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APA MARKET COMMENTARY: FEBRUARY 2026

Macro risks remained elevated, but municipal markets showed notable resilience, brushing aside tariff headlines, mixed Fed signals, and renewed geopolitical tension with limited volatility.

Strong demand continued to support muni performance, even as supply stayed firm, reinforcing the constructive tone across the market and the need for selective curve positioning.

Credit dispersion continues to widen, with tight spreads and growing sector gaps underscoring the importance of issuer-level research and, on the taxable side, the relative appeal of high-quality taxable municipals over the increasingly fragile corporate and private-credit markets.

MUNI MARKET BRUSHES ASIDE TARIFF NEWS AND GEOPOLITICAL RISKS

- In mid-February, the Fed released the minutes from its January 27–28 FOMC meeting. While a majority of participants agreed with the decision to hold rates steady, there was disagreement among members regarding the path forward as they work to balance fighting inflation with maintaining labor-market strength.
- On February 20, the Supreme Court ruled that the International Emergency Economic Powers Act (IEEPA) does not grant the President the power to unilaterally

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impose tariffs of indefinite scope. Despite the Supreme Court's ruling, the administration pledged to reintroduce tariffs and soon after signed a 10% global tariff. In the days following, the immediate bond-market reaction was tempered, with munis remaining little changed.

- On the last day of the month, the U.S. launched Operation Epic Fury, striking targets in Iran. As this operation unfolds over the coming days and weeks, we expect to see volatility across markets. The initial response in oil and natural gas prices has been an upward spike due to concerns around potential for supply disruptions, particularly for movements through the Strait of Hormuz, which has pushed bond yields higher on renewed inflation concerns.



Despite multiple macro shocks in February, municipal market volatility remained contained.

MUNI PERFORMANCE SHINES IN FEBRUARY

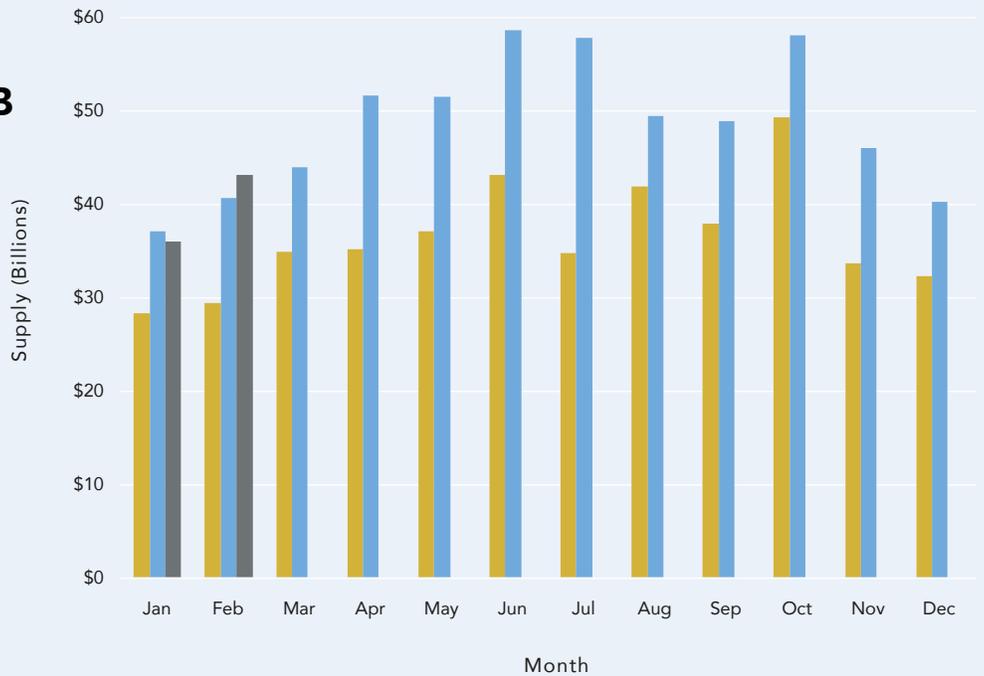
- Municipals used a combination of steady demand and strong credit quality to post one of the best February performances of the past decade.
- After a very strong January, municipal bonds had become relatively expensive compared to Treasuries looking in the 10 years and shorter portion of the curve. In February, Treasury yields fell sharply—about 0.30% on the 10-year—during a risk-off rally, while municipals lagged, which is typical for the market. As a result, municipals didn't fully keep pace with Treasuries, leaving them somewhat more attractively priced again as we enter March. Looking ahead, in addition to potential market volatility from geopolitical events, seasonal factors may also create additional opportunities in the coming weeks, as reinvestment cash declines and tax-related withdrawals can temporarily pressure municipal prices.
- Despite heavy issuance, attractive taxable-equivalent yields across much of the curve supported broad-based strength, with several sectors generating returns well above 1%. The Bloomberg Municipal Index returned 1.3% in February, bringing year-to-date performance to 2.2%.

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HEAVY SUPPLY CONTINUES

- February supply totaled \$38B, higher than the five-year February average of \$32B, though still about 7% lower than the same period last year.
- Taxable issuance came in at \$2B, representing roughly 5% of total February supply.

HEAVY SUPPLY CONTINUES, TOTALING \$38B



Source:
Bloomberg
[March 5, 2026]

■ 10-Yr Avg (2016-2025) ■ 2025 ■ 2026 (YTD)

STRONG DEMAND FOR MUNIS

- Muni demand remained robust in February, with inflows trending at more than 2.5x last year's pace. February muni fund flows totaled about \$6B, led by national, long-term funds and ETFs. Year-to-date, fund flows total \$19B (+\$10B for mutual funds and +\$9B into ETFs).
- This steady flow support reinforced strong muni performance, adding to positive momentum across the market.

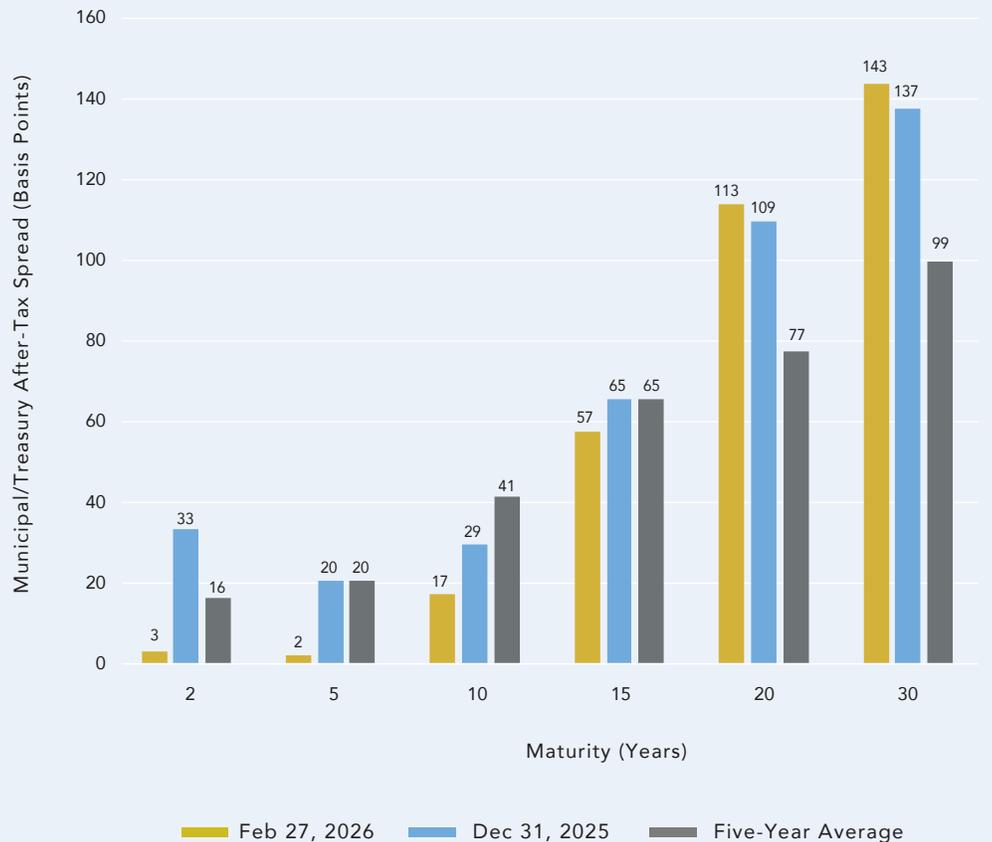
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- Curve dynamics continue to matter. Valuations remained tight inside 10 years, while better relative value has emerged in the 11–15 year part of the curve and selectively in longer maturities. These dynamics continue to support our barbell structure stance; taking advantage of the attractive levels further out the curve, while providing downside protection on the short end.



Given the continued steepness of the yield curve, we continue positioning client portfolios in a barbell structure.

AFTER-TAX SPREADS HIGHLIGHT CURVE IMBALANCE



Source: Municipal Market Data [February 27, 2026]

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CREDIT DIVERGENCE DEEPENS ACROSS SECTORS: IT'S STILL THE "HAVES AND HAVE-NOTS"



With credit spreads sitting below historical norms, issuer-level selection matters more today than ever.

- Moody's reported that upgrades continued to outpace downgrades in 2025 for the fifth straight year, though the margin narrowed as revenue growth normalized. This backdrop reinforces the widening divide between fundamentally strong issuers and those facing structural pressure.
- Education-related credits show increasing bifurcation. Strength in stat-supported public higher ed was reflected in recent February upgrades (e.g., Auburn, University of Illinois), while private universities continue to face enrollment and operating pressure, highlighted by the downgrade of the University of Denver. Public school districts show similar divergence tied to demographics and state support structures.
- February also brought mixed sentiment across the Utilities sector as governance risks, deferred capital needs, and affordability pressures led to the one-notch downgrade of Central Alabama Water by S&P, which placed it on credit watch for negative implications. In addition, growing discussions around rising power demand from artificial intelligence and data centers have raised questions about how future infrastructure will be financed. If public utilities are expected to fund large power-grid investments amid local pushback on rate increases, it could pressure balance sheets and potentially lead to higher future bond issuance.
- We are also watching the healthcare sector. Since the pandemic, many hospitals delayed capital projects and relied more heavily on cash rather than issuing debt. As those needs resurface, we expect healthcare systems to return to the market to finance facility upgrades and expansions, which could lead to an increase in capital projects from the sector.

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BEWARE OF CORPORATE & PRIVATE CREDIT... THE “BLUE OWL” IN THE COAL MINE?

- Banks and brokers were once the biggest price makers in the corporate debt market, but have significantly reduced their footprint, while price takers—most notably ETFs—have rapidly expanded theirs. ETFs now hold roughly 25%, or about \$250B, more corporate bonds than U.S. banks, shifting the balance of liquidity and amplifying downside asymmetry when selling pressure emerges.
- In February, Blue Owl halted redemptions on one of its funds, stating that cash would only be returned when market conditions are favorable for asset sales. With private-credit ETFs growing rapidly and increasingly marketed to retail investors, any dislocation in private credit has the potential to spill over into broader corporate markets.
- Limited issuer options in the AA-and-above corporate space have pushed many portfolios further down the credit spectrum, increasing exposure to BBB and High Yield. Combined with expectations for higher corporate supply this year and the potential for additional ratings drift, we have been encouraging taxable-side allocators to lighten corporate exposure in favor of taxable municipals, which we view as offering a cleaner risk profile and better downside characteristics.



We prefer taxable munis’ cleaner risk profile amid growing corporate-credit pressures.

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