

APRIL 2026



APA MARKET COMMENTARY: APRIL 2026

Although early April was impacted by tax-season momentum, especially on the short-end of the curve, investors continued to move up in quality and allocate to tax-exempt munis with the Bloomberg Municipal index returning 1.2% for the month.

April was defined by energy-driven macro uncertainty, as higher oil prices pushed inflation noise higher and kept the Federal Reserve in wait-and-see mode amid a divided Fed.

Credit conditions remained stable but increasingly differentiated, as education and healthcare highlighted a growing divide between stronger and weaker issuers, reinforcing that outcomes are being driven by governance, revenue flexibility, and balance-sheet strength, not macro headlines alone.

OIL SHOCK, INFLATION NOISE, AND A DIVIDED FED

- April remained focused on the conflict in the Middle East and the Strait of Hormuz blockade, pushing U.S. crude oil prices higher, reinforcing inflationary concerns in the market.



\$100+ oil put inflation back in the driver's seat.

APRIL 2026

- Economic data during the month was mixed: retail sales rose sharply, largely reflecting higher gasoline and auto sales, while consumer confidence improved modestly on expectations for future activity despite weaker assessments of current conditions.
- The month concluded with the April FOMC meeting, where the Fed held rates unchanged. There were three dissents to the Fed forward policy statement, favoring language without an easing bias.
- With new Fed Chair Kevin Warsh set to take the reins in May, recent dissension underscores that policy decisions remain driven by the full 12-member committee and that rate cuts are not imminent.

MUNICIPAL MARKETS: ABSORBING THE RATE SHOCK, ONE TAX PAYMENT AT A TIME

- Municipal markets entered April still digesting the late-quarter rate shock, as trading conditions became more deliberate while investors reassessed the rate backdrop.
- Despite that caution, municipals delivered strong performance: the Bloomberg Municipal Index returned +1.2% in April, lifting year-to-date returns to +1.0%. High yield municipals outperformed with a +1.4% return, while taxable municipals lagged, declining 0.2%.

TAX DAY DOES ITS THING: FLOWS, SUPPLY, AND SEASONALS



Tax season hit the front end—again.

- Tax-season outflows were concentrated in shorter-duration strategies, contributing to front-end underperformance early in the month. In contrast, intermediate and long-dated municipals led returns, as the long end of the curve benefited most from declining yields.
- As tax-season pressures eased, both Treasuries and municipals traded within a relatively narrow range, with muni rate movements largely tracking broader Treasury market dynamics.
- April saw seasonal selling pressure around Tax Day, as investor cash needs and money-market dynamics weighed on short-term municipals alongside a heavy new-issue calendar. These tax-time dislocations were driven by flows rather than fundamentals and followed a familiar seasonal pattern that typically works through the market.

APRIL 2026



Seasonal volatility rewarded APA's active, year-round tax-loss harvesting.

- Importantly, APA used this brief period of front-end dislocation to selectively harvest tax losses across client portfolios, taking advantage of temporarily elevated short-term yields to enhance forward income.

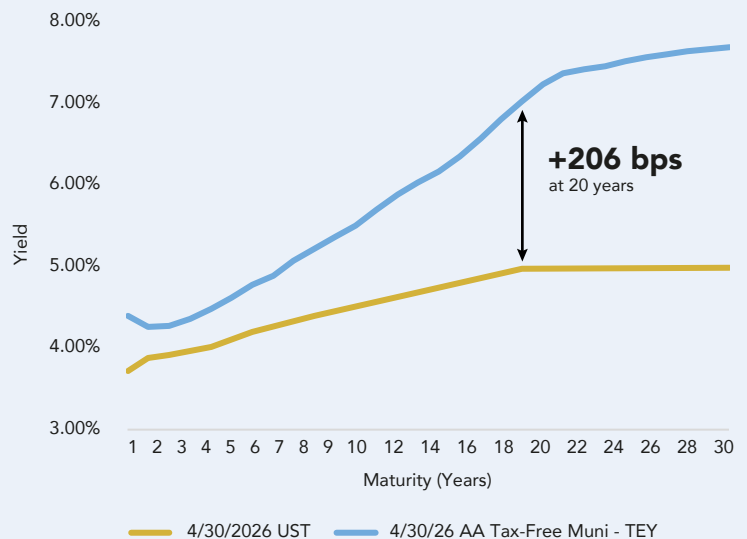
BUYERS SHOW UP DESPITE HEAVY SUPPLY

- Municipal fund flows remain a key offset, with year-to-date inflows totaling approximately \$29.5B, the third-highest YTD level on record since 1992, reflecting sustained demand for high-quality, tax-efficient income.
- Issuance remained elevated during April, with total muni supply of approximately \$47.6B, down modestly year-over-year but still above the 10-year April average and the third-largest April on record. Year-to-date issuance stands near \$179B, up roughly 4% year-over-year, contributing to near-term technical pressure but indicating a healthy primary market backdrop.

WHY THE CURVE STILL MATTERS

- The municipal yield curve remains steep, with high-quality municipals offering meaningful tax-adjusted yield pickup versus Treasuries. As of April month-end, AA-rated munis provide more than 200 basis points of tax-equivalent yield relative to U.S. Treasuries.

YIELD OPPORTUNITY SET FOR HIGH-QUALITY MUNIS



Source:
The Municipal Market Monitor (TM3) &
U.S. Department of the Treasury
[April 30, 2026]

APRIL 2026

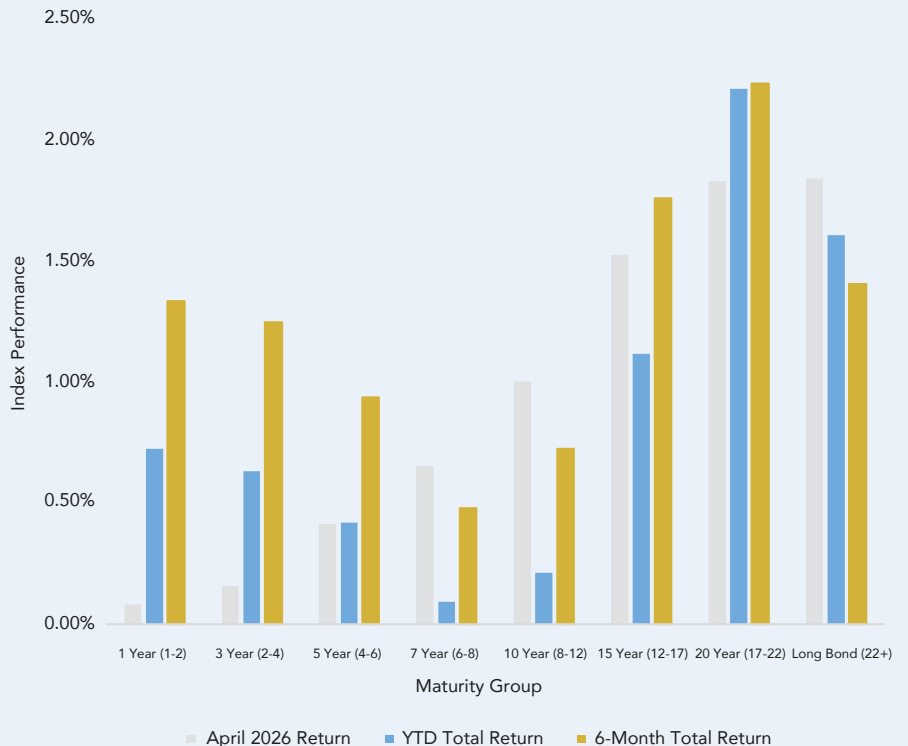
- While recent market repricing following the FOMC meeting led to a flatter curve inside of five years, we still believe clients are best positioned heading into the summer months with a barbell structure; it allows us to take advantage of heavy supply and secondary market opportunities to capture higher future income. The yield curve remains very steep in the 10- to 15-year and 10- to 20-year portions of the curve (dependent on the APA strategy selected). Despite shorter-term rates moving higher, we see opportunity in the rolldown of intermediate positions that are earning a positive real yield. These areas of the curve should continue to see demand.



APA favors a barbell structure to balance longer-end income potential with short-end flexibility in volatile rate environments.

- This curve shape has translated directly into differentiated performance across maturities in recent months. Performance across time horizons has remained non-linear, with short-dated municipals helping manage tax-season volatility in April while intermediate and longer maturities drove returns year-to-date and over the past six months—consistent with APA’s tactical approach to positioning portfolios to take advantage of the curve’s current shape through a modified barbell.

DIFFERENTIATED PERFORMANCE ACROSS MATURITY BUCKETS



Source:
Bloomberg
[April 30, 2026]

APRIL 2026

FUNDAMENTALS DECIDE THE WINNERS

- Municipal credit fundamentals remained broadly stable in April, with defaults and distress rates well below levels associated with systemic stress, reinforcing that risks remain issuer-specific rather than market-wide.



Credit winners and losers are separating.

- K-12 and higher education were important areas of rating activity, reflecting persistent operating pressures rather than near-term liquidity stress. While repayment capacity remains generally solid, declining enrollment, shifting demographics, the expiration of federal aid, and competition from charter and school choice programs continue to pressure weaker issuers, as highlighted by the Chapter 11 filing of Saint Augustine's University and Moody's two notch downgrade of Saint Michael's University. Governance, revenue growth, rising leverage, and state funding formulas remain key differentiators across the sector.
- Healthcare credit trends were mixed, with downgrades at challenged systems reflecting margin pressure and execution risk, including Boston Medical Center Health receiving a downgrade with negative outlook from Moody's, while well positioned organizations such as Wellstar Health System and Kettering Health received upgrades, underscoring the importance of scale, liquidity, and disciplined financial management.
- Overall, April's rating activity reinforced a growing divide between stronger and weaker issuers, highlighting the need to look beyond headline economics to policy decisions, governance quality, and balance-sheet flexibility.

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