

Municipal Bond Market Performance

July 2025



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



Mark Pinson
Index Production and Analysis

Overview

In July 2025, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of -0.173%. This total return consists of the components displayed in Table 1.

Municipal short-term yields decreased in July, with some terms reaching lows not seen in over two years. On the other hand, long-term yields increased in July, once again continuing the steepening trend seen throughout much of 2025. Two notable examples of steepening: the 2-year to 10-year spread is now the largest it has been since 2021, while the 5-year to 30-year spread is the largest it has been in over a decade.

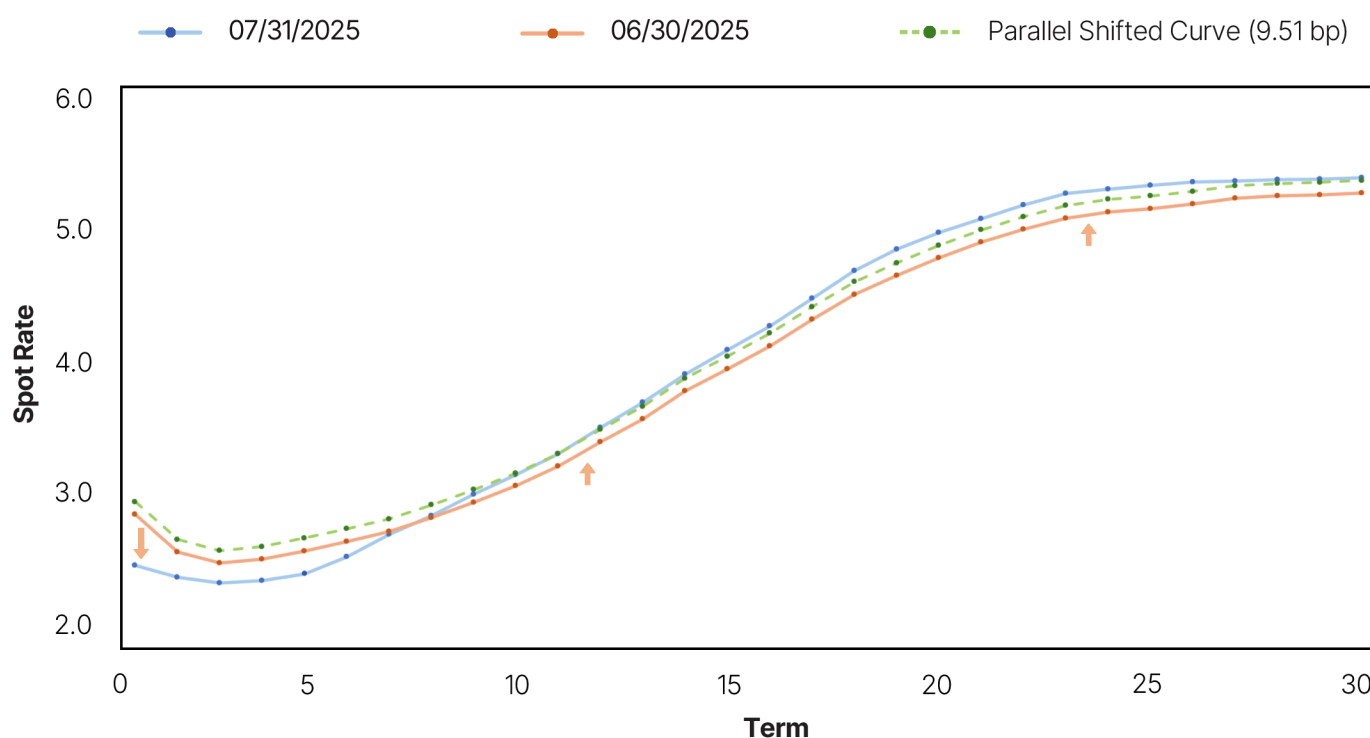
Table 1	July	YTD
Total Return	-0.173%	-0.315%
Coupon Return	0.381%	2.548%
Market Amortization Return	-0.054%	-0.372%
Parallel Shift Return	-0.617%	-1.566%
Non-Parallel Shift Return	0.255%	-0.414%
Sector/Quality Return	-0.131%	-0.458%
Residual Price Return	-0.007%	-0.052%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for July. This curve demonstrated a 9.51 bp increase in its overall level as measured at the ten-year point.

Figure 1

ICE US Municipal AAA Noncallable Spot Curve Change for July 2025



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

The Parallel Shift Return of -0.617% is calculated from this curve increase, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate ^(a)	9.51
Total Key Rate Duration ^(b)	6.4908
Parallel Shift Return ^(-b*a)	-0.617%

Rates decreased at shorter terms contributing to the positive Non-Parallel Shift Return of 0.255% and the overall steepening of the curve. Although there was an overall increase at longer terms, the increase was very similar to change in rate at the 10-year term resulting in only a modest impact on the 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	-42.38	-28.42	-24.36	-25.61	-21.19	-8.14	0.00	8.26	2.24
Key Rate Duration	0.035	0.112	0.208	0.404	0.644	0.944	1.959	1.833	0.352
Non-Parallel Shift Return	0.015	0.032	0.051	0.104	0.136	0.077	0.000	-0.151	-0.008

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 -0.131%.

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

Spreads generally widened more on BBB-rated securities compared to higher-rated securities. Sectors exhibiting this risk-aversion trend were Tobacco Settlement, Transportation, IDR / PCR, Health Care, Education, and Water / Sewer. On the other hand, the Housing, State GO, Insured, and Other Revenue sectors saw tightening BBB spreads.

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. Most of the largest contributors belonged to the Housing sector. The biggest negative contributors are listed in Table 5.

Table 4

	AA-rated Housing	A-rated State GO	AAA-rated Housing	BBB-rated Housing
Change in Dur-Adj Average OA Spread ^(a)	-1.479	-3.703	-1.423	-4.782
OA Spread Duration ^(b)	7.819	5.049	9.452	7.755
Sector/Quality Return ^(-b*a)	0.116	0.187	0.134	0.371
Market Value Weight ^(c)	3.379	0.795	0.808	0.161
Contribution to Duration ^(b*c)	0.26419	0.04014	0.07638	0.01249
Contribution to Sector/Quality Return ^(-b*c*a)	0.00391	0.00149	0.00109	0.00060

Table 5

	AA-rated Local GO	AAA-rated Local GO	AA-rated Insured	AA-rated Health Care
Change in Dur-Adj Average OA Spread ^(a)	2.744	1.979	2.326	3.966
OA Spread Duration ^(b)	6.527	6.377	7.668	7.094
Sector/Quality Return ^(-b*a)	-0.179	-0.126	-0.178	-0.281
Market Value Weight% ^(c)	9.922	10.690	6.544	3.732
Contribution to Duration ^(b*c)	0.64764	0.68169	0.50175	0.26475
Contribution to Sector/Quality Return ^(-b*c*a)	-0.01777	-0.01349	-0.01167	-0.01050

Income Effects

Coupon Return was 0.381%, based on the index's average coupon of 4.459%. The average beginning-of-month market yield was 3.855%, resulting in a Market Amortization Return of -0.054%. These two terms sum to a total income effect of 0.327%.

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: Return from State-Specific Spread Change

Table 6 below shows the 20 states with the largest contributions to the index's total return sorted by their total return. Connecticut is the only state in the table to have posted a positive return in July. This is due primarily to the fact that Connecticut has the shortest average duration of all the states in the table by a sizable margin. This shorter duration substantially reduces the effects of Return from Curve Change / Convexity, which in July was generally rather negative.

Missouri, despite a longer-than-average duration, had a relatively neutral return in July. While spreads generally increased for the Local GO sector across the nation, spreads decreased for that sector in Missouri resulting in a strong State-Specific Spread Return.

Iowa's overall return is the worst of all states listed below. Spreads generally widened more on Iowa bonds than similar bonds of the same quality and sector across the nation, as captured by its poor 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
Connecticut	1.40%	0.150%	0.21	0.297%	-0.091%	-0.066%	0.011%
Illinois	3.56%	-0.047%	-0.17	0.343%	-0.330%	-0.063%	0.002%
New Jersey	2.88%	-0.092%	-0.26	0.323%	-0.314%	-0.121%	0.020%
Maryland	1.95%	-0.153%	-0.30	0.305%	-0.240%	-0.128%	-0.090%
Missouri	1.13%	-0.165%	-0.19	0.333%	-0.417%	-0.157%	0.075%
Oregon	1.22%	-0.170%	-0.21	0.325%	-0.401%	-0.137%	0.043%
Virginia	2.07%	-0.174%	-0.36	0.312%	-0.308%	-0.167%	-0.011%
Massachusetts	3.07%	-0.177%	-0.54	0.327%	-0.440%	-0.105%	0.041%
California	15.84%	-0.178%	-2.82	0.318%	-0.371%	-0.122%	-0.004%
Wisconsin	1.39%	-0.179%	-0.25	0.327%	-0.315%	-0.183%	-0.007%
Colorado	2.29%	-0.205%	-0.47	0.333%	-0.405%	-0.161%	0.028%
Louisiana	0.89%	-0.214%	-0.19	0.343%	-0.387%	-0.217%	0.047%
Ohio	2.31%	-0.215%	-0.50	0.328%	-0.360%	-0.185%	0.003%
South Carolina	1.18%	-0.226%	-0.27	0.340%	-0.443%	-0.138%	0.015%
Pennsylvania	3.87%	-0.238%	-0.92	0.337%	-0.399%	-0.153%	-0.023%
Florida	4.00%	-0.240%	-0.96	0.336%	-0.437%	-0.153%	0.014%
Michigan	1.80%	-0.240%	-0.43	0.335%	-0.423%	-0.138%	-0.013%
Texas	11.71%	-0.288%	-3.37	0.332%	-0.457%	-0.137%	-0.027%
New York	13.02%	-0.300%	-3.91	0.338%	-0.491%	-0.153%	0.006%
Iowa	0.47%	-0.325%	-0.15	0.332%	-0.380%	-0.187%	-0.090%

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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