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APA MARKET COMMENTARY: MARCH 2026

March marked a sharp but constructive reset for the municipal market, as geopolitical developments, shifting inflation expectations, and heavy issuance pushed yields higher — a move driven by rate sensitivity and technicals rather than a deterioration in demand or credit fundamentals.

From a valuation perspective, municipal yields have moved toward levels last seen during some of the most attractive spring entry environments in nearly two decades, reinforcing the opportunity for disciplined bond selection and quality-focused portfolio construction as we move into the second quarter.

In our view, markets like these reinforce the value of active management. Periods of volatility create opportunities to employ year-round tax loss harvesting across client accounts and reposition portfolios as the shape of the yield curve shifts.

IRAN, THE FED, AND A FAST-MOVING MACRO RESET

- March was dominated by geopolitical developments and their corresponding impact on oil prices and stagflation concerns as the U.S.–Iran conflict intensified following the end-February launch of military operations.

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- At the start of the month, markets were reacting to the initial escalation. Renewed threats to energy infrastructure and uncertainty around shipping through the Strait of Hormuz pushed oil prices higher, complicating the disinflation narrative that had supported markets earlier in the year.
- Perhaps lost in the geopolitical noise, on March 18, the Federal Reserve held interest rates steady but acknowledged that developments in the Middle East had increased uncertainty around the inflation outlook, citing higher energy prices as a contributing factor. Before the war broke out in late February, the market was pricing in more than two 25-bp Fed cuts this year. Those expectations were quickly erased throughout the month.

RATE-CUT EXPECTATIONS RESET FOLLOWING MARCH'S VOLATILITY



MARKET-IMPLIED FEDERAL RESERVE POLICY EXPECTATIONS, YEAR-TO-DATE



Source:
Bloomberg
[March 31, 2026]

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- Market volatility like this presents opportunities for active management. We can take advantage of excess yield and spread opportunities within the inefficient municipal market, shift portfolio positioning, and employ active tax loss harvesting across client accounts where appropriate.



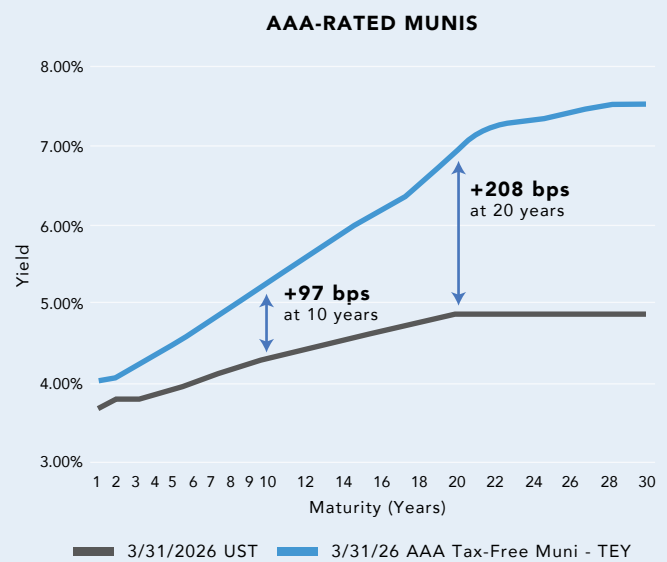
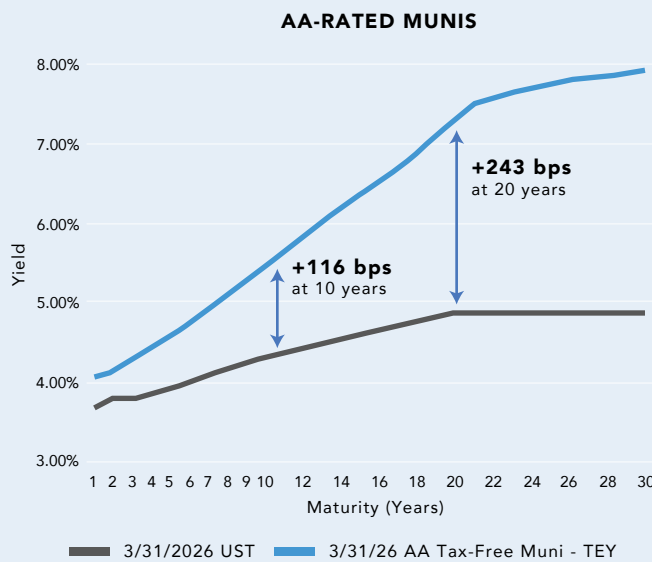
Market volatility presents opportunities for APA's active management to improve client portfolios.

MUNICIPAL PERFORMANCE: RATES DROVE THE ADJUSTMENT

- Rising rate volatility weighed on municipal performance in March, wiping out a strong start to the year. The Bloomberg Municipal Index returned -2.3% for the month, bringing year-to-date performance to -0.2%, as Treasury yields moved higher amid inflation concerns and changing Fed expectations.
- Following the March reset, municipals became more attractively priced relative to Treasuries across much of the curve. Intermediate and longer maturities saw the largest adjustments, consistent with their sensitivity to higher rates, while shorter maturities held up comparatively better.
- The most compelling relative value has emerged in the intermediate portion of the curve, where higher yields offer attractive income potential without requiring disproportionate extension into longer maturities.
- Abrupt market moves like March's can feel unsettling in real time, but historically they tend to reset municipal pricing more quickly than fundamentals change. If you remember just a year ago, we were in a similar position after the "Liberation Day" tariff announcements, yet the muni market finished with positive returns for 2025.

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MUNICIPALS YIELDS RISE, IMPROVING THE OPPORTUNITY SET



Source:
The Municipal Market Monitor (TM3) & Department of the Treasury
[March 31, 2026]

THROUGH IT ALL... NEW ISSUE SUPPLY REMAINED HEALTHY

- New issue supply played a significant role in shaping municipal market conditions during March, with total issuance reaching approximately \$50.1 billion, up year-over-year, as borrowers continued to access the market despite rising rates, heightened volatility, and broader macro uncertainty.
- Large and frequent deal calendars required higher yields to attract buyers, particularly in intermediate and longer maturities. That pricing adjustment created opportunities to add high-quality exposure at more attractive levels, especially for investors able to remain selective and patient. Seasonal factors,

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including tax-related selling, added to technical pressure and contributed to weaker prices during the month, at a time when reinvestment flows had not yet fully ramped up.

- While issuance remained healthy and still projected ahead of last year's record pace, increased volatility led some large borrowers to adjust or stagger deal sizing late in the month.



With elevated supply coinciding with higher rates, we continue to approach new issuance selectively, emphasizing structure and relative value.

DEMAND WAS TESTED — AND HELD

- Despite higher yields and increased volatility, demand for municipal bonds remained resilient through much of March. Although late-month seasonal and tax-related pressures led to modest aggregate fund outflows — the first of the year — monthly municipal fund flows remained positive overall, consistent with the market's historically lagged response to rate-driven fixed-income selloffs.
- While these outflows contributed to short-term price pressure, they did not disrupt market functioning. Instead, they coincided with improved entry points as prices adjusted ahead of reinvestment demand, particularly once rate volatility began to stabilize.

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MUNICIPAL CREDIT: ISSUER-LEVEL ANALYSIS IS MORE IMPORTANT THAN EVER



As credit differentiation increases, issuer-level analysis remains valuable in navigating headline risk and maintaining resilient municipal portfolios.

- Municipal credit fundamentals remained broadly stable through March, though rating activity highlighted the growing importance of issuer-level analysis as conditions become more differentiated across the market. Downgrades ticked up, reflecting targeted pressures rather than broad deterioration in credit quality.
- The healthcare sector remained an area of focus, as operating pressures and sector headwinds led to additional rating actions. Downgrades affecting issuers such as HonorHealth and Children's Hospital of Los Angeles reflected margin pressure, cost challenges, and execution considerations, rather than near-term liquidity concerns. Importantly, rating actions within healthcare remained mixed, reinforcing that outcomes continue to vary widely by issuer.
- Across the broader municipal market, utilities, transportation credits, and essential-service providers with strong balance sheets and disciplined financial management continued to demonstrate stability. The pattern of rating activity in March reinforces a familiar theme: credit outcomes are increasingly issuer-specific, placing greater value on active credit research and ongoing monitoring.

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SPRING HAS SPRUNG: OPPORTUNITIES EMERGE AFTER MARCH'S ADJUSTMENT

- March effectively erased the early-year rally and then pushed yields beyond prior expectations, delivering what we view as a more complete reset — and a healthier starting point — for tax-exempt investors heading into the spring.
- From a valuation standpoint, this adjustment has been constructive. Since late February, yields across the intermediate portion of the municipal curve have risen sharply, improving both absolute income and taxable-equivalent yields for high-bracket investors in a relatively short period of time.
- As the geopolitical conflict evolves, we remain focused on the potential second-round effects of recent energy market pressures on inflation and growth expectations, recognizing that these influences can persist even if tensions begin to ease. Against that backdrop, we continue to emphasize a barbell structure—maintaining a defensive stance on the short end while selectively adding exposure in the 10- to 15-year portion of the curve, which we view as particularly attractive in this environment.

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