

Municipal Bond Market Performance

February 2025



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The municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of 0.980% in February 2025, consisting of the components displayed in Table 1.

After less than a month of a fully upward-sloping curve, the municipal yield curve experienced short-term inversion again in February as most of the curve dropped more than the shortest terms. This decrease in rates was a primary source of February's overall positive return.

2025 is off to a much better start than recent years past, with January and February both posting positive returns for the first time in the same year since 2020.

TABLE 1

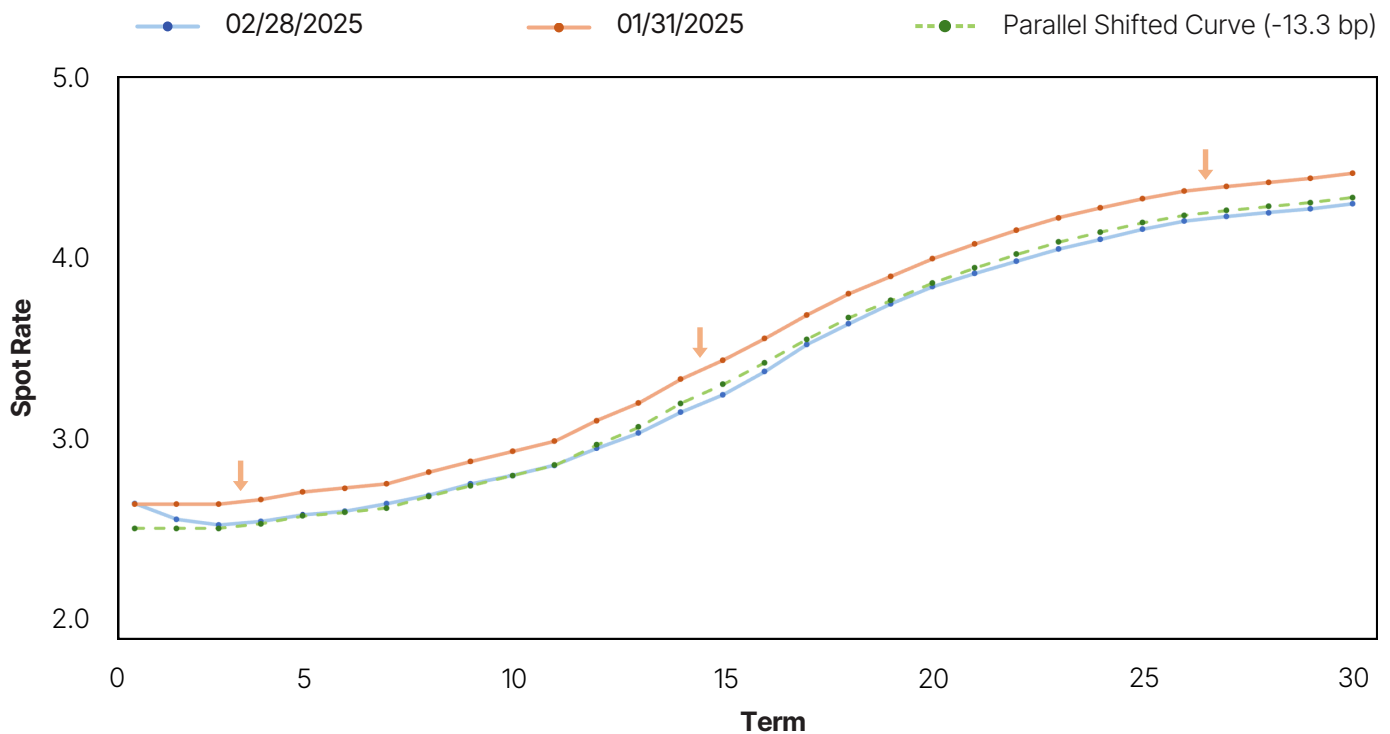
| | February | YTD |
|----------------------------|---------------|---------------|
| Total Return | 0.980% | 1.309% |
| Coupon Return | 0.324% | 0.685% |
| Market Amortization Return | -0.048% | -0.098% |
| Parallel Shift Return | 0.803% | 1.160% |
| Non-Parallel Shift Return | 0.021% | -0.188% |
| Sector/Quality Return | -0.134% | -0.246% |
| Residual Price Return | 0.013% | -0.004% |

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for February. This curve demonstrated a 13.3 bp decrease in its overall level as measured at the ten-year point.

FIGURE 1

ICE US Municipal AAA Noncallable Spot Curve Change for February 2025



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

The Parallel Shift Return of 0.803% is calculated from this curve decrease, as shown in Table 2.

Table 2

| | |
|---|---------------|
| Change for 10-Year Spot Rate ^(a) | -13.34 |
| Total Key Rate Duration ^(b) | 6.0200 |
| Parallel Shift Return ^(-b*a) | 0.803% |

The Non-Parallel Shift Return was 0.021%. Other than the slight reinversion and flattening effect, the curve mostly retained its shape throughout February resulting in a negligible Non-Parallel Shift Return. 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 | 9.730 | 5.010 | 1.700 | 1.400 | 0.790 | 0.620 | 0.000 | -2.820 | -3.730 |
| Key Rate Duration | 0.041 | 0.113 | 0.226 | 0.443 | 0.679 | 1.017 | 1.734 | 1.460 | 0.308 |
| Non-Parallel Shift Return | -0.004 | -0.006 | -0.004 | -0.006 | -0.005 | -0.006 | 0.000 | 0.041 | 0.011 |

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

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 -0.134%.

The sectors exhibiting the largest overall widening in average option-adjusted spread (weighted by both market value and duration) were Transportation, Tobacco Settlement, and Health Care. The IDR / PCR sector exhibited overall tightening in average option-adjusted spread.

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

| | A-rated IDR/PCR | AA-rated IDR/PCR | BBB-rated Insured | AAA-rated Insured |
|---|--------------------|---------------------|----------------------|----------------------|
| Change in Dur-Adj Average OA Spread ^(a) | -4.428 | -1.464 | -2.733 | -2.872 |
| OA Spread Duration ^(b) | 4.795 | 5.023 | 3.284 | 3.839 |
| Sector/Quality Return ^(-b*a) | 0.212 | 0.074 | 0.090 | 0.110 |
| Market Value Weight ^(c) | 2.849 | 1.032 | 0.067 | 0.053 |
| Contribution to Duration ^(b*c) | 0.13662 | 0.05183 | 0.00220 | 0.00203 |
| Contribution to Sector/Quality Return ^(-b*c*a) | 0.00605 | 0.00076 | 0.00006 | 0.00006 |

Table 5

| | AA-rated Transportation | AA-rated Insured | A-rated Transportation | AA-rated Local GO |
|---|----------------------------|---------------------|---------------------------|----------------------|
| Change in Dur-Adj Average OA Spread ^(a) | 3.880 | 2.959 | 4.475 | 1.728 |
| OA Spread Duration ^(b) | 6.050 | 7.227 | 6.667 | 6.033 |
| Sector/Quality Return ^(-b*a) | -0.235 | -0.214 | -0.298 | -0.104 |
| Market Value Weight ^(c) | 6.546 | 6.430 | 3.621 | 9.367 |
| Contribution to Duration ^(b*c) | 0.39608 | 0.46465 | 0.2414 | 0.5651 |
| Contribution to Sector/Quality Return ^(-b*c*a) | -0.01537 | -0.01375 | -0.0108 | -0.00976 |

Coupon Return and Other Effects

Coupon Return was 0.324%, based on the index's average coupon of 4.429%. The average beginning-of-month market yield was 3.597%, resulting in a Market Amortization Return of -0.048%. These two terms sum to a total income effect of 0.276%.

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

Appendix: Return from State-Specific Spread Change

The return breakdown approach used in this report can also be used with individual states or territories to identify differences in behavior from the national averages.

Table 6 below shows the states and territories with the five best state-specific spread returns, while Table 7 shows the states and territories with the five worst state-specific spread returns. This 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' change in spread differed from the national averages.

Kansas had the best state-specific spread return with almost all sectors tightening in Kansas compared to other states. The notable exception was the IDR / PCR sector, which saw spreads widen on average in Kansas despite seeing an overall tightening nationwide. North Carolina, Connecticut, and Arkansas were all bolstered by their State GO and Local GO bonds outperforming similar bonds in other states. On the other hand, New Hampshire, Idaho, and South Dakota were all weighed down by their housing bonds underperforming similar bonds in other states.

Table 6

| State or Territory | Total Return Weight | Return from Sector/Quality Composition | State-Specific Spread Return | Total Spread Return |
|--------------------|---------------------|--|------------------------------|---------------------|
| Kansas | 0.47% | -0.110% | 0.136% | 0.026% |
| North Carolina | 1.54% | -0.126% | 0.127% | 0.001% |
| Connecticut | 1.40% | -0.104% | 0.122% | 0.018% |
| Arkansas | 0.28% | -0.163% | 0.115% | -0.048% |
| Kentucky | 0.97% | -0.063% | 0.101% | 0.038% |

Table 7

| State or Territory | Total Return Weight | Return from Sector/Quality Composition | State-Specific Spread Return | Total Spread Return |
|--------------------|---------------------|--|------------------------------|---------------------|
| New Hampshire | 0.30% | -0.183% | -0.080% | -0.263% |
| Virgin Islands | 0.01% | -0.010% | -0.095% | -0.105% |
| Massachusetts | 3.06% | -0.148% | -0.096% | -0.244% |
| Idaho | 0.24% | -0.204% | -0.099% | -0.303% |
| South Dakota | 0.17% | -0.200% | -0.116% | -0.316% |

CONTACT US

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

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