

Municipal Bond Market Performance

August 2025



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Overview

In August 2025, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of 0.852%. This total return consists of the components displayed in Table 1.

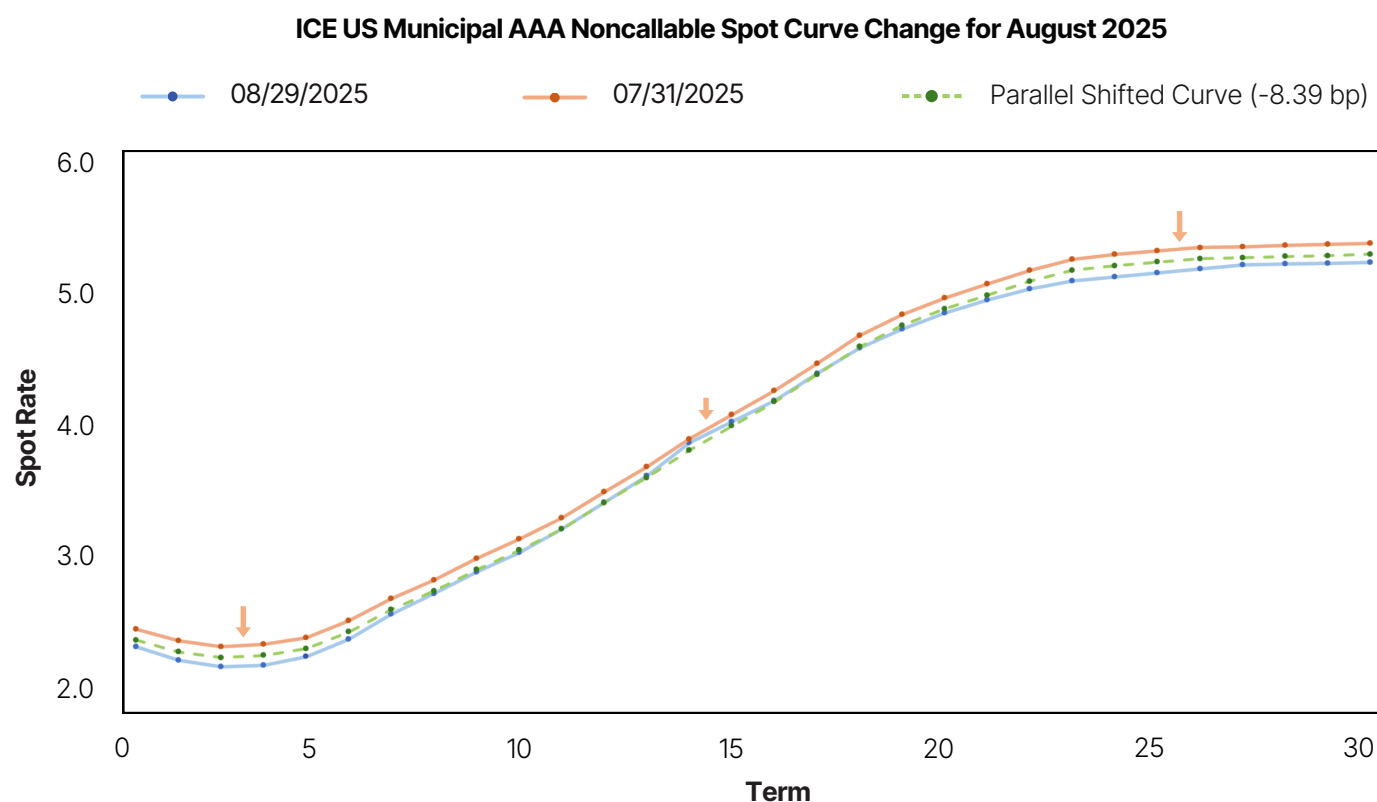
Short-term municipal yields have been generally falling since mid-April and are now the lowest they've been in three years. Intermediate- and long-term yields also fell in August, which helped the index post a relatively strong monthly return and push its year-to-date return back into the black. One weak spot was BBB-rated bonds, which saw widening spreads for the fifth straight month.

Table 1	August	YTD
Total Return	0.852%	0.534%
Coupon Return	0.371%	2.918%
Market Amortization Return	-0.064%	-0.436%
Parallel Shift Return	0.558%	-1.010%
Non-Parallel Shift Return	0.198%	-0.217%
Sector/Quality Return	-0.218%	-0.676%
Residual Price Return	0.006%	-0.045%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for August. This curve demonstrated a 8.39 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 0.558% is calculated from this curve decrease, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate ^(a)	-8.39
Total Key Rate Duration ^(b)	6.6532
Parallel Shift Return ^(-b*a)	0.558%

The Non-Parallel Shift Return was an additional 0.198% due to yields at most points of the curve dropping more than the 10-year yield. 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	-5.82	-6.32	-6.82	-7.64	-5.71	-2.04	0.00	-3.54	-6.15
Key Rate Duration	0.034	0.111	0.203	0.395	0.628	0.959	2.043	1.923	0.357
Non-Parallel Shift Return	0.002	0.007	0.014	0.030	0.036	0.020	0.000	0.068	0.022

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 -0.218%.

The sectors exhibiting the largest overall widening in average option-adjusted spread (weighted by both market value and duration) were Transportation, Other Utility, and Tax-Supported (Excl. GOs). The IDR / PCR sector exhibited overall tightening in average option-adjusted spread. Spreads generally widened on BBB-rated securities, particularly compared to spreads on higher-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. The biggest negative contributors are listed in Table 5.

Table 4

	A-rated IDR/PCR	A-rated Tobacco Settlement	AA-rated IDR/PCR	AAA-rated Insured
Change in Dur-Adj Average OA Spread ^(a)	-2.422	-13.727	-0.137	-2.404
OA Spread Duration ^(b)	4.917	4.362	5.097	4.442
Sector/Quality Return ^(-b*a)	0.119	0.599	0.007	0.107
Market Value Weight% ^(c)	3.171	0.106	1.210	0.047
Contribution to Duration ^(b*c)	0.15595	0.00462	0.06167	0.00210
Contribution to Sector/Quality Return ^(-b*c*a)	0.00378	0.00063	0.00008	0.00005

Table 5

	AA-rated Local GO	AA-rated Insured	AA-rated Tax-Supported (Excl. GOs)	AA-rated Transportation
Change in Dur-Adj Average OA Spread ^(a)	3.279	3.951	3.757	4.342
OA Spread Duration ^(b)	6.701	7.815	6.624	6.792
Sector/Quality Return ^(-b*a)	-0.220	-0.309	-0.249	-0.295
Market Value Weight% ^(c)	9.869	6.549	7.790	6.510
Contribution to Duration ^(b*c)	0.66139	0.51180	0.51606	0.44214
Contribution to Sector/Quality Return ^(-b*c*a)	-0.02169	-0.02022	-0.01939	-0.01920

Coupon Return and Other Effects

Coupon Return was 0.371%, based on the index's average coupon of 4.468%. The average beginning-of-month market yield was 3.867%, resulting in a Market Amortization Return of -0.064%. These two terms sum to a total income effect of 0.307%.

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

Decreasing yields helped boost all states to a positive return in August, some more so than others. Table 6 below shows the 20 states with the largest contributions to the index's total return sorted by their total return.

Texas, due to its relatively long average duration, benefited more from the decreasing yields than most other states. Although New York similarly benefited from a relatively long average duration, it ended up lagging behind most other states in its overall return. This was due to its particularly large exposure to the underperforming Tax-Supported (Excl. GOs) sector (reflected in its Return from Sector/Quality Composition) and an above-average widening of spreads across almost all sectors (reflected in its State-Specific Spread Return).

Spreads on New Jersey bonds generally widened less than their counterparts in other states, with the relative outperformance of the Transportation sector particularly contributing to New Jersey's strong 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	11.93%	0.911%	10.87	0.314%	0.817%	-0.193%	-0.027%
California	15.70%	0.908%	14.26	0.298%	0.771%	-0.200%	0.039%
New Jersey	2.88%	0.890%	2.56	0.301%	0.724%	-0.253%	0.117%
Alabama	1.81%	0.887%	1.61	0.319%	0.695%	-0.103%	-0.025%
Michigan	1.80%	0.885%	1.59	0.314%	0.759%	-0.228%	0.040%
Virginia	2.04%	0.880%	1.80	0.292%	0.710%	-0.204%	0.082%
Wisconsin	1.39%	0.870%	1.21	0.304%	0.726%	-0.218%	0.058%
Georgia	2.40%	0.868%	2.08	0.302%	0.703%	-0.149%	0.012%
Tennessee	1.35%	0.867%	1.17	0.308%	0.707%	-0.206%	0.058%
Ohio	2.32%	0.855%	1.98	0.307%	0.766%	-0.228%	0.010%
Colorado	2.29%	0.845%	1.94	0.314%	0.774%	-0.235%	-0.007%
Massachusetts	3.08%	0.842%	2.59	0.308%	0.811%	-0.236%	-0.041%
Pennsylvania	3.83%	0.833%	3.19	0.318%	0.764%	-0.265%	0.016%
Washington	2.98%	0.832%	2.48	0.291%	0.653%	-0.164%	0.052%
Arizona	1.49%	0.830%	1.24	0.299%	0.700%	-0.197%	0.029%
North Carolina	1.59%	0.814%	1.29	0.285%	0.702%	-0.189%	0.015%
Florida	3.99%	0.813%	3.24	0.315%	0.785%	-0.261%	-0.026%
Illinois	3.54%	0.805%	2.85	0.320%	0.717%	-0.215%	-0.017%
Maryland	1.93%	0.776%	1.50	0.285%	0.687%	-0.179%	-0.017%
New York	13.12%	0.771%	10.12	0.318%	0.841%	-0.279%	-0.110%

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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