opportunity to position their portfolio to capture attractive income.



Assessing Revenue Bond Sectors

Within the revenue bond market, we continue to see attractive opportunities across several sectors benefiting from favorable supply-demand dynamics and stable operating fundamentals.

Healthcare issuance has remained elevated in 2026, creating opportunities to capture additional spread in select issuers with improving balance sheet trends and strong market positions. We also continue to find value in certain prepaid gas structures, which are generally supported by highly rated financial counterparties.

Transportation-related sectors—including airports, toll roads, and ports—remain appealing, as traffic volumes and revenue trends continue to normalize since the pandemic, and infrastructure investment needs persist.

At the same time, we remain more selective in areas tied to commercial real estate development, particularly within portions of the high yield market where long-term demand assumptions may prove overly optimistic.

Complexity and Dispersion Argue for Active Management

In our view, today's municipal market increasingly rewards active management and disciplined security selection.

The combination of elevated issuance, fragmented market structure, and significant dispersion across sectors, structures, coupons, and credit profiles has expanded the opportunity set for experienced active managers. We believe having access to a broader inventory of new issues, including institutional offerings that may not be widely available through traditional retail distribution channels, can provide a meaningful advantage in identifying relative value opportunities.

Access matters. Professional managers have the ability to participate in bond deals that may not be available to individual buyers.

That advantage may be particularly pronounced in the high yield municipal market. Many smaller or more specialized transactions are not broadly syndicated across the market and instead are placed with a limited group of institutional investors that possess dedicated credit research capabilities and experience underwriting more complex structures. These transactions can offer attractive incremental yield and structural protections relative to more widely distributed issues.

We also believe municipal market complexity continues to create opportunities for active managers to add value through security selection. Differences in structure, call features, liquidity characteristics, and state-specific trading dynamics can produce meaningful pricing inefficiencies, even among issuers with similar credit ratings. Often, particularly in the investment-grade range, there are wider spreads for coupon differences, rather than credit quality, which can potentially create attractive opportunities.

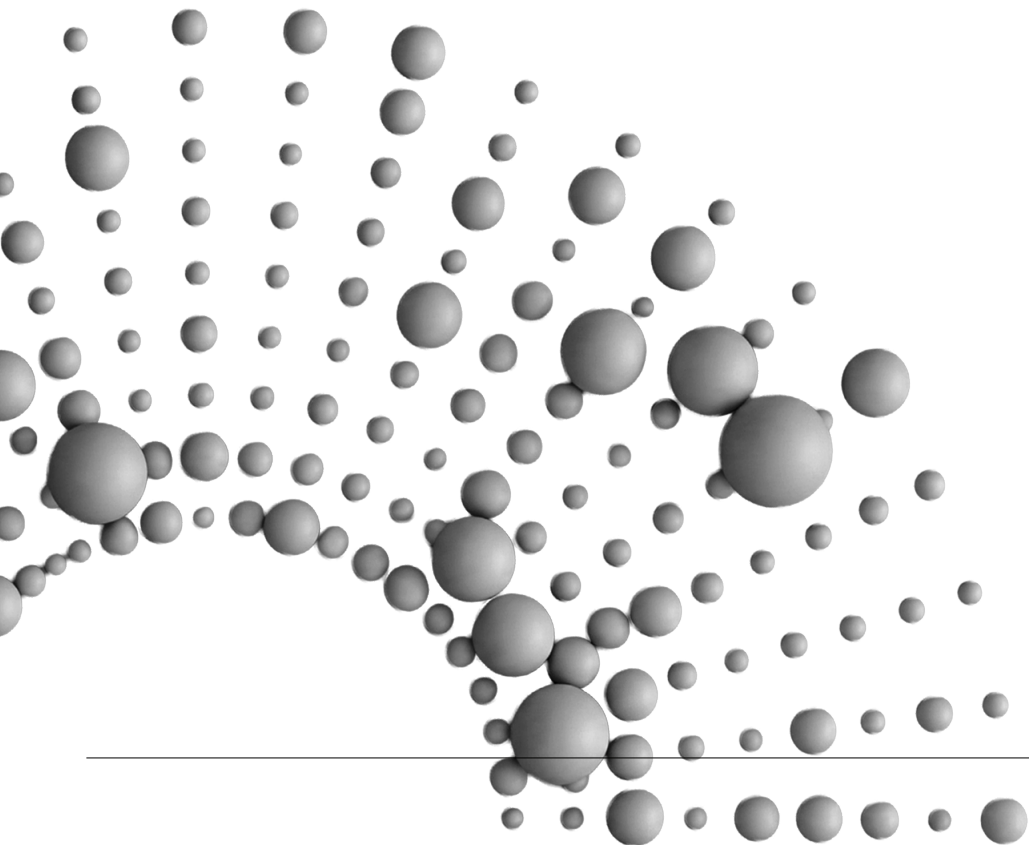
Summing Up

As municipal bonds enter the second half of 2026, we believe the asset class continues to offer a compelling combination of attractive income, potentially attractive total returns, resilient credit fundamentals, and supportive market technicals. Starting yields remain near the highest levels of the past decade, which historically have been an important driver of forward return potential across fixed-income markets.

At the same time, municipal credit quality remains broadly stable, supported by healthy state and local government balance sheets, elevated reserve levels, and limited signs of broad-based credit deterioration. While issuance is likely to remain at higher levels, as municipalities continue to finance infrastructure and other long-term capital needs, investor demand has thus far remained more than sufficient to absorb the increased supply.

In our view, the shifting dynamics of today's market environment also reinforces the importance of active management. Investors may wish to focus on experienced managers with deep credit research capabilities and broad access to both public and institutional municipal offerings.

Given these factors, we believe municipal bonds remain well positioned for investors seeking tax-advantaged income, attractive returns, and long-term portfolio diversification.



Glossary & Index Definitions

Treasuries are debt securities issued by the U.S. government and secured by its full faith and credit. Income from Treasury securities is exempt from state and local taxes.

Call provision is an early redemption provision that allows the issuer to redeem the bond before the stated maturity date at a specified price. The bondholder receives the principal amount of the bond and, in some cases, an additional premium. Many municipal bonds have call provisions, although most of these bonds cannot be called before a specified period, such as 10 years.

Credit ratings: The credit quality of fixed-income securities in a portfolio is assigned by a nationally recognized statistical rating organization (NRSRO), such as Standard & Poor's, Moody's, or Fitch, as an indication of an issuer's creditworthiness. Ratings range from 'AAA' (highest) to 'D' (lowest). Bonds rated 'BBB' or above are considered investment grade. Credit ratings 'BB' and below are lower-rated securities (junk bonds). High-yielding, non-investment-grade bonds (junk bonds) involve higher risks than investment-grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates.

The Federal Reserve (Fed) is the central bank of the United States. The federal funds (fed funds) rate is the target interest rate set by the Fed at which commercial banks borrow and lend their excess reserves to each other overnight.

General obligation (GO) bonds are backed by the "full faith and credit" of a government and are issued by entities such as states, cities, counties, and school districts. **Revenue bonds** are backed by revenues from specific projects or facilities (such as toll roads, water/sewer systems, or airports).

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

The yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. One such comparison involves the two-year and 10-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

The tax-equivalent yield is the pretax yield that a taxable bond needs to possess for its yield to be equal to that of the tax-exempt yield on a municipal bond. This calculation can be used to fairly compare the yield of a tax-free bond to that of a taxable bond to see which bond has a higher applicable yield.

The **Municipal Market Data (MMD) AAA Curve** is a proprietary yield curve that provides the offer-side of "AAA" rated state general obligation bonds, as determined by the MMD analyst team. The "AAA" scale (MMD Scale) is published by Municipal Market Data every day at 3:00 p.m. Eastern standard time, with earlier indications of market movement provided throughout the trading day. The MMD AAA curve represents the MMD analyst team's opinion of AAA valuation, based on institutional block size (\$2 million+) market activity in both the primary and secondary municipal bond market. In the interest of transparency, MMD publishes extensive yield-curve assumptions relating to various structural criteria, which are used in filtering market information for the purpose of benchmark yield-curve creation.

Important Information

The information contained herein is provided by Lord, Abbett & Co. LLC ("Lord Abbett"). Lord Abbett is a registered investment adviser under the U.S. Investment Advisers Act of 1940 (the "Advisers Act"), as amended, and is subject to the Advisers Act rules and regulations adopted by the U.S. Securities and Exchange Commission ("SEC"). Registration with the SEC does not imply a particular ability or training. Lord Abbett is a global asset manager with headquarters in Jersey City, New Jersey.

Certain information provided in the material has been obtained from third party sources and such information has not been independently verified by Lord Abbett. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information by Lord Abbett or any other person. While such sources are believed to be reliable, Lord Abbett does not assume any responsibility for the accuracy or completeness of such information. Lord Abbett does not undertake any obligation to update the information contained herein as of any future date.

Certain information contained in the material constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained in the material may be relied upon as a guarantee, promise, assurance or a representation as to the future.

Market forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

Past performance is not a reliable indicator of future results. All investments involve risk, including the loss of capital. Investments are not guaranteed by Lord Abbett, its affiliates, or any governmental agency.

The views and opinions expressed are those of the Lord Abbett author as of the date of the material, and do not necessarily represent the views of the firm as a whole. Any such views are subject to change at any time based upon market or other conditions and Lord Abbett disclaims any responsibility to update such views. References to specific asset classes and financial markets are for illustrative purposes only. This material is not intended to be relied upon as a forecast, research or investment advice. Neither Lord Abbett nor the Lord Abbett author can be responsible for any direct or incidental loss incurred by applying any of the information offered.

The information in this material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation in any jurisdiction. This material has not been reviewed or approved by any regulatory authority in any jurisdiction.

None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity.

Mentions of specific companies are for reference purposes only and are not meant to describe the investment merits of, or potential or actual portfolio changes related to, securities of those companies.

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

This material may not be reproduced in whole or in part or in any form without the permission of Lord Abbett. Lord Abbett mutual funds are distributed by Lord Abbett Distributor LLC, member FINRA.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

This material is the copyright © 2026 of Lord, Abbett & Co. LLC. All Rights Reserved.