

# Municipal Bond Market Performance

May 2025



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



**Mark Pinson**  
Index Production and Analysis

In May 2025, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of -0.085%. This total return consists of the components displayed in Table 1.

Yields at long terms increased for the third straight month in both the municipal and treasury curves. Short-term municipal yields decreased in May, continuing the steepening that has been happening throughout the year in the municipal curve. However, curve movements ultimately contributed very little to the overall return, as the positive impact of decreasing short-term rates mostly canceled out the negative impact of increasing long-term rates. It was widening spreads that contributed most to the index's weak performance in May.

The cumulative effect of multiple months with weak performances has resulted in 2025 having the fourth-worst May Year-to-Date return (after 2022, 2024, and 2004) in the twenty-seven-year history of the index.

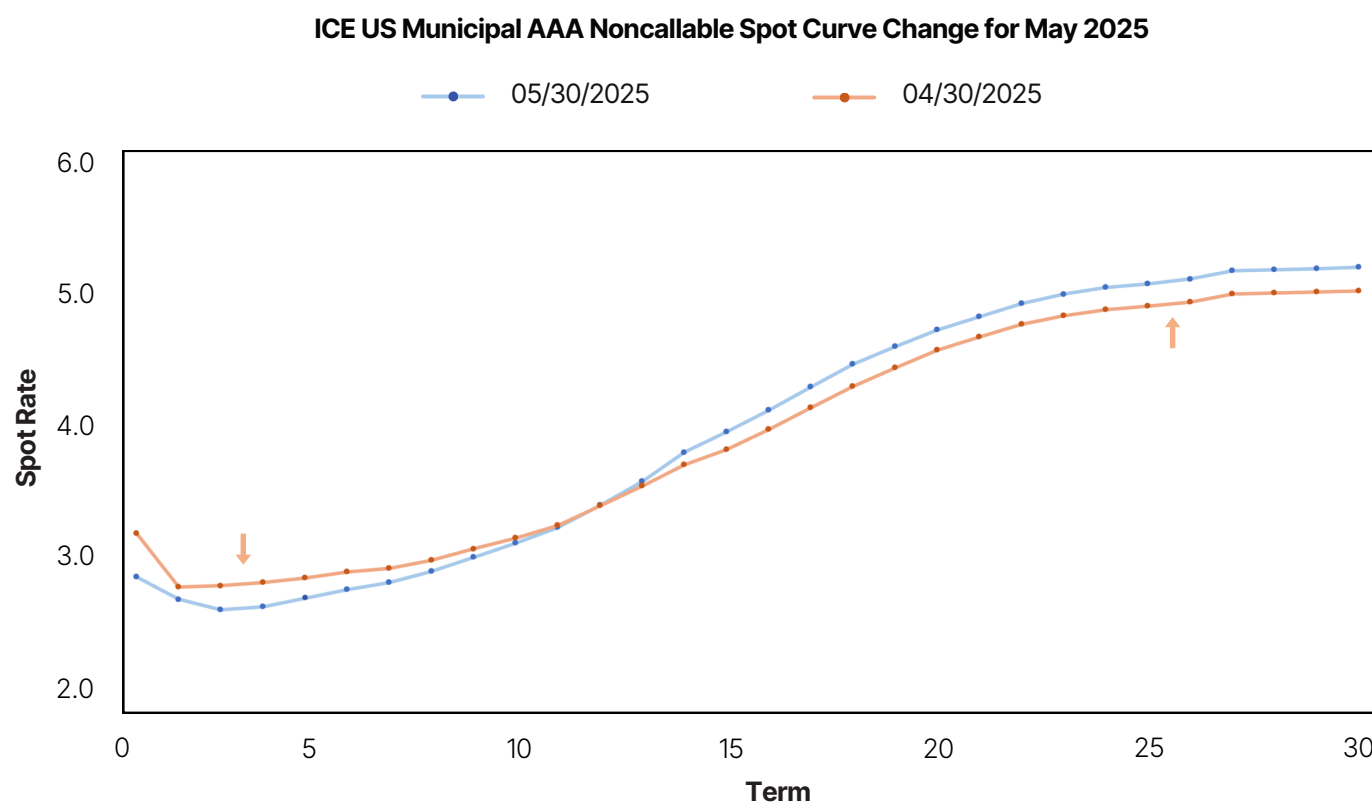
**Table 1**

	May	YTD
Total Return	<b>-0.085%</b>	<b>-0.863%</b>
Coupon Return	0.380%	1.813%
Market Amortization Return	-0.054%	-0.297%
Parallel Shift Return	0.084%	-1.484%
Non-Parallel Shift Return	-0.076%	-0.612%
Sector/Quality Return	-0.356%	-0.204%
Residual Price Return	-0.063%	-0.080%

## Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for May. This curve demonstrated a 1.3 bp decrease in its overall level as measured at the ten-year point.

Figure 1



The Parallel Shift Return of 0.084% is calculated from this curve decrease, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate <sup>(a)</sup>	-1.33
Total Key Rate Duration <sup>(b)</sup>	6.3255
Parallel Shift Return <sup>(-b*a)</sup>	<b>0.084%</b>

The Non-Parallel Shift Return was -0.076%. The curve steepened noticeably. However, the effects of falling short-term yields mostly offset the effects of the rising 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	-22.93	-7.76	-16.69	-16.97	-11.62	-6.92	0.00	16.46	19.47
Key Rate Duration	0.037	0.108	0.213	0.420	0.660	0.978	1.880	1.696	0.333
Non-Parallel Shift Return	<b>0.008</b>	<b>0.008</b>	<b>0.036</b>	<b>0.071</b>	<b>0.077</b>	<b>0.068</b>	<b>0.000</b>	<b>-0.279</b>	<b>-0.065</b>

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 -0.356%.

The sectors exhibiting the largest overall widening in average option-adjusted spread (weighted by both market value and duration) were IDR / PCR and Health Care. The Prerefunded/ETM sector exhibited the least spread change. Spreads widened 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**

	BBB-rated Other Revenue	BBB-rated Insured	A-rated Insured
Change in Dur-Adj Average OA Spread <sup>(a)</sup>	-4.587	-6.035	-0.832
OA Spread Duration <sup>(b)</sup>	9.092	3.173	5.094
Sector/Quality Return <sup>(-b*a)</sup>	0.417	0.191	0.042
Market Value Weight% <sup>(c)</sup>	0.112	0.066	0.249
Contribution to Duration <sup>(b*c)</sup>	0.01021	0.00210	0.01269
Contribution to Sector/Quality Return <sup>(-b*c*a)</sup>	<b>0.00047</b>	<b>0.00013</b>	<b>0.00011</b>

**Table 5**

	AA-rated Tax-Supported (Excl. GOs)	AAA-rated Local GO	AA-rated Local GO	AA-rated Insured
Change in Dur-Adj Average OA Spread <sup>(a)</sup>	6.919	4.718	5.02	6.058
OA Spread Duration <sup>(b)</sup>	6.372	6.256	6.391	7.545
Sector/Quality Return <sup>(-b*a)</sup>	-0.441	-0.295	-0.321	-0.457
Market Value Weight% <sup>(c)</sup>	7.821	10.741	9.714	6.398
Contribution to Duration <sup>(b*c)</sup>	0.49837	0.67196	0.62080	0.48268
Contribution to Sector/Quality Return <sup>(-b*c*a)</sup>	<b>-0.03448</b>	<b>-0.03170</b>	<b>-0.03116</b>	<b>-0.02924</b>

## Coupon Return and Other Effects

Coupon Return was 0.380%, based on the index's average coupon of 4.444%. The average beginning-of-month market yield was 3.963%, resulting in a Market Amortization Return of -0.054%. These two terms sum to a total income effect of 0.326%.

*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 captures the total return of the ten largest states by market value weight in the index. Although California is largest by weight, New York and Texas had more impact on the overall index return. This was partially due to their longer average duration (reflected in the more negative Return from Curve Chg / Convexity) and worse spread changes (reflected particularly in their negative State-Specific Spread Returns).

Washington and Georgia, however, were positive stories. Both states' bonds had shorter average durations. Washington's composition of under-performing sectors like IDR/PCR, Health Care, and Education was smaller than the national average (reflected in its less negative Return from Sector/Quality Composition). Georgia's bonds had spread changes that were better than the national averages in the Insured, IDR / PCR, Water / Sewer, and Health Care sectors (reflected in its positive State-Specific Spread Return).

**Table 6**

State/Territory	Weight %	Total Return	Contribution to Overall (bps)	Return from Yield	Return from Curve Change/Convexity	Return from Sector/Quality Composition	State-Specific Spread Return
California	15.81%	-0.082%	-1.3	0.315%	-0.050%	-0.352%	0.006%
New York	13.20%	-0.306%	-4.0	0.333%	-0.145%	-0.416%	-0.077%
Texas	11.53%	-0.191%	-2.2	0.328%	-0.124%	-0.350%	-0.046%
Florida	4.15%	-0.197%	-0.8	0.335%	-0.147%	-0.402%	0.019%
Pennsylvania	3.84%	-0.106%	-0.4	0.336%	-0.086%	-0.386%	0.030%
Illinois	3.58%	0.064%	0.2	0.341%	-0.039%	-0.290%	0.052%
Massachusetts	3.09%	-0.100%	-0.3	0.322%	-0.102%	-0.304%	-0.017%
Washington	3.05%	0.122%	0.4	0.309%	0.074%	-0.249%	-0.013%
New Jersey	2.93%	-0.117%	-0.3	0.325%	-0.001%	-0.343%	-0.098%
Georgia	2.39%	0.135%	0.3	0.326%	0.072%	-0.374%	0.111%

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

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

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