

U.S. Municipal High Yield Market

Fifth Annual HilltopSecurities High Yield Impact Survey

HilltopSecurities is excited to present the findings of its fifth Annual High Yield Survey. This report offers valuable insights into interest rates, distress triggers, emerging trends, AI, green bonds, and potential opportunities within the municipal high-yield market. While some questions have been updated to reflect shifts in the sector, one thing remains clear: investors have strong opinions.

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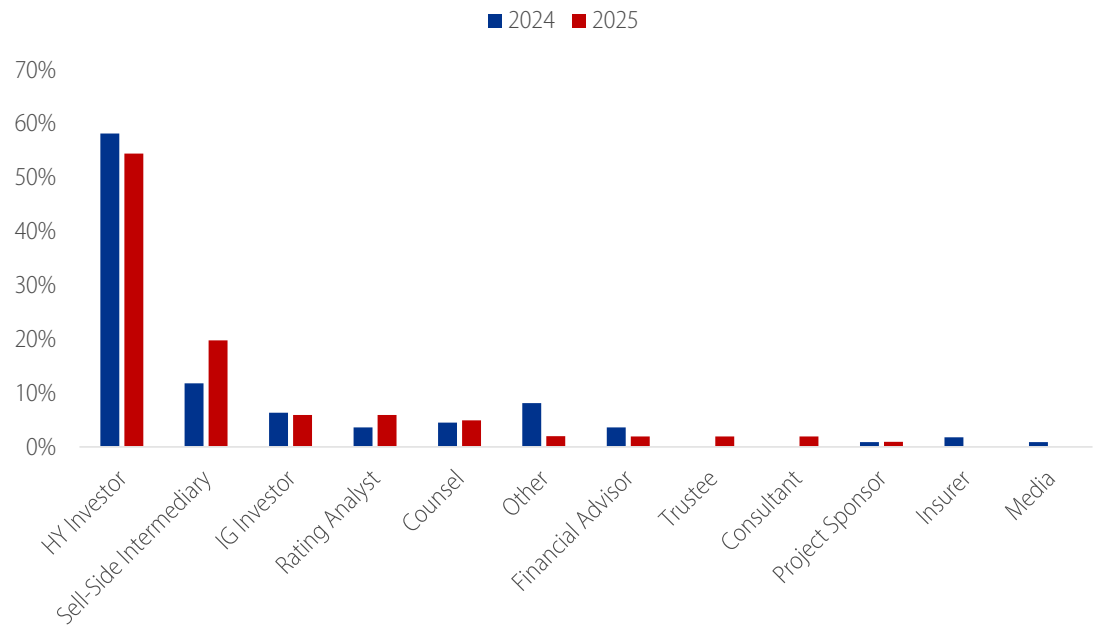
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10 Key Takeaways from the 2025 Hilltop High Yield Survey

- **Rate Outlook:** 62% expect AAA 30-year Muni rates to stay flat; 32% predict a decline of 50 bps or more.
- **No Consensus on Credit Spreads:** 50% foresee widening by ~25 bps; 37% unchanged; 14% narrowing.
- **Uneven AI Adoption:** 67% still exploring; only 16.8% report some workload reduction; comments highlight benefits and risks.
- **Sector Projection for Greatest Defaults:** Project Finance and Private Rail top the list, followed by Higher Education and Skilled Nursing.
- **Most Favorable Sectors:** Senior Living and Hospitals followed by the land-secured sector.
- **Credit Priorities for High Yield Investment:** Liquidity/Equity and Management quality remain the most critical factors, followed by projections and investment thesis.
- **Appreciation of BB and BB- Rating Value:** Growing openness to BB and BB- ratings; 39% value agency monitoring and upgrade potential; only 15.8% dismiss sub-IG ratings.
- **Value of a Rating Solicitation Covenant:** 62% now value solicitation covenants on non-rated deals; a reversal from 2024.
- **Green Bond Designation:** 96% say it's "nice to have" but won't pay extra; skepticism persists due to greenwashing concerns.
- **High Yield Investment Deal Breakers:** Recovery potential, secondary-market liquidity, and underwriter reputation, are the three top reasons to pass on new issues.

1. What is your role in the market?

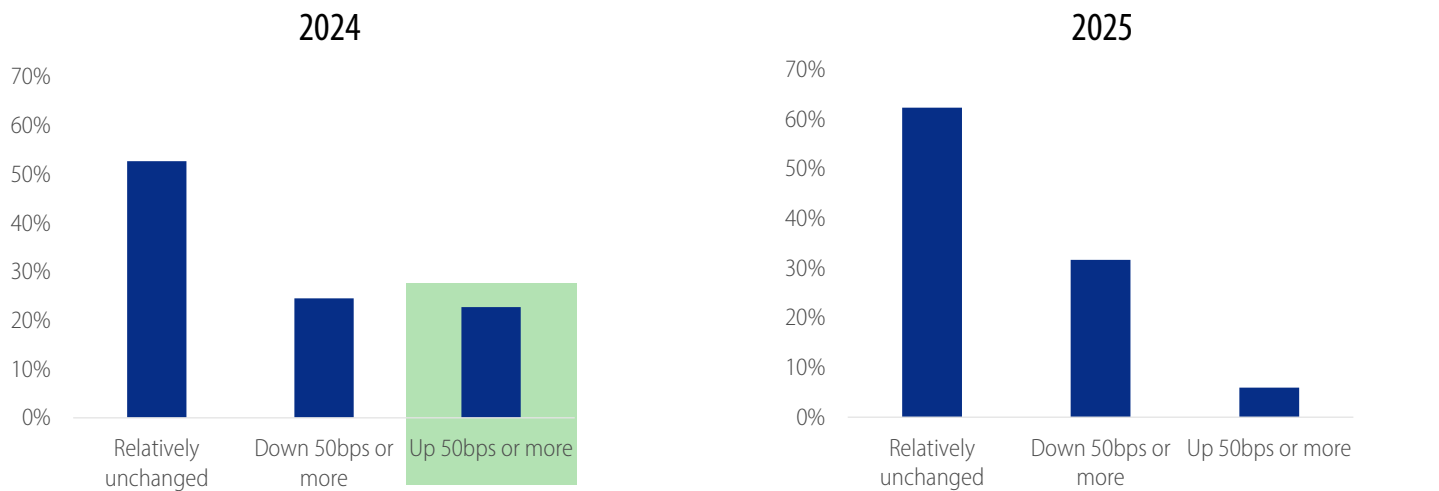
We received 101 responses in 2025, comprised most significantly by High Yield investors (54%), with Investment Grade investors (6%), sell-side intermediaries (20%), and other market participants (~20%). These results are broadly consistent with last year’s survey, where High Yield investors represented 58% of responses and IG investors made up a similar small share.



2. AAA 30-year Municipal rates (4.14% as of 11/10/25): How will they move in 2026?

The 2025 results suggest consensus for stability with 62% expecting AAA 30-year rates to remain relatively unchanged. Approximately one third of responders expect rates to fall by 50 bps or more, and 6% expect an increase of 50 bps or more. That viewpoint echoes 2024’s outlook for 2025, where ~50% expected AAA to be unchanged, with the remainder split between ±50 bps moves.

So, was the 2024 survey correct? The 20% of responses that forecast an increase by 50 basis points or more were correct as at the time the 2024 survey was initiated the 30year AAA benchmark was 3.5%.



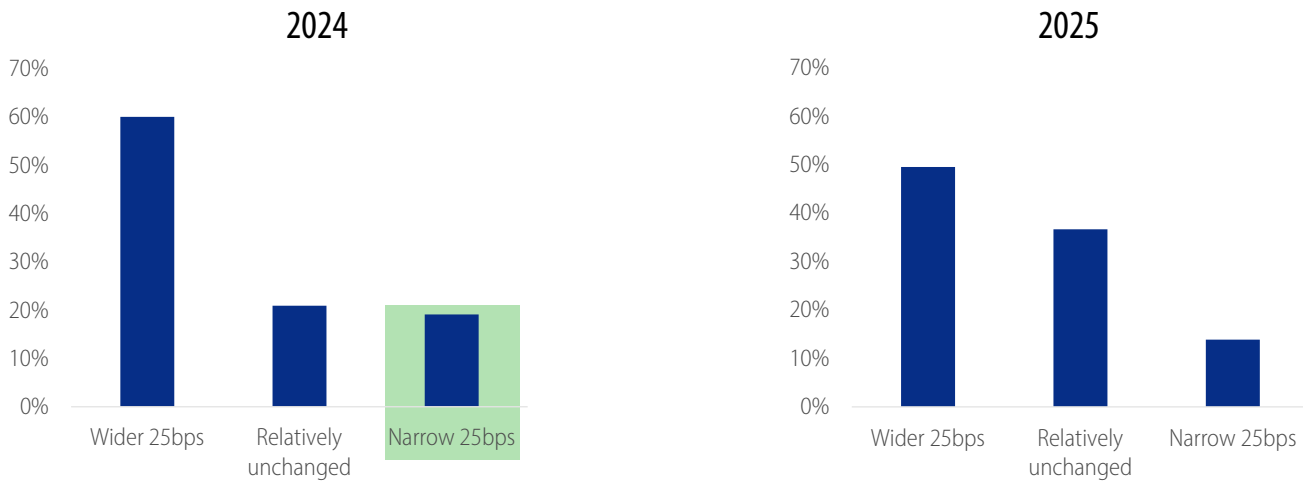
3. HY municipal credit spreads (+149 bps as of 11/10/25): How will they perform in 2026?

Half of the 2025 respondents foresee spreads widening by ~25 bps with the rest ~37% expect them to be unchanged, and ~14% see them narrowing. This is somewhat less bearish than the 2024 survey's view for 2025, where nearly 70% anticipated wider spreads, ~20% expected unchanged, and slightly fewer expected narrowing.

So, was the 2024 survey correct? The 20% of responses that forecast a decline by 25 basis points or more were correct as at the time the 2024 survey was initiated the High Yield Credit Spreads were +165.

Some interesting comments provided by responders that may help inform 2026 results include:

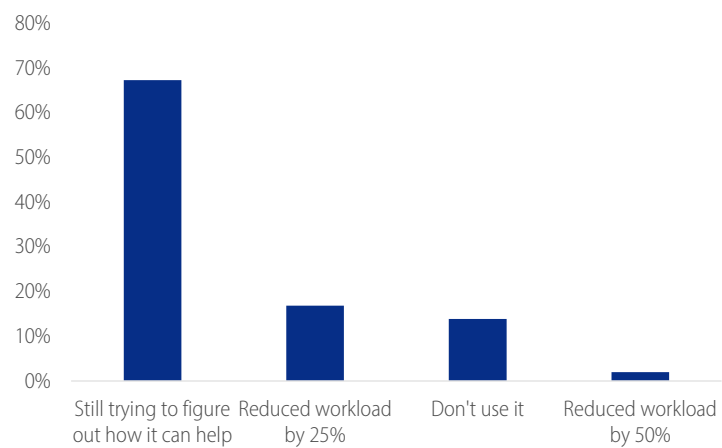
"More challenging deals will be wider; oversubscribed will be tighter" - a thought that was echoed by several others. Another responder cautioned: I don't think that the Brightline standstill gets resolved smoothly and will hang over the market throughout much of 2026." Two other responses cited fund flows as an input to credit spreads: Depends on Fund Flows". Finally, another responder added: Although I think the spread will be unchanged, investors should be better compensated for risk.



4. How has AI affected your surveillance efforts?

In 2025, over two-thirds of respondents are still in exploration mode with 67% still trying to figure out how it can help. About 16.8% cite 25% workload reductions with three people writing in that it reduces workload but in the 5-10% range. A minority, 14%, say they don't use AI (~14%). Qualitative comments highlight AI's usefulness for background research, "I use it as a junior analyst. It is sometimes wrong but never complains." Another response was "I use it as a great research assistant". While another responder wrote: "None of the above - expands workload (do more that was not doing before)." Yet another responder cautioned that while it is "excellent for background information and document scans ... AI hallucinations are still an issue.

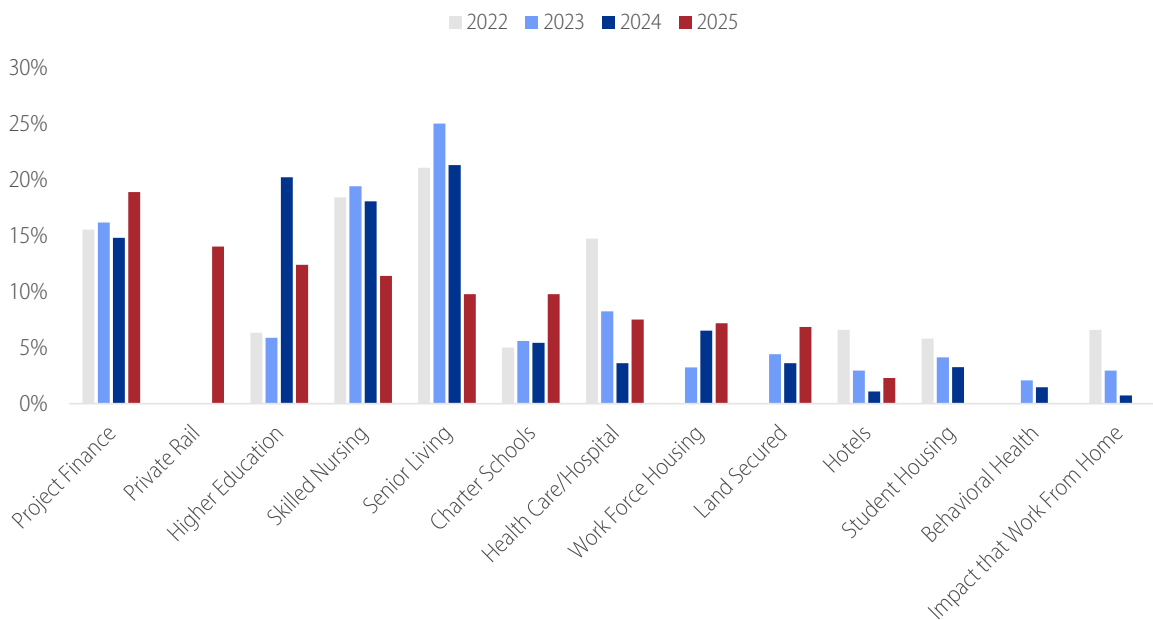
The 2024 year's survey observed that 66% of analysts allocated <25% of their time to surveillance (compared to 59% in 2023) and posited that AI tools and outsourced surveillance might be contributing—suggesting that the trend of adoption is likely growing, even if the time-saving benefits are uneven.



5. Which sectors will see the greatest impairments/defaults in 2026? (Top 3)

Responders have zeroed in on Project Finance and Private Rail as the two most likely categories for default in 2026 followed by Higher Education and Skilled Nursing. Senior Living and Charter Schools were tied for fifth place. These results are somewhat different from last year in which senior living, higher education, skilled nursing, and project finance took the first four places. It is likely that Project Finance and Private Rail scored as the areas with the expected number of impairments given fiscal difficulties experienced by some large project names including Brightline and American Dream Mall. It is also interesting to note the moderation of concern in the higher education space in 2025 from 2024 which may reflect a belief that some of the worst pressures have abated.

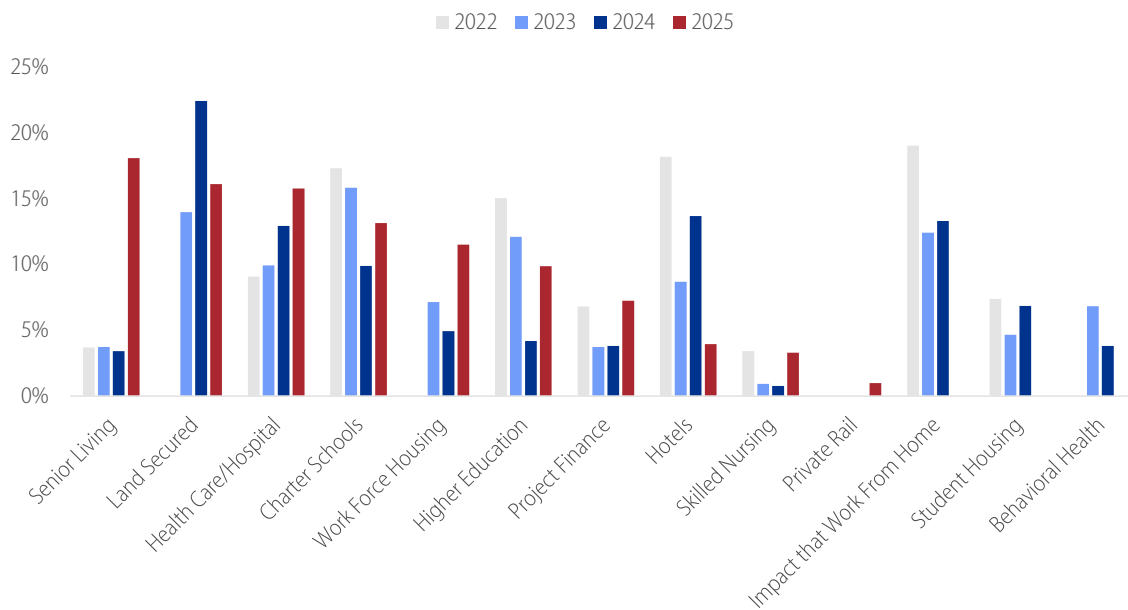
An analyst responded: "Project finance will be challenged by rising supply costs. Several analysts commented about Brightline, including: Brightline is my biggest concern. Not only as a single credit but potentially impacting the broader Muni HY market with negative headlines." Another responder stated: "We will have more Brightline West situations where the capital structure in place doesn't result in enough funds to complete the project and need to be rescued. BL East and BL West will continue to be messy ... before rescue financing (either from the feds or state governments) ... when capitalized interest burns off. Yet a different analyst wrote: "Project Finance (waste to energy) should not be done in the Muni market {as} senior debt risk /reward is asymmetric. Although Land Secured was viewed with relative optimism (2nd from the bottom out of 10 categories) two analysts specifically wrote in Colorado land secured bonds as a potential issue looming in 2026.



6. Toward which sectors are you most FAVORABLE? (Top 3)

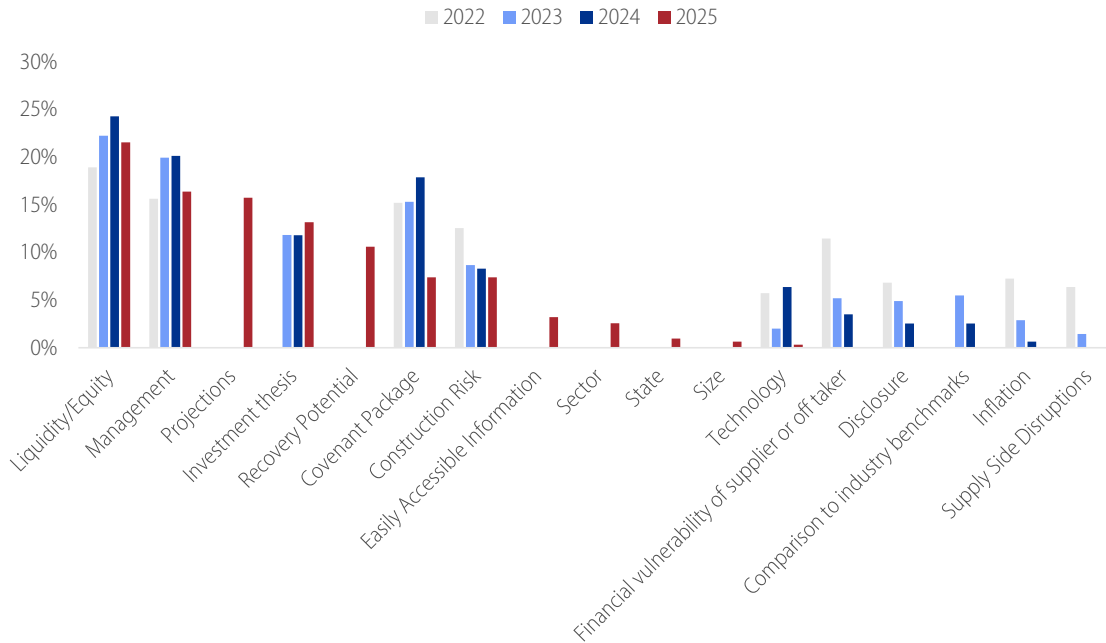
The 2025 survey's 'most favorable' category is Senior Living with Land Secured and Hospitals in a tie for second place. This is very different from the 2024 results when the topmost favorably viewed categories were land secured and hotels. It is important to note that in 2024, senior living and project finance were virtually tied and viewed as particularly weak (not favorable) and in 2023 Senior Living was the number one identified weak sector. So much has changed in the post Covid years reflecting increased occupancy and a moderation of labor expenses. Furthermore, over the last year, there has been broad market acceptance of the senior living sector with year-to-date issuance well surpassing 2024 issuance. Land-secured ranked as the second most favorable, compared to number one in 2024, which may reflect analysts' concerns that some of the land secured paper can be aggressively structured, or they have overall growth or economic concerns. The improvement in hospitals would reflect generally a moderation of labor and inflationary costs coupled with increased volume and improved margins.

There was an interesting perspective shared by a responder: "Some project finance deals have learned from prior mistakes by providing more liquidity and experienced management." However, despite this observation, project finance remained in a similar ranking to 2024.



7. From a credit perspective, what do you value most when analyzing a HY deal? (Top 3)

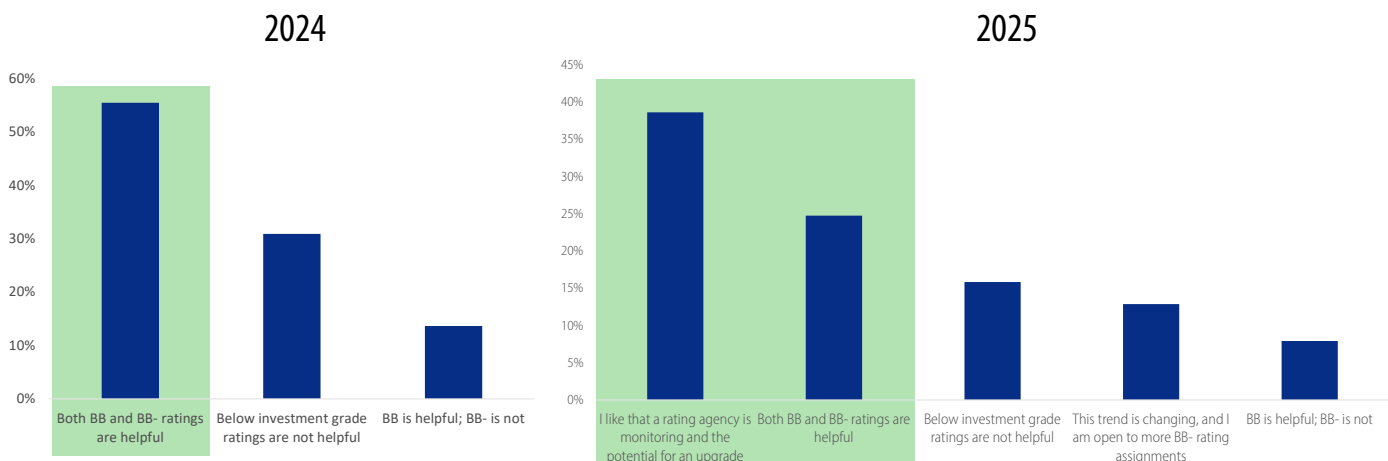
In 2025, Liquidity/Equity and Management/Sponsor quality remain the two most critical valued factors when considering a high yield transaction followed by Reasonableness of Projections and Investment thesis. While Covenants and Recovery potential also matter, Technology, Size, State, Size and Minimum Denominations rank low. Those priorities mirror 2024 findings: Liquidity/Equity first, followed by Management and Covenant package.



8. Regarding sub-IG ratings, what value do you place on a BB or BB- rating?

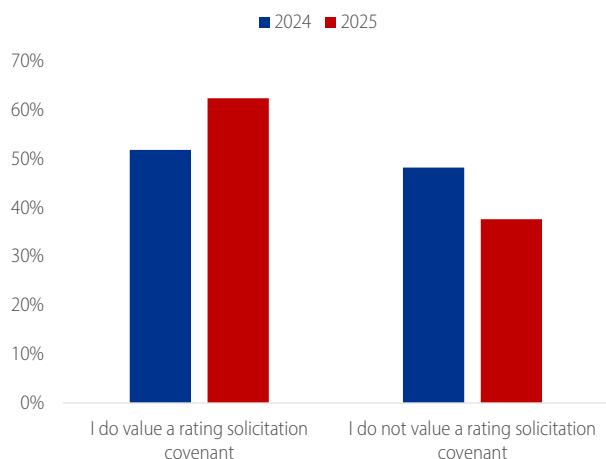
The 2025 responses show an increasing receptivity to below investment grade ratings with 39% responding that they value rating agency monitoring and potential for upgrade, while ~25% view both BB and BB- as helpful.

To compare specifically, in 2025, 15.8% of responders stated that below investment grade ratings are not helpful, while in 2024, virtually double concluded that below investment grade ratings were not helpful. This trend is also reflected by this response: BB is helpful BB- is not. In 2025 this number was 8%, while in 2024, approximately 15% did not believe the BB-added value, demonstrating a new openness to the BB- rating assignment.



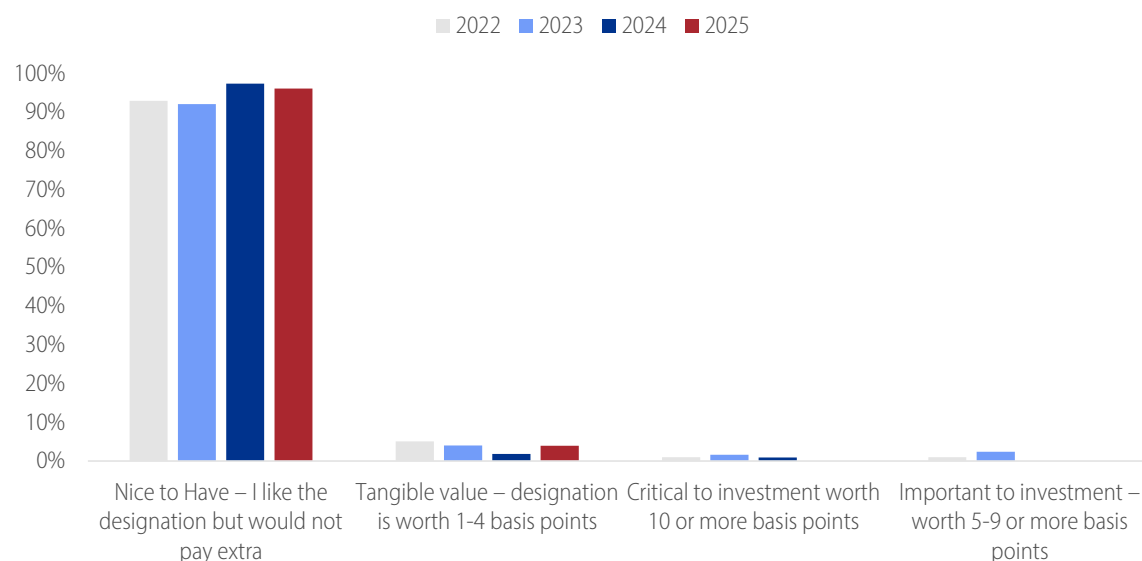
9. Do you value a rating solicitation covenant on a non-rated transaction?

In 2025, the majority do value a rating solicitation covenant (~62% yes; ~38% no), marking a meaningful shift toward incorporating a rating solicitation covenant on non-rated deals. Last year, sentiment was the reverse: ~52% did not value the covenant (down from ~59% in 2023), hinting that investors' openness to soliciting ratings has been rising which is likely influenced by potential price enhancements, liquidity, denomination flexibility that can result when a credit achieves an investment grade rating.



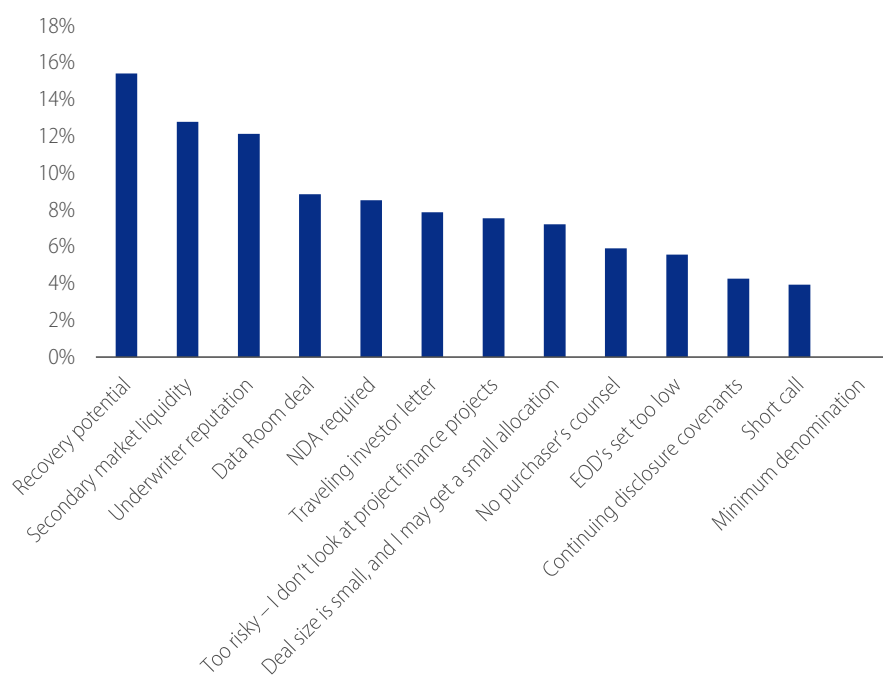
10. How important is the Green Bond designation to your HY investment?

The 2025 results reaffirm a long-standing view: ~96% say 'nice to have—would not pay extra,' ~4% see 1–4 bps of value, and 0% deem it important or critical. That matches 2024's findings, where ~97% assigned no pay-up and ~2% saw 1–4 bps of value. Some candid comments on this question include: "Not even a remote consideration", "Has not worked for me yet", "Means nothing for non-ESG funds", "I am more skeptical of the credit because of greenwashing", and finally, "I value project success and financial recovery over a Green Bond designation".



11. In light of recent HY trends, which issues may preclude participation in a new issue? (Top selections)

This question, with this amount of specificity, is new to the High Yield Survey and the results were super interesting: investors focused heavily on recovery potential, secondary-market liquidity, and underwriter reputation as the three most significant gating factors. It is important to note that data-room only and the requirement to sign a Non-Disclosure Agreement NDAs are also very important. It is possible if these two choices were collapsed room and non-disclosure agreement would have catapulted this issue into the top three. Finally, deal size and small allocation, and overall project-finance aversion were cited as other reasons to pass. These concerns track with 2024 themes around liquidity and covenants/structure, and with the broader investor preference for transparent, publicly available disclosure over gated data rooms as investors must balance investment yield and exit optionality in more bespoke transactions. Finally, we note that no investor cited minimum denominations as a gating issue.



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