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WINNING IN THE LONG RUN

Longer Maturities are a Key Ingredient to a Sound Investment Approach

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Many investors are still sitting in short-duration bonds, even as the risks of doing so continue to mount. It's not hard to understand their reasoning: yields are high, volatility lingers and the decision to stay short has been rewarded in recent years. But the market doesn't stand still and the opportunity cost of staying put has grown meaningfully — especially as longer maturities now offer higher yields, greater roll potential, and better reinvestment protection. At the same time, the downside of remaining too short as rates fall is becoming harder to ignore.

At GW&K, our high-quality intermediate municipal bond strategy relies on a flexible mandate to maximize total return and protect income streams. How we structure portfolios within that framework depends on where we see value, and right now, the value lies in longer maturities. With one of the steepest curves in over a decade, longer-term yields offer meaningful cushion and upside. Below, we explain why we've been steadily extending exposure to that area and why we believe this positioning is built to win in the long run.

Yield (and Roll) Wins Over Time

Simple bond math teaches us that across most market cycles, securities with higher yields produce higher returns. And yet that's often overlooked when rate volatility spikes. The last few years are a perfect example: rising rates punished longer bonds and made short-duration positioning look smart. But that dynamic has changed. As the curve steepened, longer maturities began offering not just more income, but more roll and greater total return potential.

Bond roll isn't just a concept — it's a real contributor to performance. As bonds age, they "roll down" the curve, migrating into lower-yielding maturities and increasing in price as they go. That appreciation boosts returns alongside income. That wasn't the case when the curve was flat, but right now, the opportunity to capture roll is unusually strong. **Figure 1** illustrates this point. By combining yield, roll, and the tax benefit of municipals, we can estimate expected return potential across the curve. The most compelling values today are in the 10- to 20-year range, precisely where we've been adding exposure.

FIGURE 1
Muni Tax-Equivalent Expected Return
As of June 2025

Years to Maturity	MMD AA Yield	Tax-Equiv Yield	Implied Roll Effect	Expected Return
20	4.53%	7.65%	0.36%	**8.01%**
19	4.48%	7.57%	0.50%	**8.07%**
18	4.41%	7.45%	0.79%	**8.24%**
17	4.30%	7.26%	0.94%	**8.20%**
16	4.17%	7.04%	0.79%	**7.84%**
15	4.06%	6.86%	0.87%	**7.72%**
14	3.94%	6.66%	0.79%	**7.45%**
13	3.83%	6.47%	1.01%	**7.48%**
12	3.69%	6.23%	0.65%	**6.88%**
11	3.60%	6.08%	1.01%	**7.10%**
10	3.46%	5.84%	1.16%	**7.01%**
9	3.30%	5.57%	1.05%	6.63%
8	3.14%	5.30%	0.46%	5.77%
7	3.06%	5.17%	0.61%	5.78%
6	2.94%	4.97%	0.43%	5.39%
5	2.84%	4.80%	0.20%	5.00%
4	2.78%	4.70%	0.01%	4.71%
3	2.77%	4.68%	0.01%	4.68%
2	2.76%	4.66%	-0.03%	4.63%
1	2.78%	4.70%	0.00%	4.70%

*MMD AA GO Yield as of June 4, 2025
*Tax-equivalent yield (TEY) assumes 37% tax + 3.8% Medicare Surtax

The Strategic Advantage of Long Exposure

The case for longer bonds doesn't rely on market timing. As shown in **Figure 2**, since 2000 the 15-year municipal index has outperformed the five-year index in 17 of 25 calendar years, with cumulative return advantage of over 80%. Even in choppy markets, the extra income from longer maturities — and the roll effect that comes with them — has more than offset periodic price swings. The result: stronger total returns over time.

That's why we constantly monitor opportunities in this area of the curve. Long exposure helps protect income by locking in today's yields and providing price appreciation if rates fall. The last few years made that positioning feel out of step, but history suggests otherwise. In fact, the recent run of short-end outperformance has been the exception, not the rule. For long-term investors, income durability matters far more than short-term price stability.

FIGURE 2

Historical Data Shows 15-Year Bonds Outperform 5-Year Bonds

ICE BofA Municipal Indexes		
Year	5-Year	15-Year
2025*	1.46	-1.89
2024	1.35	1.21
2023	4.44	7.55
2022	-5.77	-9.59
2021	0.37	2.01
2020	4.22	6.01
2019	5.47	8.91
2018	1.77	1.06
2017	2.99	6.49
2016	-0.33	0.53
2015	2.42	4.23
2014	3.16	11.72
2013	0.92	-3.34
2012	3.07	8.33
2011	6.96	12.99
2010	3.65	2.31
2009	7.62	15.50
2008	5.86	-4.01
2007	5.31	3.31
2006	3.37	5.14
2005	1.24	4.02
2004	2.86	5.66
2003	4.08	5.95
2002	10.30	10.92
2001	6.28	4.62
2000	8.00	13.69
Cumulative	140.91	220.93
Annualized	3.52	4.69

Source: ICE
*2025 through 5/31/25

Indicates outperformance

"Long exposure helps protect income by locking in today's yields and providing price appreciation if rates fall."

Higher Yields Provide a Cushion

As interest rates have risen, so has the downside protection of the bonds they represent. When starting yields are low, even a small move higher can wipe out a year's worth of return. But when yields are already elevated, as they are today, it takes a much larger rate move to turn total returns negative. In the 10-year part of the curve, that breakeven point is now over 60 basis points (bps), meaning rates would have to rise by more than 60 bps over the next year before the total return on a 10-year bond dips below zero. That dynamic gives longer bonds room to absorb rate volatility and still deliver gains (**Figure 3**).

FIGURE 3
10-Year Breakevens 2020 vs 2025

	March 2020	June 2025
Yield to Worst	0.91%	3.41%
Interest Rate Rise	+17bps	+60bps
Total Return	0.00%	0.00%

Source: MMD AA Yields

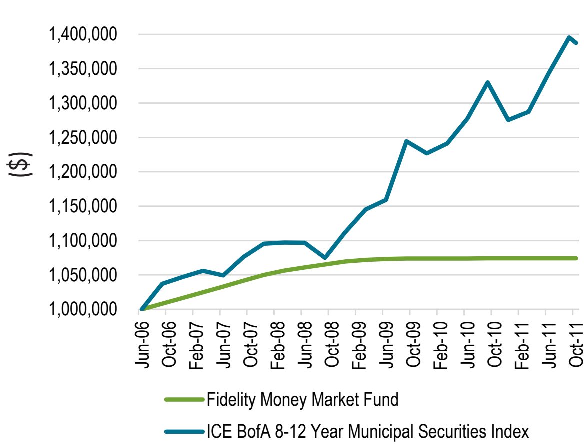
Reinvestment Risk is the Real Threat

Volatility and risk aren't the same thing. Price fluctuations make headlines but have little practical impact over cycles, while reinvestment risk is typically ignored but can erode income potential for years. When rates fall, the proceeds from coupons and maturities must be reinvested at lower levels, often without warning. The best way to protect against that scenario is duration. Longer maturities allow investors to lock in higher yields today while also generating price appreciation if rates fall. That appreciation becomes a source of new income when reinvested.

"Without duration, investors had no way to rebuild lost income once rates fell."

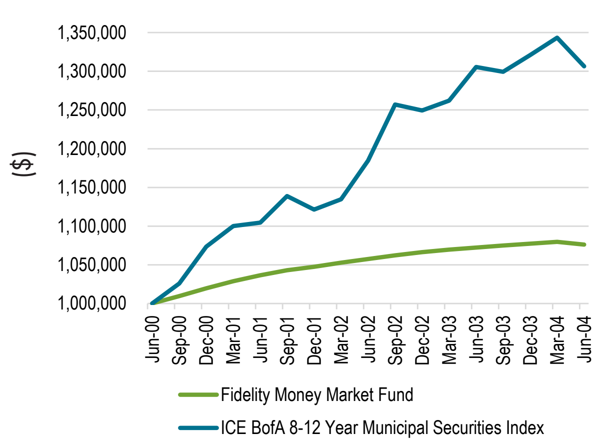
Below we compare the performance of intermediate municipals against a cash alternative over the last two major easing cycles (**Figures 4 & 5**). The difference is stark. And remember, coming out of the Global Financial Crisis, money market yields were pinned near zero for almost a decade. Without duration, investors had no way to rebuild lost income once rates fell.

FIGURE 4
Dot-com Bubble



Source: Bloomberg

FIGURE 5
Global Financial Crisis



Source: Bloomberg

GW&K Now

At GW&K, our active approach focuses on protecting income and maximizing long-term returns. We don't call markets, chase trends, or overreact to volatility. We build flexibility into how we allocate across the intermediate range, leaning into steep curves when they appear, and staying focused on total return through long-term income generation. That approach doesn't change year to year. What changes is how we apply it. And today's yield and curve environment calls for a more deliberate use of longer maturities. In the end, our goal is to structure portfolios that work regardless of outcome: whether rates rise, fall, or stay put. And that's why we believe the portfolios we're building today are positioned to win in the long run.

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