

## A CLOSER LOOK AT MUNICIPAL CURVE STEEPNESS & WHY IT MATTERS

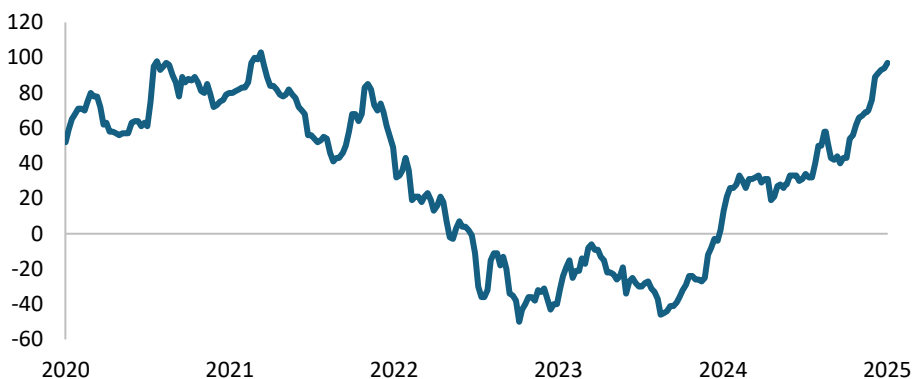
### Sustained Steepening in the 2 to 10-Year Range

Measured by the yield differential between 2Yr and 10Yr AAA bonds, the intermediate municipal curve has become significantly more attractive since the “un-inversion” that began in mid-2024.

At 103 bps<sup>1</sup>, the curve recently returned to its pre-“rate hike” peak reached in October 2021.

The relative steepness of the municipal curve stands in contrast to a much flatter US Treasury curve. In fact, the differential between 2 and 10Yr Treasuries is just greater than half that of municipals at 55 bps (as of 8/20/25).

Inversion Has Given Way to Significant Curve Steepening:  
(2 to 10-year differential in basis points; Aug 2020 - Aug 2025)



Source: MMD

1. As of 8/20/25

### Relative Value Is Evident in the 5 to 10-Year Part of the Curve

A flat front-end of the municipal curve is illustrated by an anemic 6 bps differential in yield between 1-year and 4-year AAA bonds.

However, investors can now benefit from far greater yield pick-up among 5 to 10-year paper, where a spread of 86 bps (as of 8/20/25) is the highest it has been since March 2017.

The incremental roll, or the difference in yield for each successive maturity year, ranges from 13 to 19 bps in this part of the curve, on average more than double what investors have seen over the last 10 years.

5 to 10-Year AAA Municipal Slope (bps; Aug 2015 - Aug 2025)



Source: MMD

MMD Maturities	Incremental Yield (bps)	10-Yr. Average	% of 10-Yr. Average
4 to 5-yr.	13	6.2	210%
5 to 6-yr.	19	7.6	250%
6 to 7-yr.	16	7.8	205%
7 to 8-yr.	14	7.9	177%
8 to 9-yr.	19	7.5	253%
9 to 10-yr.	18	6.9	261%

Source: MMD

### Curve Steepness Creates Incremental Yield Opportunities

A sizeable difference in yield between shorter and intermediate maturities creates greater compensation for taking on duration exposure. The steeper the curve, the greater the income available to investors.

There is also a potential “total return” benefit, often known as “bond roll.” As longer maturities roll down the curve (i.e. get closer to maturity), there is a greater decline in yield and a corresponding jump in price, all other factors left constant.

At Appleton, we view curve steepness as an opportunity to potentially rotate out of shorter-dated bonds and reinvest the proceeds further out on the curve, but still within our target maturity ranges. This can generate greater income for clients.

The return of relative steepness to the intermediate portion of the municipal curve is a welcome development, as it affords investors willing to accept a moderate amount of interest rate exposure with an opportunity to pick up substantially greater tax-advantaged income.

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