

Municipal Bond Market Performance

June 2025



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Overview

In June 2025, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of 0.728%. This total return consists of the components displayed in Table 1.

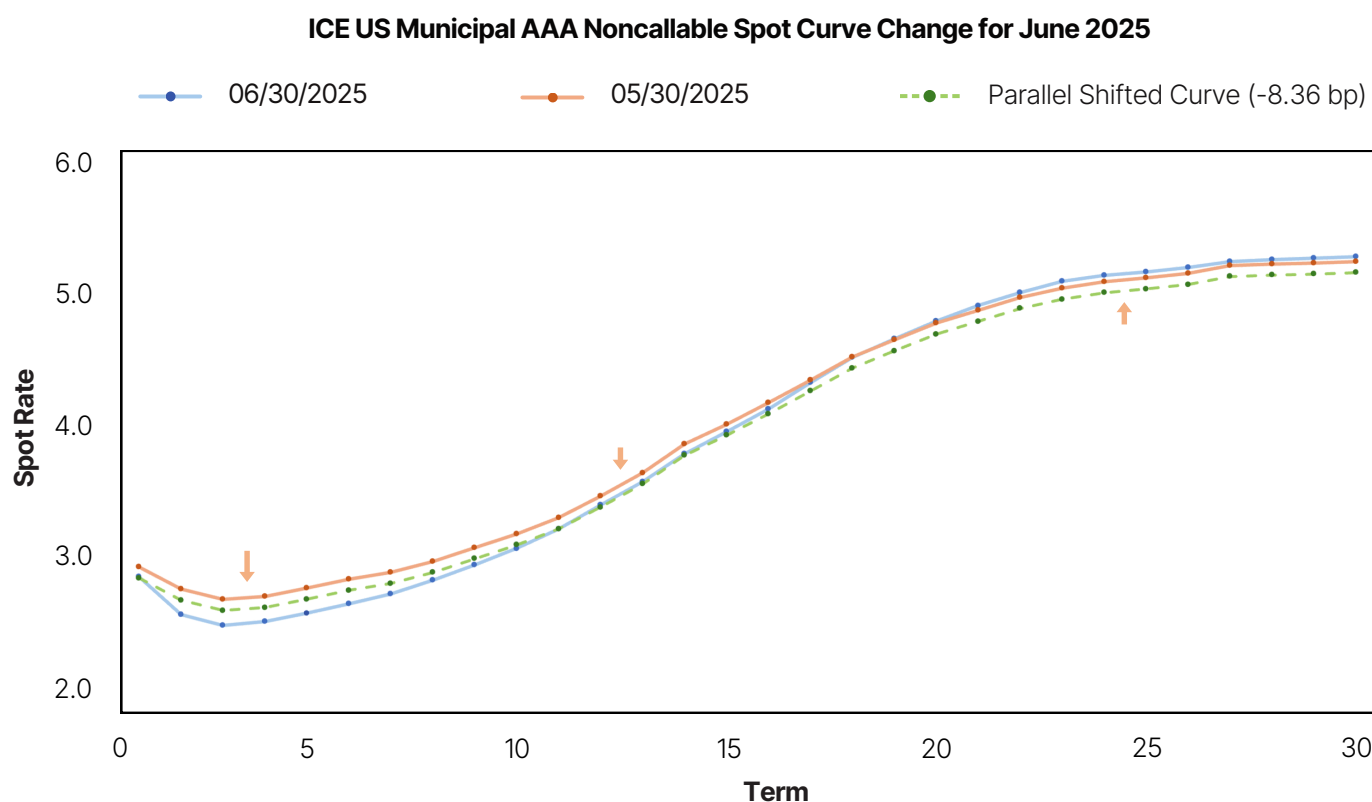
The municipal curve decreased at short and intermediate terms but remained nearly unchanged at the longest terms, continuing this year's steepening trend. The overall decrease in yields was the primary source of June's positive return, followed closely by the gains from Coupon Return. Despite a positive month overall, spreads did widen for some of the largest sectors (e.g., Local GO and State GO).

Table 1	June	YTD
Total Return	0.728%	-0.142%
Coupon Return	0.357%	2.167%
Market Amortization Return	-0.022%	-0.318%
Parallel Shift Return	0.539%	-0.950%
Non-Parallel Shift Return	-0.057%	-0.669%
Sector/Quality Return	-0.124%	-0.327%
Residual Price Return	0.035%	-0.045%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for June. This curve demonstrated an 8.36 bp decrease in its overall level as measured at the ten-year point.

Figure 1



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

The Parallel Shift Return of 0.539% is calculated from this curve decrease, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate ^(a)	-8.36
Total Key Rate Duration ^(b)	6.4514
Parallel Shift Return ^(-b*a)	0.539%

Despite the steepening curve, Non-Parallel Shift Return was relatively slight at -0.057%. As was the case in May, this was due to decreases at the short end of the curve mostly offsetting increases at the long end. 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	-1.87	-10.80	-11.34	-10.53	-10.15	-5.89	0.00	12.08	11.95
Key Rate Duration	0.035	0.111	0.209	0.408	0.649	0.953	1.943	1.797	0.347
Non-Parallel Shift Return	0.001	0.012	0.024	0.043	0.066	0.056	0.000	-0.217	-0.041

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 -0.124%.

The sectors exhibiting overall tightening in average option-adjusted spread (weighted by both market value and duration) were IDR / PCR and Prerefunded/ETM. The sectors exhibiting the largest overall widening were Tobacco Settlement, Local GO, and State GO. Spreads widened less overall for A-rated securities compared to both higher- and lower-rated securities.

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. Many of the categories with positive contributions were A-rated. The biggest negative contributors are listed in Table 5.

Table 4

	AA-rated IDR/PCR	A-rated Health Care	A-rated IDR/PCR	A-rated Insured
Change in Dur-Adj Average OA Spread ^(a)	-3.527	-0.789	-0.904	-8.026
OA Spread Duration ^(b)	4.946	7.087	4.852	5.089
Sector/Quality Return ^(-b*a)	0.174	0.056	0.044	0.408
Market Value Weight% ^(c)	1.165	2.933	3.035	0.250
Contribution to Duration ^(b*c)	0.05760	0.20788	0.14724	0.01274
Contribution to Sector/Quality Return ^(-b*c*a)	0.00203	0.00164	0.00133	0.00102

Table 5

	AAA-rated Tax-Local GO	AA-rated Local GO	AA-rated Water/Sewer	AA-rated Transportation
Change in Dur-Adj Average OA Spread ^(a)	4.400	1.923	2.868	1.807
OA Spread Duration ^(b)	6.343	6.522	6.828	6.560
Sector/Quality Return ^(-b*a)	-0.279	-0.125	-0.196	-0.119
Market Value Weight% ^(c)	10.847	9.849	4.275	6.534
Contribution to Duration ^(b*c)	0.68805	0.64231	0.29189	0.42858
Contribution to Sector/Quality Return ^(-b*c*a)	-0.03027	-0.01235	-0.00837	-0.00775

Coupon Return and Other Effects

Coupon Return was 0.357%, based on the index's average coupon of 4.451%. The average beginning-of-month market yield was 3.952%, resulting in a Market Amortization Return of -0.022%. These two terms sum to a total income effect of 0.336%.

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. Texas performed worst among these states, largely due to substantial exposure to the State GO sector, which saw spreads widen more than most other sectors in June. Additionally, spreads widened on Texas State GO bonds more than the overall nationwide average for State GO, further hurting Texas' return.

On the other hand, New Jersey performed well compared to many other states, boosted by tightening spreads in its largest sector (Transportation). Alabama benefited from its unusually large exposure to the IDR / PCR sector, which experienced spread tightening nationwide. Additionally, as indicated by a relatively strong State-Specific Spread Return, spreads tightened more on IDR / PCR securities in Alabama than they did nationally. Finally, Alabama benefited this month by having relatively small exposure to securities with long durations.

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
Alabama	1.76%	1.015%	1.790	0.356%	0.582%	-0.029%	0.107%
New Jersey	2.89%	0.952%	2.750	0.334%	0.555%	-0.097%	0.161%
Wisconsin	1.39%	0.861%	1.200	0.337%	0.522%	-0.097%	0.098%
Minnesota	1.35%	0.823%	1.110	0.321%	0.533%	-0.119%	0.088%
Georgia	2.38%	0.802%	1.910	0.328%	0.541%	-0.065%	-0.002%
North Carolina	1.58%	0.796%	1.260	0.317%	0.534%	-0.134%	0.080%
Virginia	2.09%	0.775%	1.620	0.321%	0.510%	-0.124%	0.069%
Illinois	3.57%	0.751%	2.680	0.351%	0.515%	-0.115%	0.001%
New York	13.10%	0.732%	9.590	0.345%	0.504%	-0.124%	0.007%
Florida	4.05%	0.732%	2.960	0.343%	0.470%	-0.111%	0.029%
Ohio	2.35%	0.724%	1.700	0.337%	0.531%	-0.131%	-0.012%
Colorado	2.31%	0.723%	1.670	0.341%	0.552%	-0.103%	-0.068%
Maryland	1.88%	0.719%	1.350	0.316%	0.504%	-0.146%	0.045%
Arizona	1.59%	0.716%	1.140	0.329%	0.498%	-0.115%	0.005%
Massachusetts	3.13%	0.714%	2.230	0.333%	0.513%	-0.164%	0.031%
Pennsylvania	3.81%	0.713%	2.720	0.347%	0.507%	-0.080%	-0.062%
Michigan	1.74%	0.689%	1.200	0.343%	0.483%	-0.101%	-0.036%
California	15.76%	0.683%	10.760	0.325%	0.514%	-0.126%	-0.031%
Washington	3.09%	0.665%	2.050	0.317%	0.542%	-0.148%	-0.046%
Texas	11.63%	0.582%	6.770	0.339%	0.505%	-0.203%	-0.059%

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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