

Municipal Bond Market Performance

September 2025



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Overview

In September 2025, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of 2.197%. This total return consists of the components displayed in Table 1.

Both the municipal and treasury curves dropped across all terms in the first half of the month. After the Federal Reserve's announcement of a rate cut on the 17th, short-term municipal yields shot back up, finishing the month higher than where they had started. The rest of the curve finished lower, however, helping push September to the best single-month return since December 2023.

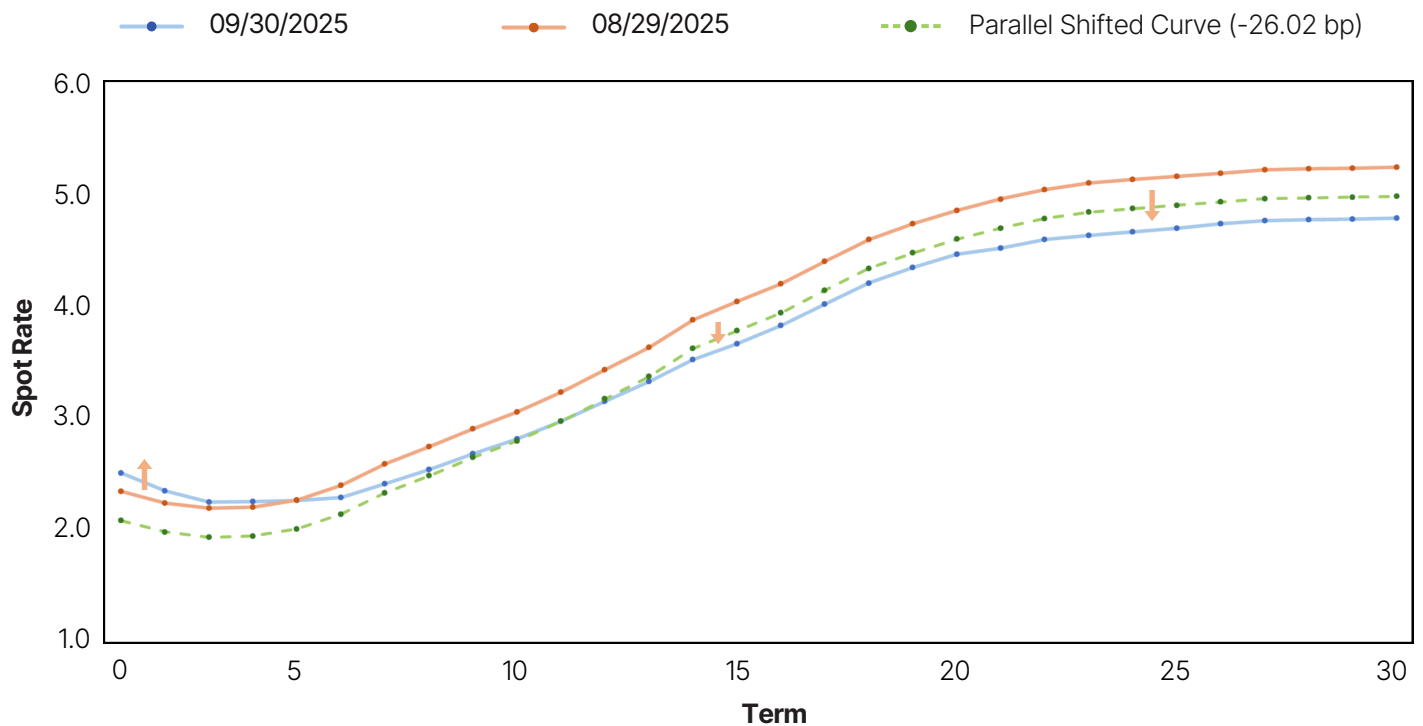
	September	YTD
Total Return	2.197%	2.743%
Coupon Return	0.358%	3.278%
Market Amortization Return	-0.028%	-0.464%
Parallel Shift Return	1.726%	0.725%
Non-Parallel Shift Return	0.023%	-0.193%
Sector/Quality Return	0.141%	-0.534%
Residual Price Return	-0.024%	-0.069%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for September. This curve demonstrated a 26.02 bp decrease in its overall level as measured at the ten-year point.

Figure 1

ICE US Municipal AAA Noncallable Spot Curve Change for September 2025



The green dotted line depicts the parallel shift implied by the ten-year point's spot curve change.

The Parallel Shift Return of 1.726% is calculated from this curve decrease, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate ^(a)	-26.02
Total Key Rate Duration ^(b)	6.6345
Parallel Shift Return ^(-b*a)	1.726%

The Non-Parallel Shift Return was 0.023%. The curve flattened substantially, a reversal of recent steepening trends. The effects of rising short-term yields mostly offset the effects of the falling long-term yields. As a result, the overall Non-Parallel Shift Return was relatively small. 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	41.31	36.80	31.77	31.38	14.82	5.73	0.00	-17.92	-19.65
Key Rate Duration	0.035	0.110	0.204	0.390	0.627	0.954	2.046	1.911	0.357
Non-Parallel Shift Return	-0.015	-0.040	-0.065	-0.122	-0.093	-0.055	0.000	0.342	0.070

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

Sector/Quality Return

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 0.141%.

The sectors exhibiting the largest overall widening in average option-adjusted spread (weighted by both market value and duration) were Resource Recovery and Housing. The sectors exhibiting the largest overall tightening were IDR / PCR and, to a lesser extent, Tobacco Settlement. Spreads tightened slightly overall in lower-rated groupings.

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

Table 4

	AAA-rated Local GO	AA-rated Local GO	A-rated IDR/PCR	AA-rated Insured
Change in Dur-Adj Average OA Spread ^(a)	-3.527	-3.472	-14.542	-2.374
OA Spread Duration ^(b)	6.590	6.677	4.877	7.784
Sector/Quality Return ^(-b*a)	0.232	0.232	0.709	0.185
Market Value Weight% ^(c)	10.935	9.822	3.133	6.602
Contribution to Duration ^(b*c)	0.72060	0.65583	0.15278	0.51392
Contribution to Sector/Quality Return ^(-b*c*a)	0.02541	0.02277	0.02222	0.01220

Table 5

	AA-rated Housing	AAA-rated Housing	AA-rated State GO	AA-rated Public Power
Change in Dur-Adj Average OA Spread ^(a)	2.924	6.559	0.950	0.657
OA Spread Duration ^(b)	7.781	9.501	5.623	6.681
Sector/Quality Return ^(-b*a)	-0.228	-0.623	-0.053	-0.044
Market Value Weight% ^(c)	3.464	0.798	4.970	1.963
Contribution to Duration ^(b*c)	0.26957	0.07580	0.27949	0.13117
Contribution to Sector/Quality Return ^(-b*c*a)	-0.00788	-0.00497	-0.00265	-0.00086

Coupon Return and Other Effects

Coupon Return was 0.358%, based on the index's average coupon of 4.479%. The average beginning-of-month market yield was 3.767%, resulting in a Market Amortization Return of -0.028%. These two terms sum to a total income effect of 0.330%.

Note: 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. Over time, premium bond prices, absent any change in yield, naturally decline to their redemption price. This decline is called market amortization.

Appendix: Highlighted States and Territories

Table 6 below shows the 20 states with the largest contributions to the index's total return sorted by their total return. In general, states with longer average durations performed relatively well as long-term yields dropped while short-term yields rose. For example, New York and Texas both have effective durations greater than 7.5 years, and have a correspondingly strong Return from Curve Change / Convexity.

Alabama is one partial exception in that it outperformed many states with longer effective durations. This is due in large part to its uncommonly large exposure to the IDR / PCR sector. Nationwide, spreads tightened much more in the IDR / PCR sector than in any other sector, boosting Alabama's Return from Sector/Quality Composition. Spreads tightened even further within that sector in Alabama, additionally boosting Alabama's State-Specific Spread Return.

Table 6

State/Territory	Total Return Weight	Total Return	Total Return Contribution (bps)	Return from Yield	Return from Curve Change/Convexity	Return from Sector/Quality Composition	State-Specific Spread Return
Texas	15.54%	2.255%	35.04	0.318%	1.736%	0.169%	0.033%
California	13.19%	2.549%	33.62	0.344%	2.010%	0.144%	0.049%
New Jersey	12.03%	2.457%	29.56	0.339%	1.957%	0.195%	-0.034%
Alabama	4.04%	2.211%	8.93	0.340%	1.813%	0.101%	-0.043%
Michigan	3.80%	2.216%	8.42	0.343%	1.760%	0.110%	0.002%
Virginia	3.10%	2.199%	6.82	0.333%	1.915%	0.062%	-0.110%
Wisconsin	3.53%	1.901%	6.71	0.342%	1.566%	0.089%	-0.096%
Georgia	2.86%	2.066%	5.91	0.322%	1.571%	0.098%	0.075%
Tennessee	3.03%	1.736%	5.26	0.310%	1.392%	0.089%	-0.056%
Ohio	2.31%	2.188%	5.05	0.337%	1.786%	0.138%	-0.073%
Colorado	2.30%	2.171%	4.99	0.329%	1.672%	0.135%	0.035%
Massachusetts	2.40%	1.912%	4.59	0.324%	1.358%	0.215%	0.017%
Pennsylvania	2.01%	2.152%	4.33	0.311%	1.564%	0.132%	0.145%
Washington	1.79%	2.156%	3.86	0.342%	1.267%	0.397%	0.151%
Arizona	1.78%	2.100%	3.74	0.335%	1.760%	0.119%	-0.115%
North Carolina	1.57%	2.351%	3.69	0.343%	1.769%	0.179%	0.060%
Florida	1.87%	1.961%	3.67	0.306%	1.431%	0.125%	0.099%
Illinois	1.57%	1.876%	2.95	0.305%	1.498%	0.103%	-0.031%
Maryland	1.39%	1.959%	2.72	0.330%	1.509%	0.173%	-0.053%
New York	1.47%	1.829%	2.69	0.320%	1.444%	0.121%	-0.055%

Special definitions for this section:

- Return from Yield is the sum of Coupon Return and Market Amortization Return.
- Return from Curve Change / Convexity is the sum of Parallel Shift Return, Non-Parallel Shift Return, and Residual Price Return.
- Return from Sector/Quality Composition is the portion of return from change in spread that is due to the sector/quality composition of bonds in that state, reflecting the average nationwide spread changes experienced by those sector/quality groups.
- State-Specific Spread Return is the portion of return from change in spread after adjusting for the sector/quality composition of the state's bonds, capturing the extent to which the state's bonds' spread changes *differed* from the national averages.

CONTACT US

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