

# Municipal Bond Market Performance

July 2023



**Joel A. Buursma**, CIPM  
Vice President, Senior Software Architect



**Mark Pinson**  
Index Production and Analysis

## Overview

The municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of 0.246% in July 2023, consisting of the components displayed in Table 1.

This second month in a row of positive returns was driven mostly by coupon income, as was the year-to-date total return. Whereas the treasury curve saw rising yields on the long end in July with little overall movement on the short end, the municipal curve's movement was almost a mirror image, with deepening inversion on the short end. Partially offsetting this, most sectors saw slight overall tightening in the spreads of lower-rated bonds.

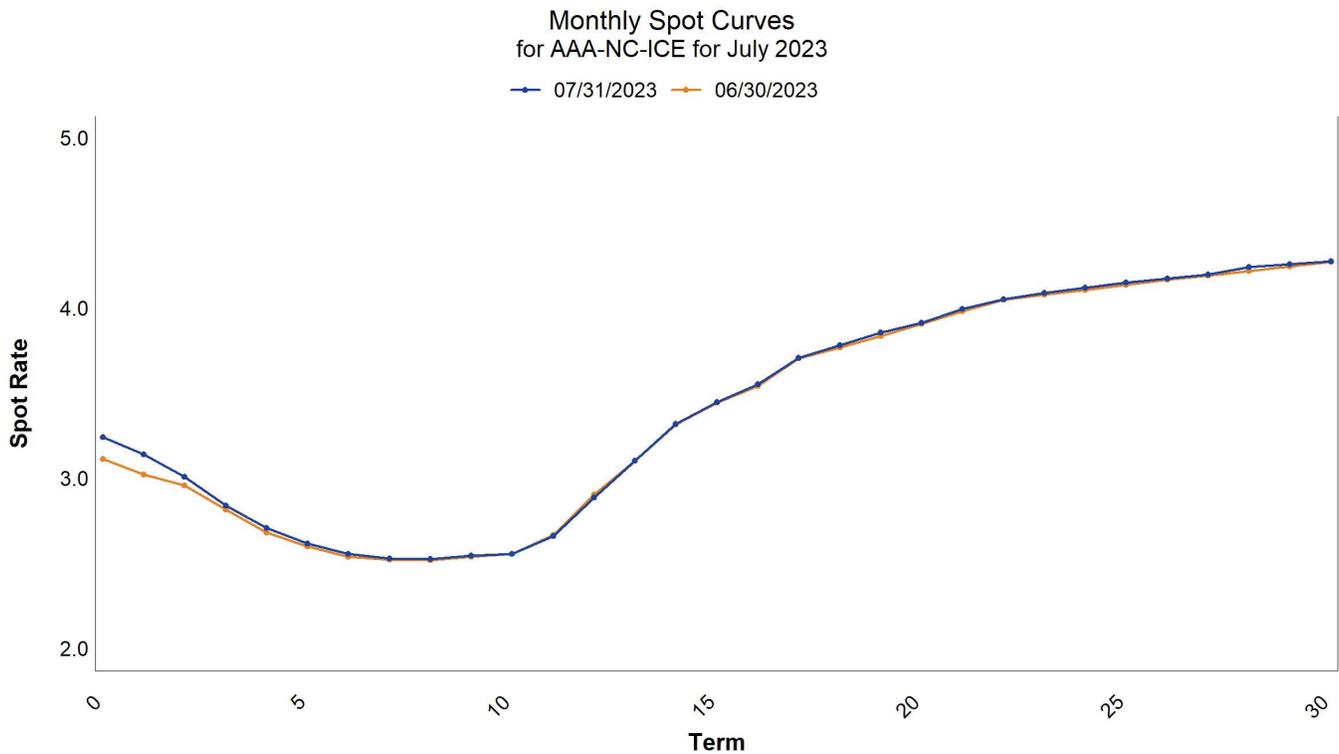
Although year-over-year inflation rates dropped below 3% this month for the first time since March 2021, the past six months of monthly inflation rates have still been elevated.

<b>TABLE 1</b>	<b>July</b>	<b>YTD</b>
Total Return	<b>0.246%</b>	<b>2.607%</b>
Coupon Return	0.364%	2.502%
Market Amortization Return	-0.065%	-0.474%
Parallel Shift Return	0.011%	0.401%
Non-Parallel Shift Return	-0.082%	-0.507%
Sector/Quality Return	0.023%	0.398%
Residual Price Return	-0.005%	0.288%

## Interpretation

Figure 1 shows the overall change in the ICE Municipal AAA Noncallable spot curve for July.

**FIGURE 1**



The Parallel Shift Return of 0.011% is calculated from the tiny decrease (only 0.2 bp) at the ten-year point, as shown in Table 2.

**TABLE 2**

Change for 10-Year Spot Rate <sup>(a)</sup>	-0.22
Total Key Rate Duration <sup>(b)</sup>	4.8964
Parallel Shift Return <sup>(-b*a)</sup>	0.011

The Non-Parallel Shift Return was -0.082%. This was driven by rising short-term yields, which lead to a deepening inversion in the curve. See Table 3 for the full calculations for this term.

**TABLE 3**

	6 Mos	1 Yr	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	20 Yrs	30 Yrs
Non-Parallel Change	11.92	11.92	5.22	2.78	1.99	0.96	0.00	1.12	0.61
Key Rate Duration	0.035	0.129	0.270	0.550	0.759	0.897	1.411	0.745	0.100
Non-Parallel Shift Return	-0.004	-0.015	-0.014	-0.015	-0.015	-0.009	0.000	-0.008	-0.001

Each value in the Non-Parallel Shift Return row is calculated by multiplying together the two cells above it, dividing by 100 and reversing the sign

Sector/Quality Return captures return from changes in average option-adjusted spread (adjusted by duration) for sector/quality groupings. The index's overall Sector/Quality Return was 0.023%.

The sectors exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) were Tobacco Settlement, IDR / PCR, Health Care, and Transportation. The sectors exhibiting the largest overall widening were Other Utility, Education, Housing, Local GO, and Water / Sewer. Almost all sectors showed a small overall tightening in spreads in lower-rated quality categories, with Other Utility and Resource Recovery being notable exceptions.

The sector/quality categories with the biggest negative contributions to Sector/Quality Return, considering both weightings and the groupings' own sector/quality returns, are listed in Table 4. The biggest positive contributors are listed in Table 5.

**TABLE 4**

	AA-rated Education	AAA-rated Local GO	AAA-rated Education	AAA-rated Water / Sewer
Change in Dur-Adj Average OA Spread <sup>(a)</sup>	1.556	0.540	2.378	1.312
Total Key Rate Duration <sup>(b)</sup>	4.961	4.999	5.570	5.465
Sector/Quality Return <sup>(b*a)</sup>	-0.077	-0.027	-0.132	-0.072
Market Value Weight <sup>(c)</sup>	3.589	9.997	1.198	1.934
Contribution to Duration <sup>(b*c)</sup>	0.17805	0.49974	0.06672	0.10570
Contribution to Sector/Quality Return <sup>(-b*c*a)</sup>	-0.00277	-0.00270	-0.00159	-0.00139

**TABLE 5**

	A-rated Transportation	A-rated Health Care	AA-rated Health Care	AA-rated State GO
Change in Dur-Adj Average OA Spread <sup>(a)</sup>	-1.928	-2.374	-1.747	-1.293
Total Key Rate Duration <sup>(b)</sup>	5.243	5.471	5.486	4.393
Sector/Quality Return <sup>(b*a)</sup>	0.101	0.130	0.096	0.057
Market Value Weight <sup>(c)</sup>	5.141	2.889	3.485	5.361
Contribution to Duration <sup>(b*c)</sup>	0.26952	0.15805	0.19120	0.23551
Contribution to Sector/Quality Return <sup>(b*c*a)</sup>	0.00520	0.00375	0.00334	0.00304

Coupon Return was 0.364%, based on the index's average coupon of 4.317%. The average beginning-of-month market yield was 3.526%, resulting in a Market Amortization Return of -0.065%. These two terms sum to a total income effect of 0.299%.

*Note that Coupon Return reflects both interest payments and changes in accrued interest throughout the month. Market Amortization Return is negative because of the large number of premium bonds in the index due to yields being lower than most coupon rates. Premium bond prices, absent any change in yield, naturally decline over time to their redemption price. This decline is called market amortization.*

## CONTACT US

All table data and figures in this report were produced using Investortools, Inc.'s **Custom Index Manager™** product.

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