Breckinridge CAPITAL ADVISORS

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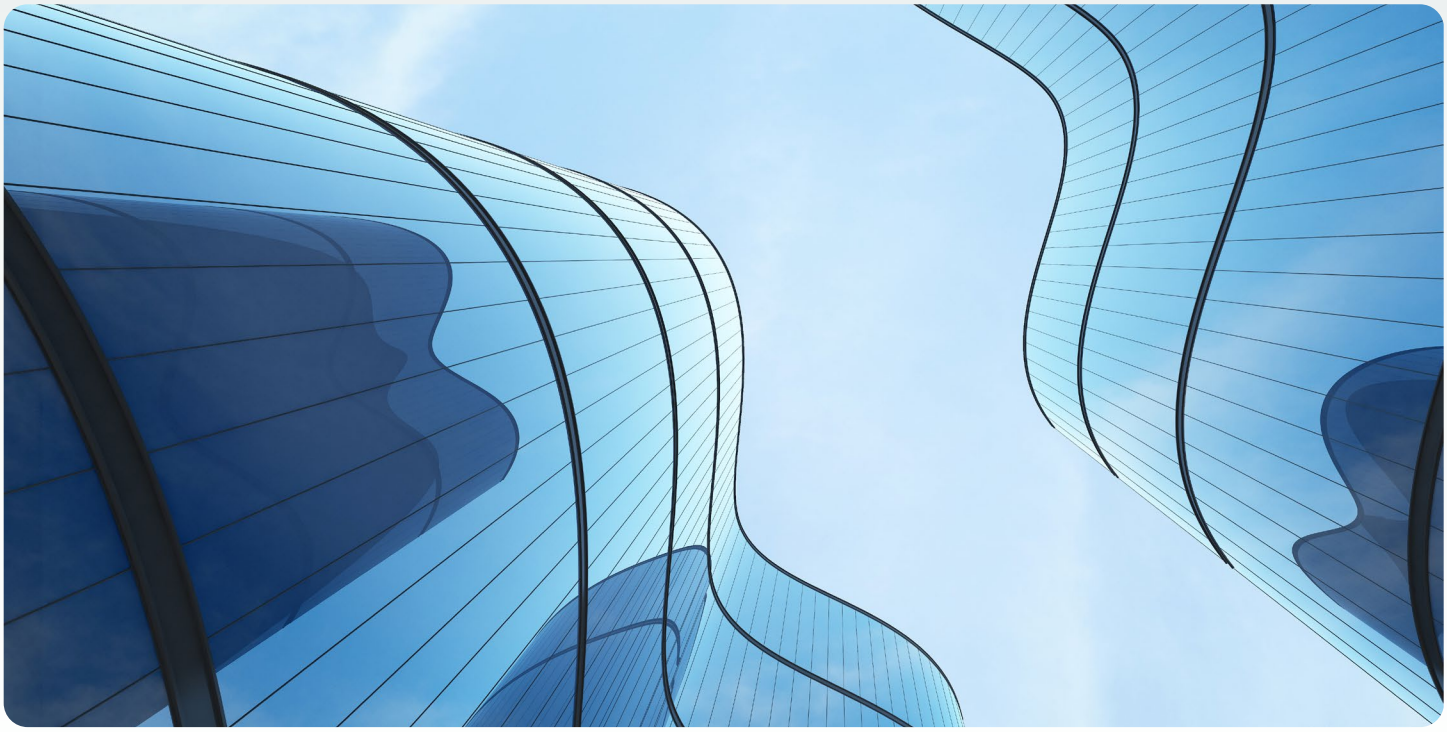
Q3 2026: Tax-Aware Investing Commentary



SUMMARY

- Rising interest rates and increase in equity market advance/decline ratios offer increased tax-loss harvesting (TLH) opportunities in client portfolios.[1]
- Breckinridge's proactive tax-loss harvesting (TLH) and tax-loss crossing (TLC) process is designed to capture tax alpha — the value added through tax-aware management of Breckinridge's Tax-Efficient Municipal Bond and High Quality Dividend client portfolios.

The following commentary is a quarterly update on tax-aware investing from Breckinridge Capital Advisors. Breckinridge offers tax-aware management capabilities to clients in its fixed income and equity strategies. Our firm does not provide legal, tax, or accounting advice or services. Clients should consult with their own tax or legal advisors.

1. Applies to clients in tax-efficient portfolios only.

Tax-Efficient Municipal Bond Strategies: Q3 TLH Environment

The ICE Bank of America MOVE Index[2] closed the third quarter at ~110, with a range of 65 to 110 and an average of 77. As the relatively wide range suggests, the MOVE Index was subdued for much of the quarter, but climbed significantly in late September, as inflation fears and U.S. debt level concerns drove a sharp Treasuries sell-off that led to multi-decade highs in yields.

For example, the bellwether U.S. 10-year Treasury yield increased significantly from ~4.5 percent to ~5.28 percent by the end of the quarter. This fall in bond prices has expanded opportunities for tax-loss harvesting in fixed income portfolios, as interest rate moves are usually a prime catalyst for short-term losses in municipal bonds. Issuer-specific factors can generate short-term price declines and enable tax-loss harvesting, but the majority of loss harvesting cases in municipals are driven by increasing yields.

FIGURE 1: PERCENTAGE OF MUNICIPAL BONDS WITH NEGATIVE RETURNS DURING Q3 2026

Total Muni Bonds with a Loss in Q3	10,787
Total Individual Muni Bonds	12,482
Percent of Bonds with a Loss in Q3	86%

Source: Bloomberg as of September 30, 2026

Material price changes throughout the quarter are regularly monitored and assessed by Breckinridge's portfolio management team to consider whether TLH is appropriate. Portfolio managers can harvest losses through market transactions or, for clients that have opted in, via TLC, which seeks to harvest losses while minimizing transaction costs.

For clients in our Tax-Efficient Municipal Bond strategies, Breckinridge's TLH efforts generated approximately $171 million in realized losses, with a potential tax benefit of $60 million[3] across over 15,000 client accounts during Q3 2026. In aggregate, for clients that opted into TLH, this translates into an average estimated tax savings of about 13 basis points per account on an after-tax return basis.

Dividend Equity Strategies

For clients who invest in our High Quality Dividend (HQD) strategy, Breckinridge offers two versions of TLH. Our standard version seeks to harvest losses sufficient to offset any realized gains generated by HQD repositioning during the year (i.e., realized losses <= realized gains in HQD).

Our more aggressive version seeks to generate losses beyond gains realized in HQD, with the assumption that a client can use those losses to offset gains they may have realized elsewhere across their investment portfolio (i.e., realized losses >= realized gains in HQD).

2. The ICE BofAML Merrill Lynch Option Volatility Estimate (MOVE) Index measures U.S. interest rate volatility by tracking the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries. Historically, a high MOVE signals greater uncertainty and larger expected yield movements. A low MOVE signals less uncertainty and smaller expected yield movements. The MOVE index measures bond market volatility. The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) measures equity market volatility. One cannot invest directly in an index.
3. The potential tax benefit is calculated by applying high, medium or low tax rates to TLH trades, based on a client's tax rate selection. Those tax rates for short-term gains are 12% for low, 24% for medium and 40.8% for high. For long-term gains, the rates are 0% for low, 15% for medium and 23.8% for high. All client accounts in Breckinridge's Tax-Efficient Municipal Bond strategies that opted into TLH were included in the analysis. The estimated after-tax benefit is calculated by multiplying the actual amount of harvested losses for each client with the client's selected tax rate. The results are then aggregated across all participating accounts to determine the estimated total. Results reflect an average per bond spread of $0.20 on all non-TLC trades. No transaction cost is included in TLC trades. The potential tax benefit of harvested losses assumes the client has additional long-term and short-term capital gains in their personal portfolio to use the harvested losses against. The actual tax savings realized by any individual client will vary based on their specific tax situation, investment activity, and market performance. This figure is an estimate of potential tax benefits and is not guaranteed. TLH opportunities are unique to the market environment in which they occur and may not happen with regularity. Investors should consult with a tax professional regarding their specific circumstances. Refer to the disclosures at the end for additional important information on tax-loss harvesting.

Breckinridge's Tax-Aware Management Capabilities

Breckinridge believes that periods of higher bond and equity market volatility highlight the benefits of proactive TLH in client portfolios throughout the year, rather than waiting until tax season or year-end. September was a particularly volatile period in the municipal bond market and among select sectors in the equity market.

Breckinridge's portfolio managers, supported by tools integrated into our portfolio management and trading platform, identify and harvest losses as they become available throughout the year and across market cycles. Our separate account structure allows proceeds to be reinvested flexibly. This flexibility can help expand the opportunity set to identify relative value and limit cash drag, while allowing replacement bonds to be evaluated based on available yields and portfolio needs. *Click here* to watch a video comparing Breckinridge's approach to that of municipal bond ladders.

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There is no assurance that any estimate, target, projection or forward-looking statement (collectively, "estimates") included in this material will be accurate or prove to be profitable; actual results may differ substantially. Breckinridge estimates are based on Breckinridge's research, analysis and assumptions. Other events that were not considered in formulating such projections could occur and may significantly affect the outcome, returns or performance.
All investments involve risk, including loss of principal. No investment or risk management strategy, including diversification, can guarantee positive results or risk elimination in any market. Periods of elevated market volatility can significantly impact the value of securities. Investors should consult with their advisors to understand how these risks may affect their portfolios and to develop a strategy that aligns with their financial goals and risk tolerances.
Past performance is not indicative of future results. Breckinridge makes no assurances, warranties or representations that any strategies described herein will meet their investment objectives or incur any profits. Performance results for Breckinridge's investment strategies include the reinvestment of interest and any other earnings, but do not reflect any brokerage or trading costs a client would have paid. Results may not reflect the impact that any material market or economic factors would have had on the accounts during the time period. Due to differences in client restrictions, objectives, cash flows, and other such factors, individual client account performance may differ substantially from the performance presented.
Index results are shown for illustrative purposes and do not represent the performance of any specific investment. Indices are unmanaged and investors cannot directly invest in them. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, income and capital gains. Performance of indices may be more or less volatile than any investment strategy.
Fixed income investments have varying degrees of credit risk, interest rate risk, default risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa.
Equity investments are volatile and can decline significantly in response to investor reception of the issuer, market, economic, industry, political, regulatory or other conditions.
Diversification cannot assure a profit or protect against loss. Investments in fixed income securities involve risks.
Dividend payments are not guaranteed. Investors cannot invest directly in an index.
The effectiveness of any tax management strategy is largely dependent on each investor's entire tax and investment profile, including investments made outside of Breckinridge's advisory services. As such, there is a risk that the strategy used to reduce the tax liability of the investor is not the most effective for that investor. Breckinridge is not a tax advisor and does not provide personal tax advice. The tax consequences of Breckinridge's tax loss strategies may be challenged by the IRS. Investors should consult with their tax professionals regarding tax strategies and associated consequences.
Tax laws and regulations are complex and subject to change at any time. These changes can impact tax consequences and investment results for investors, who should consult with a tax professional before making any decisions.
Tax-loss harvesting involves risks and may not achieve its intended tax or investment results. Realized losses may provide limited or no current tax benefit if an investor does not have sufficient gains or income against which the losses may be used, and losses may be carried forward, limited or disallowed under applicable tax rules, including wash-sale rules. Tax-loss harvesting generally defers rather than eliminates taxes and typically reduces the tax basis of replacement investments, which may increase future taxable gains. The strategy may generate additional trading, transaction costs, bid-ask spreads, market impact and opportunity costs, and an investor may be out of the market or have different market exposure during the reinvestment process. Replacement securities may perform differently or may alter portfolio characteristics, including credit quality, duration, yield, sector exposure, dividend income or tax treatment, and suitable replacements may not be available on favorable terms. Differences in custodian pricing, cost-basis records or tax-lot accounting may also cause actual tax results to differ from estimates. There is no assurance that any tax benefit will exceed the associated costs or the effect of adverse investment performance. Investors should consult their tax and legal advisers regarding their individual circumstances.
Federal and local tax laws and rates can change at any time; changes to tax laws and rates can impact tax consequences for investors. Further, the Internal Revenue Service (IRS) and other taxing authorities have set certain limitations and restrictions on tax loss harvesting. The tax consequences of Breckinridge's tax loss strategy may be challenged by the IRS. Investors should consult with their tax professionals regarding tax loss harvesting strategies and associated consequences.
Cross transactions will be used to facilitate tax loss harvesting in most cases. When using cross transactions for tax loss harvesting, participating client accounts gain exposure to the tax-loss harvested bonds received from other accounts. While Breckinridge generally selects bonds that, in its best judgement, will not change significantly in price, bonds nevertheless are subject to fluctuations in price, and the bonds received may go up or down in value.
Cross trades create a conflict as the adviser is advising clients on both sides of the transaction. Also, cross trades can result in more favorable treatment to one client over the other. There is no guarantee that the buying or selling client will receive the best prices available for the day. Breckinridge investors can opt out of tax loss harvesting and/or cross trading. In cases where an investor opts out of or is prohibited from cross trading, they may not receive the benefit of lower transaction costs versus trading in the open market and the same price as those investors participating in cross trades.
Separate accounts may not be suitable for all investors.
Breckinridge believes the data provided by unaffiliated third parties to be reliable but investors should conduct their own independent verification prior to use. Some economic and market conditions contained herein have been obtained from published sources and/or prepared by third parties, and in certain cases have not been updated through the date hereof. All information contained herein is subject to revision.
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