

# Looking Beyond M/T Ratios & Relative Value

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## SUMMARY

- Investors often assess the relative value of municipal bonds by comparing tax-exempt and Treasury bond yields.
- Short- and long-term market technicals can influence the comparison, known as the Municipal/Treasury (M/T) ratio.<sup>1</sup>
- Prudent investors can employ strategies to mitigate the impact of these technicals and identify the best after-tax opportunities.



1. The Municipal/Treasury (M/T) ratio compares yields of municipal bonds with those of U.S. Treasury bonds of the same maturity. M/T ratios can show the relative value of municipal bonds compared with taxable bonds, by indicating when yields for municipal bonds exceed the after-tax yields on taxable bonds.



Municipal investors commonly assess the relative value of municipal bonds by comparing tax-free municipal and taxable bond yields. The most common comparison is versus Treasuries. Dividing the AAA tax-exempt municipal yield by a Treasury yield for the same maturity establishes a M/T ratio, the key metric by which investors assess a municipal bond's value relative to its taxable peers.

### Historic M/T Ratio Trends

For much of the 1990 to 2020 period, the M/T ratio averaged between 76 percent to 90 percent across the intermediate yield curve. Ratios often traded well above those averages for extended periods after the Great Financial Crisis (See Figure 1).

FIGURE 1: M/T RATIOS HAVE BEEN FALLING SINCE 2018\*



\*2020 data omitted from chart due to pandemic-related spikes in M/T ratios that were not representative of broader trends in municipal relative value. Ratios during this period averaged 105-120% for the full calendar year. Source: Municipal Market Monitor (March 2026).

During that time period, politicians in both parties proposed limiting tax-exempt municipal bond interest. Investors subsequently bid up the M/T ratio to above 100 percent, meaning that AAA tax-exempt munis yielded more than taxable Treasuries of the same maturity.

However, beginning in 2018, ratios began to decline. Then, they fell further after spiking to uncharacteristic levels during the COVID-19 pandemic, (COVID-era data omitted from Figure 1).

As a result, the *relative* attractiveness of municipals has declined, even as *absolute* municipal yields began to increase in 2022.

### What factors typically impact the M/T ratio?

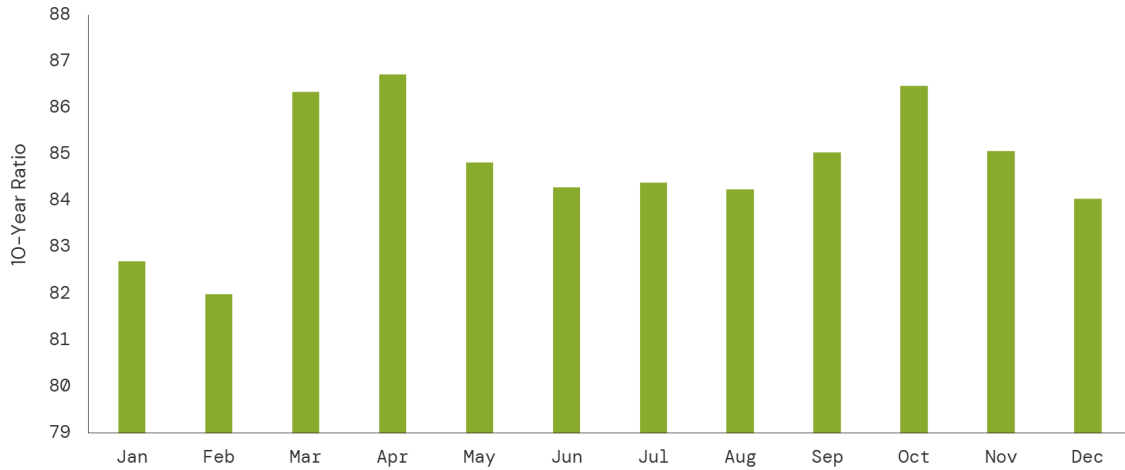
Short- and long-term technical patterns are the most observable factors.

In the short-term, “seasonality” effects and tax “scares” can contribute to ratio movement.

Seasonality patterns often show up in January and July, when supply tends to wane and demand tends to wax. Both months feature upticks in maturity and coupon cash flow reinvestment, which tend to pressure ratios lower. By contrast, some investors sell municipals in March and April ahead of tax bills. This action tends to weaken demand and push-up ratios in those months (See Figure 2).



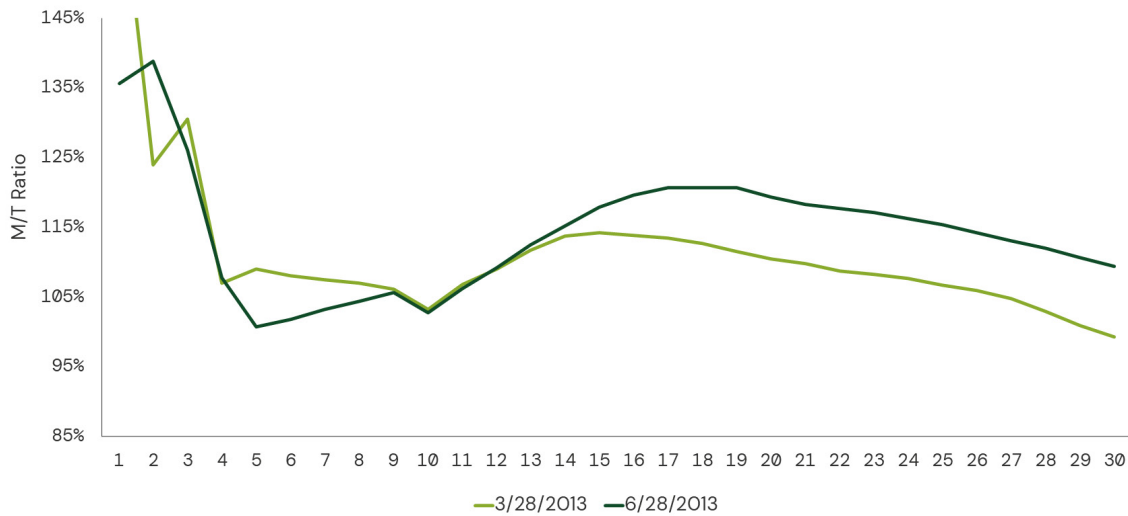
FIGURE 2: STRONG REINVESTMENT FLOWS TEND TO DEPRESS RATIOS IN JANUARY & JULY (MONTHLY AVERAGE RATIO, 1990 TO MARCH 2026)



Source: Refinitiv TM3, and Breckinridge Capital Advisors (March 2026).

Tax risk often manifests around tax reform proposals. When the Obama administration seriously considered curbing the municipal tax-exemption in 2013, the AAA muni yield curve often traded *above* the Treasury curve (See Figure 3). The same phenomenon occurred in the months prior to the Tax Reform Act of 1986.

FIGURE 3: IN 2013, LEGISLATIVE CONSIDERATION OF CURBING THE MUNI BOND TAX EXEMPTION AFFECTED M/T RATIOS



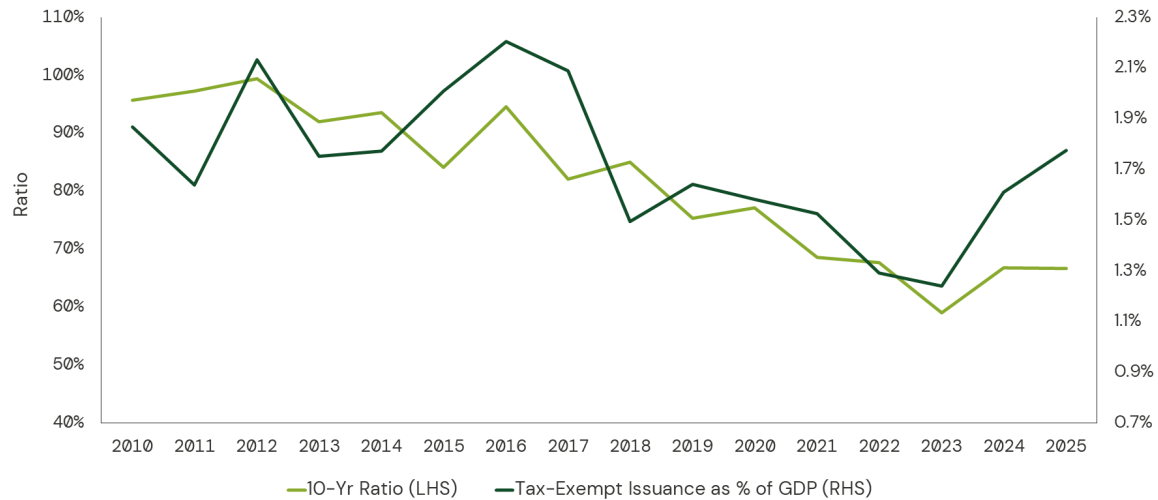
Source: Municipal Market Monitor (March 2026).

Over the long term, structural changes to the composition of supply and demand can influence the trading range for M/T ratios. On the supply side, at least two trends have biased ratios lower in recent years.



First, in 2017, Congress passed the Tax Cuts and Jobs Act (TCJA). That law prohibited tax-exempt advance refundings, which had comprised as much as 20 percent of annual new issuance.<sup>2</sup> Tax-exempt debt issuance fell after its passage (See Figure 4).

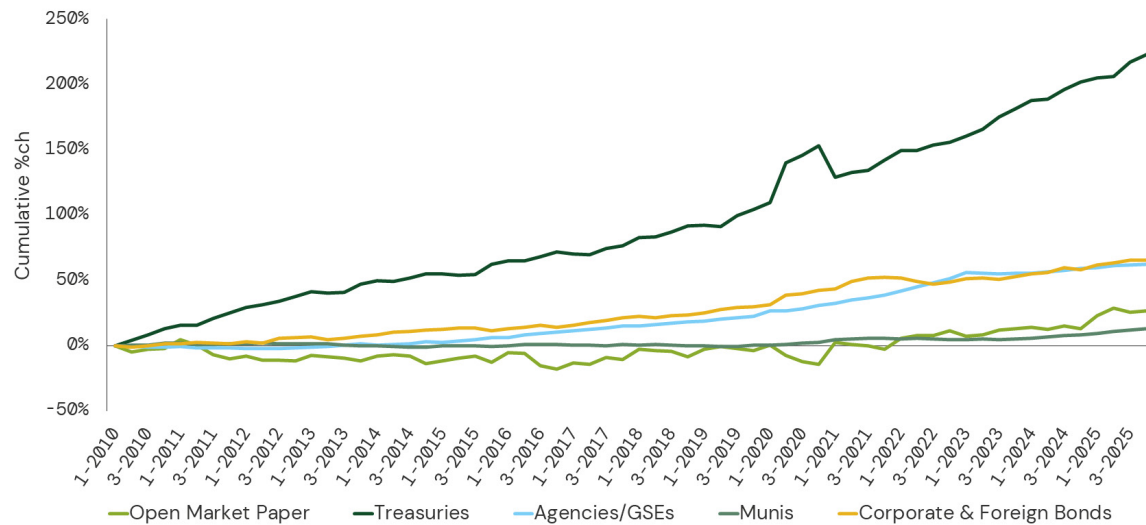
FIGURE 4: TAX-EXEMPT ISSUANCE SLOWED, & RATIOS FELL, AFTER CONGRESS BARRED ADVANCE REFUNDINGS



Source: Bond Buyer, Refinitiv TM3, and Breckinridge Capital Advisors (March 2026).

Second, Treasury supply has grown relative to municipal supply over the past two decades. In 2010, there was \$2 worth of marketable Treasuries outstanding for every \$1 of municipal debt. Today, the same figure is \$6.30 for every \$1 of municipal debt.<sup>3</sup> This pattern implies that Treasuries are abundant relative to municipals (or, in reverse, that municipals are scarce relative to Treasuries). Intuitively, this fact should pressure M/T ratios lower. Figure 5 underscores this idea. Debt in other fixed income markets has grown while municipal issuance has lagged.

FIGURE 5: MUNI DEBT GROWTH HAS LAGGED OTHER MARKETS



Source: Federal Reserve and Breckinridge Capital Advisors (March 2026).

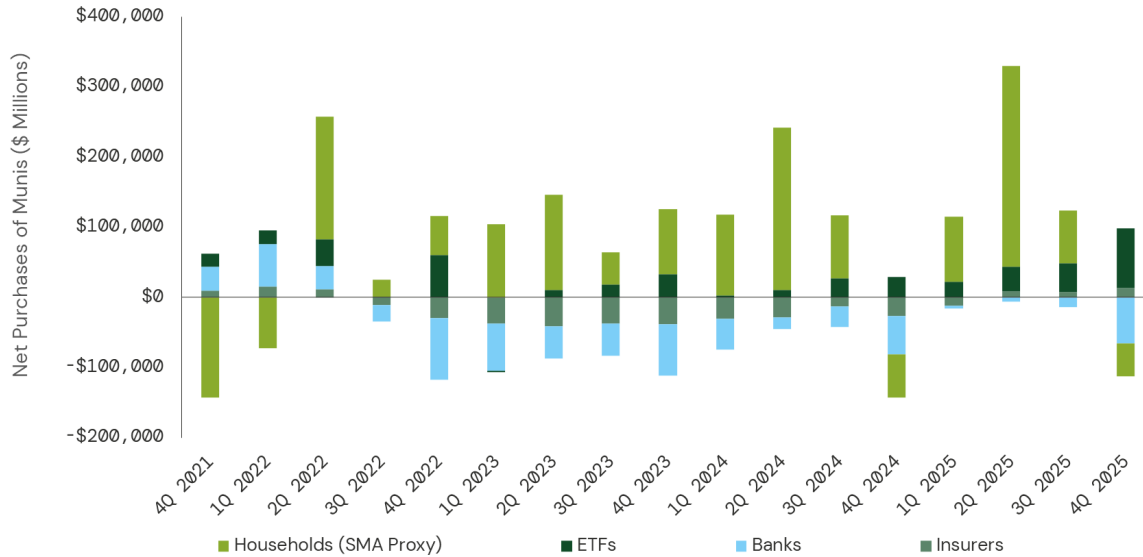
2. An advance refunding occurs when the refunded bonds are redeemed more than 90 days from the date the refunding bonds are issued, and an irrevocable escrow account is established to make payments until the call date of the bonds. Unlike a current refunding, an advance refunding typically requires a prepayment penalty, which issuers often factor into anticipated savings. Note that changes to federal tax law in 2017 eliminated the ability of governments to issue tax-exempt bonds for an advance refunding of outstanding tax-exempt debt. The goal of the change was to eliminate the ability of issuers to have two sets of tax-exempt bonds issued for the same initial capital funding purpose outstanding at the same time, for example, during the escrow period before the refunded bonds are called. Governments are still allowed to issue taxable debt to advance refund tax-exempt debt; however, issuers often consider and evaluate the higher interest cost relative to tax-exempt bonds.

3. Breckinridge calculations based on Federal Reserve Data as of Q1 2026.



Demand patterns have also contributed to a lower M/T ratio range in recent years. Notably, separately managed accounts (SMAs) and Exchange Traded Funds (ETFs) have become a larger part of the buyer base (See Figure 6, “households” are a proxy for SMAs). Banks, insurance companies, and mutual funds have seen their ownership decline.

FIGURE 6: SMA & ETF BUYERS HAVE BEEN THE DOMINANT PURCHASES OF MUNIS IN RECENT YEARS



Source: Federal Reserve and Breckinridge Capital Advisors (March 2026).

This shift has caused the market to be slightly less sensitive to the M/T ratio as a pricing signal. Households and ETFs are steadier buyers of municipals as compared to more tactical purchasers like banks and insurance companies. For example, ladder-oriented SMA buyers often ignore the M/T ratio, entirely. They buy solely to meet maturity reinvestment needs regardless of the M/T ratio.

It’s also true that the aging retail investors that anchor the muni market are a growing demographic. In our experience, these buyers like munis for their stable credit profiles and tax-free yields.

Lastly, marginal tax rates in the two largest specialty states (California and New York) have increased in recent years. The combined effective federal, state, and local income tax rate in California is 12.2 percent higher than it was in 2010. The same rate is up 14.8 percent in New York (See Figure 7). Municipal investors in both states are willing to pay more for munis, in general, especially for in-state bonds. This has tended to bias ratios lower across-the-board.

FIGURE 7: TOP EFFECTIVE PERSONAL INCOME TAX RATES HAVE RISEN IN THE LARGEST SPECIALTY STATES

	2010	2026	2010	2026
	CA	CA	NY	NY
Top Personal Income Tax Rate	35.0%	37.0%	35.0%	37.0%
Net Investment Income Tax	0.0%	3.8%	0.0%	3.8%
State Personal Income Tax Rate	10.6%	13.3%	9.0%	10.9%
NYC Personal Income Tax Rate	N/A	N/A	3.9%	3.9%
Deductibility of State Income Tax	YES	NO	YES	NO
<i>Effective Federal + State + Local Rate</i>	41.9%	54.1%	40.8%	55.6%
Change since 2010		12.2%		14.8%

Source: Tax Foundation and Breckinridge Capital Advisors, Inc. (March 2026).



## What's an investor to do?

We believe that prudently managing a tax-efficient portfolio now requires the ability to purchase both taxable and tax-exempt bonds, depending on market conditions. A tax-exempt bond will not always be the most tax-efficient investment in today's market (See Figure 8). Even for an investor in a mid- to top-tier tax bracket, a taxable bond will sometimes be the best purchase, on an after-tax basis, when M/T ratios break away from historical norms.

FIGURE 8: CONSIDERING RELATIVE VALUE IN SECURITY SELECTION



Source: The Municipal Market Monitor, U.S. Corporate AA+, AA, AA- BVAL Yield Curve, as of March 28, 2026.

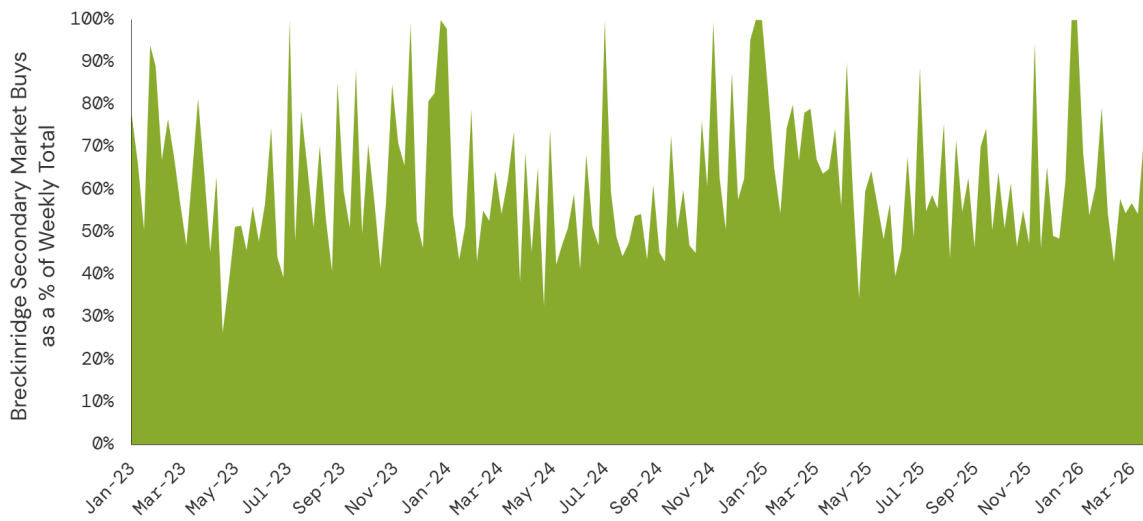
Breckinridge's tax efficient strategies allow for taxable bond purchases, when the after-tax math warrants.

We also believe that duration management is now more important. Sound duration management can reduce the amount of reinvestment in a municipal bond strategy, and potentially help a client capture tax-free income for longer periods of time. For instance, when primary market issuance slows in the summer months, it may become prudent to reduce the amount of reinvestment by aligning portfolios appropriately around a strategy's duration target. This can better align reinvestments with periods when historically supply has been higher and reinvestment demand from other investors has been lower.

Sourcing bonds in the secondary market is also now more vital, especially when the primary market lags. The secondary market is an additional source of supply for investors. Navigating it requires significant resources, acumen, and dealer relationships. At Breckinridge, we toggle between both markets throughout the course of the year, as opportunities and relative value dictate. In this new regime of lower M/T ratios and large primary oversubscription, we have found the opportunity within the secondary market to be valuable (See Figure 9).



FIGURE 9: BRECKINRIDGE SHIFTS BETWEEN PRIMARY & SECONDARY MARKETS IN SEARCH OF RELATIVE VALUE



Source: Refinitiv TM3, and Breckinridge Capital Advisors (March 2026). Data includes municipal bond trades only and excludes cross trades.

Ultimately, whether M/T ratios are trading at 60 percent or 100 percent, at Breckinridge, our mission for our tax-efficient strategies is to build portfolios of the highest caliber with bonds that offer compelling relative value from an after-tax, risk-adjusted income perspective.



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