

Municipal Bond Market Performance

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Overview

In October 2025, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of 1.074%. This total return consists of the components displayed in Table 1.

Yields decreased for much of the municipal curve but increased for shorter terms, worsening the preexisting inversion. Overall, this yield curve movement contributed positively to the index's total return but weighed down short-duration portions of the index (such as the Prerefunded/ETM sector).

The index's trailing 3-month return is 4.175%, making August-October one of the best 3-month periods in the last ten years.

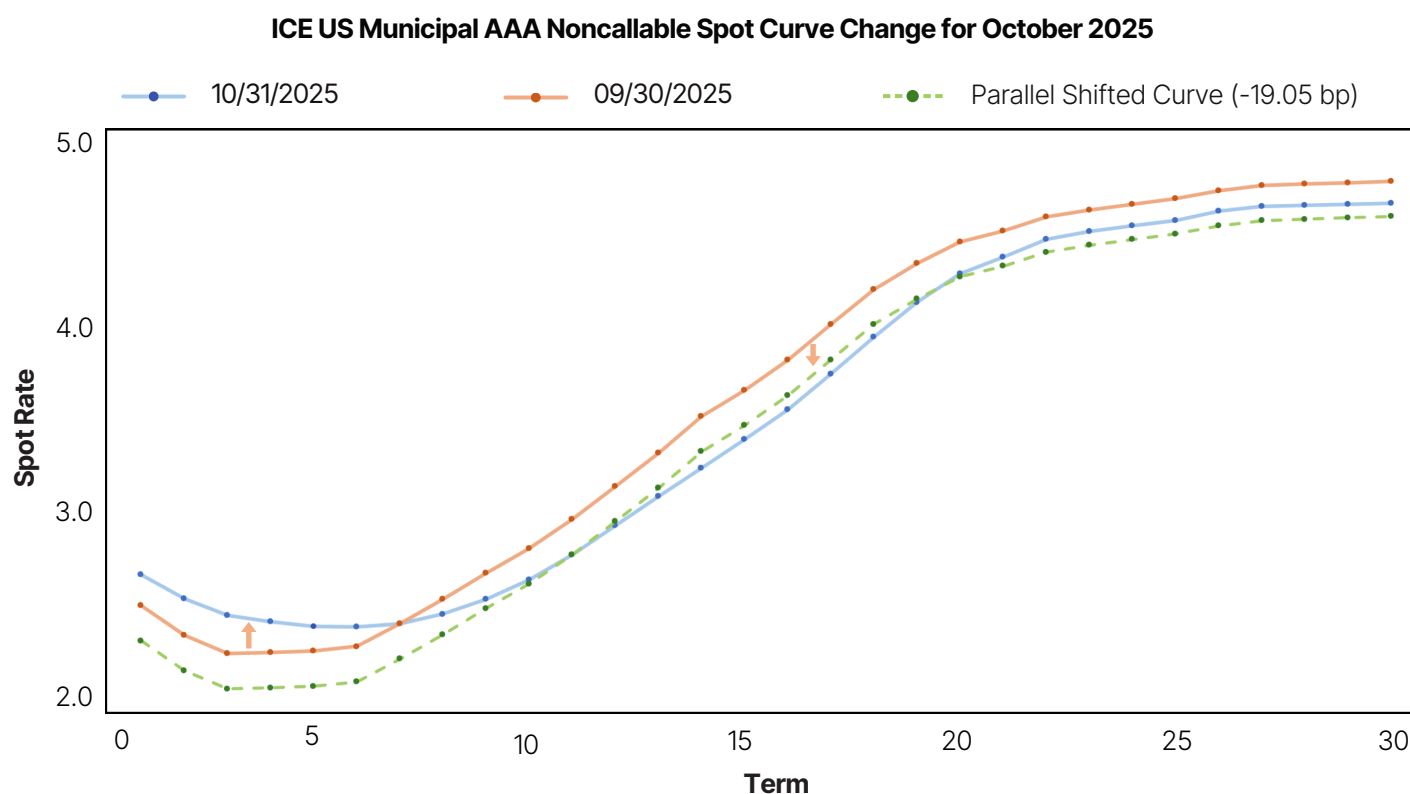
Table 1

	October	YTD
Total Return	1.074%	3.847%
Coupon Return	0.375%	3.664%
Market Amortization Return	-0.074%	-0.539%
Parallel Shift Return	1.221%	1.980%
Non-Parallel Shift Return	-0.695%	-0.907%
Sector/Quality Return	0.077%	-0.455%
Residual Price Return	0.169%	0.105%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for October. This curve demonstrated a 19.05 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 1.221% is calculated from this curve decrease, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate ^(a)	-19.05
Total Key Rate Duration ^(b)	6.4087
Parallel Shift Return ^(-b*a)	1.221%

The Non-Parallel Shift Return was -0.695%. Despite the curve decrease at the ten-year and longer points, the shorter-term portion of the curve increased. This worsening inversion was the primary contributor to October's sizable 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	36.66	38.86	39.65	35.86	29.79	11.07	0.00	5.00	6.90
Key Rate Duration	0.037	0.111	0.209	0.398	0.656	0.962	1.940	1.766	0.330
Non-Parallel Shift Return	-0.014	-0.043	-0.083	-0.143	-0.195	-0.106	0.000	-0.088	-0.023

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 0.077%.

The sectors exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) were Health Care, State GO, and Local GO. The Housing sector exhibited overall widening in average option-adjusted spread, especially in its higher-rated categories.

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

	AAA-rated Local GO	AA-rated Local GO	A-rated Health Care	AA-rated Transportation
Change in Dur-Adj Average OA Spread ^(a)	-2.761	-1.734	-4.218	-1.491
OA Spread Duration ^(b)	6.316	6.416	6.682	6.526
Sector/Quality Return ^(-b*a)	0.174	0.111	0.282	0.097
Market Value Weight% ^(c)	10.969	9.909	2.847	6.648
Contribution to Duration ^(b*c)	0.69281	0.63578	0.19022	0.43383
Contribution to Sector/Quality Return ^(-b*c*a)	0.01913	0.01103	0.00802	0.00647

Table 5

	AA-rated Housing	AAA-rated Housing	BBB-rated Transportation	AAA-rated Tax- Supported (Excl. GOs)
Change in Dur-Adj Average OA Spread ^(a)	5.690	6.585	4.999	0.492
OA Spread Duration ^(b)	7.557	9.186	8.821	6.718
Sector/Quality Return ^(-b*a)	-0.430	-0.605	-0.441	-0.033
Market Value Weight% ^(c)	3.498	0.809	0.601	3.525
Contribution to Duration ^(b*c)	0.26435	0.07436	0.05298	0.23680
Contribution to Sector/Quality Return ^(-b*c*a)	-0.01504	-0.00490	-0.00265	-0.00117

Coupon Return and Other Effects

Coupon Return was 0.375%, based on the index's average coupon of 4.483%. The average beginning-of-month market yield was 3.555%, resulting in a Market Amortization Return of -0.074%. These two terms sum to a total income effect of 0.302%.

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.

Finally, the Residual Price Return was 0.169%, reflecting the positive effects of rolling down the yield curve as well as the more substantial effects of convexity.

Appendix: Highlighted States and Territories

Table 6 below shows the 20 states with the largest contributions to the index's total return, sorted by their respective total returns. In general, states with longer durations tended to outperform states with shorter durations since the long duration states benefited the most from curve changes.

New York and Massachusetts, despite having the two longest durations of the 20 states below, did not have the highest total returns. For Massachusetts, this was largely due to widening spreads on its Health Care and especially State GO bonds, while New York saw widening spreads across almost all its sectors. The effect of these widening spreads is largely captured by the notably negative State-Specific Spread Return for these two states.

By contrast, while New Jersey had an average duration that was slightly shorter than the overall index, its total return was boosted by tightening spreads, most notably in the Transportation, Tax-Supported (Excluding GOs) and Insured sectors.

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	12.09%	1.233%	14.91	0.310%	0.819%	0.132%	-0.028%
Pennsylvania	3.82%	1.159%	4.43	0.315%	0.701%	0.061%	0.081%
New Jersey	2.85%	1.150%	3.28	0.295%	0.632%	0.091%	0.132%
California	15.54%	1.128%	17.53	0.288%	0.676%	0.099%	0.065%
Colorado	2.30%	1.123%	2.58	0.310%	0.712%	0.095%	0.006%
Florida	3.98%	1.107%	4.41	0.312%	0.768%	0.094%	-0.067%
Massachusetts	3.12%	1.091%	3.40	0.301%	0.799%	0.088%	-0.097%
New York	13.15%	1.066%	14.02	0.311%	0.812%	0.040%	-0.098%
Michigan	1.76%	1.055%	1.86	0.309%	0.747%	0.046%	-0.048%
Virginia	1.97%	1.042%	2.05	0.288%	0.642%	0.056%	0.056%
Tennessee	1.37%	1.019%	1.40	0.303%	0.622%	0.061%	0.033%
Wisconsin	1.57%	0.998%	1.57	0.315%	0.690%	0.013%	-0.019%
Ohio	2.29%	0.995%	2.28	0.303%	0.624%	0.094%	-0.025%
North Carolina	1.53%	0.990%	1.51	0.284%	0.621%	0.067%	0.019%
Washington	3.03%	0.989%	3.00	0.285%	0.556%	0.124%	0.023%
Arizona	1.47%	0.987%	1.45	0.294%	0.569%	0.084%	0.041%
Illinois	3.56%	0.962%	3.42	0.315%	0.639%	0.067%	-0.059%
Maryland	1.84%	0.910%	1.67	0.282%	0.527%	0.090%	0.010%
Georgia	2.47%	0.847%	2.09	0.295%	0.482%	0.059%	0.011%
Alabama	1.92%	0.759%	1.46	0.309%	0.476%	0.031%	-0.056%

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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