

Municipal Bond Market Performance

December 2025



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In December 2025, the municipal bond market, as measured by the Standard & Poor’s Municipal Bond Investment Grade Index, had a Total Return of 0.199%. This total return consists of the components displayed in Table 1.

December was another month of relatively negligible movement in the municipal yield curve. There was a slight steepening of the curve, continuing the overall steepening seen throughout much of the year, as reflected in the Non-Parallel Shift Return. Widening spreads, particularly in the IDR / PCR sector, also dragged returns down slightly. However, due to the positive effects of Coupon Return, the overall return remained in the black.

In addition to covering this month’s performance, the report concludes with a “2025 Year in Review” section.

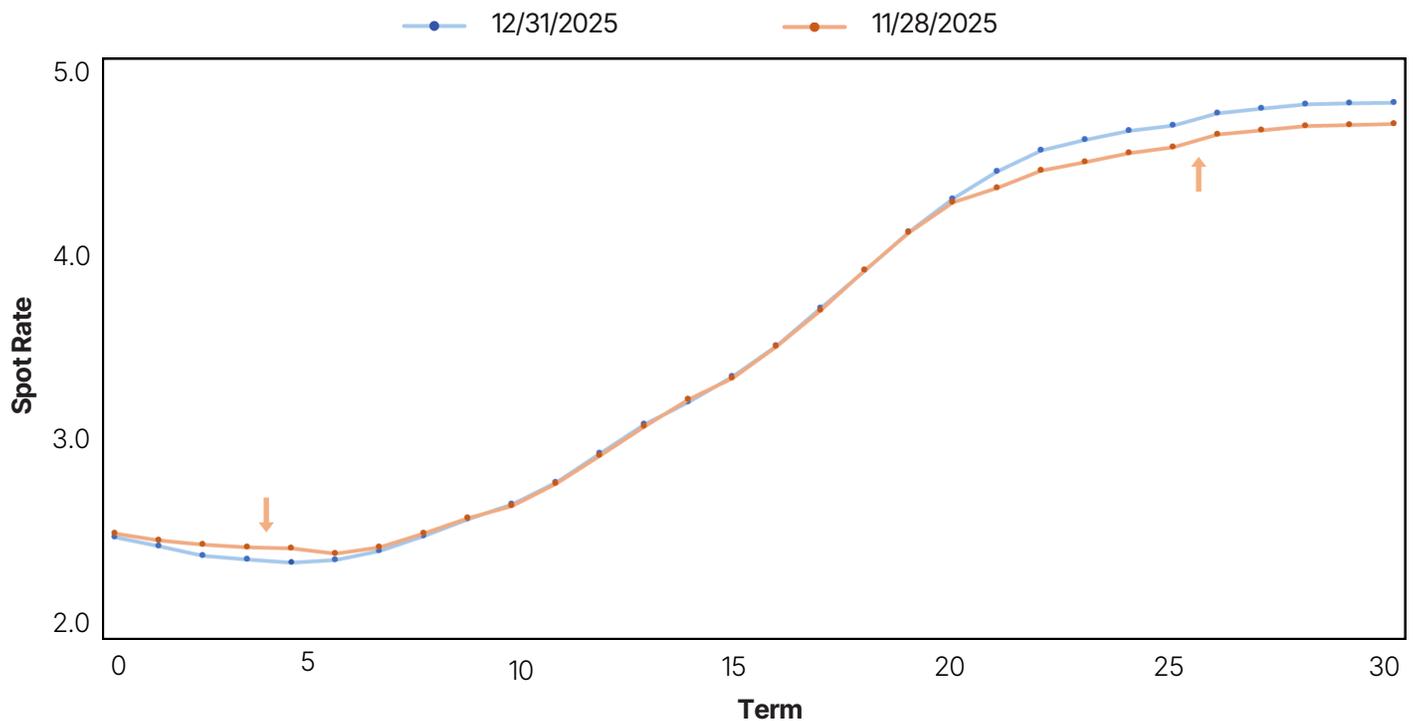
	December	YTD
Total Return	0.199%	4.343%
Coupon Return	0.373%	4.415%
Market Amortization Return	-0.060%	-0.686%
Parallel Shift Return	-0.043%	2.029%
Non-Parallel Shift Return	-0.072%	-1.056%
Sector/Quality Return	-0.099%	-0.617%
Residual Price Return	0.099%	0.259%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for December. This curve demonstrated a tiny 0.69 bp increase in its overall level as measured at the ten-year point.

Figure 1

ICE US Municipal AAA Noncallable Spot Curve Change for December 2025



The Parallel Shift Return of -0.043% is calculated from this curve increase, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate ^(a)	0.69
Total Key Rate Duration ^(b)	6.2426
Parallel Shift Return ^(-b*a)	-0.043%

The Non-Parallel Shift Return was -0.072%, reflecting curve steepening. The decrease at the short and intermediate points of the curve partially offset the effect of the increase at the longer points of the curve. 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	-3.25	-3.85	-6.88	-7.41	-4.10	-1.91	0.00	8.03	10.81
Key Rate Duration	0.041	0.108	0.211	0.412	0.672	1.023	1.779	1.662	0.334
Non-Parallel Shift Return	0.001	0.004	0.015	0.031	0.028	0.020	0.000	-0.133	-0.036

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 -0.099%.

The sectors exhibiting the largest overall widening in average option-adjusted spread (weighted by both market value and duration) were IDR / PCR and Tobacco Settlement. The Prerefunded/ETM sector exhibited slight overall tightening in average option-adjusted spread. Spreads widened slightly overall on lower-rated bonds.

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 Housing	A-rated Insured	AA-rated Prerefunded/ETM	AA-rated Other Utility
Change in Dur-Adj Average OA Spread ^(a)	-0.752	-2.327	-1.658	-0.286
OA Spread Duration ^(b)	8.915	5.202	1.363	6.521
Sector/Quality Return ^(-b*a)	0.067	0.121	0.023	0.019
Market Value Weight% ^(c)	0.815	0.230	0.877	0.710
Contribution to Duration ^(b*c)	0.07269	0.01198	0.01196	0.04631
Contribution to Sector/Quality Return ^(-b*c*a)	0.00055	0.00028	0.00020	0.00013

Table 5

	A-rated IDR/PCR	AA-rated Transportation	AA-rated IDR/PCR	AA-rated Local GO
Change in Dur-Adj Average OA Spread ^(a)	9.602	1.931	10.521	1.202
OA Spread Duration ^(b)	4.902	6.300	5.132	6.167
Sector/Quality Return ^(-b*a)	-0.471	-0.122	-0.540	-0.074
Market Value Weight% ^(c)	3.179	6.726	1.444	9.916
Contribution to Duration ^(b*c)	0.15585	0.42376	0.07410	0.61147
Contribution to Sector/Quality Return ^(-b*c*a)	-0.01497	-0.00818	-0.00780	-0.00735

Coupon Return and Other Effects

Coupon Return was 0.373%, based on the index's average coupon of 4.494%. The average beginning-of-month market yield was 3.474%, resulting in a Market Amortization Return of -0.060%. These two terms sum to a total income effect of 0.314%.

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 0.099%, reflecting the positive effects of rolling down the yield curve as well as the 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 total return. States with shorter average durations (such as Connecticut) generally performed better than states with longer average durations (such as New York), due to stronger Return from Curve Change/Convexity. Georgia was an exception to this trend, as its poor Return from Sector/Quality Composition dampened its overall returns. This was mostly due to its large exposure to the IDR / PCR sector which saw particularly large widening of spreads nationwide. Illinois benefited both from a shorter-than-average duration but also from spreads widening less than they did in other states (captured by 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
Illinois	3.60%	0.302%	1.09	0.332%	0.011%	-0.075%	0.035%
Connecticut	1.33%	0.289%	0.38	0.280%	0.070%	-0.045%	-0.015%
Minnesota	1.32%	0.280%	0.37	0.296%	0.034%	-0.077%	0.025%
North Carolina	1.53%	0.270%	0.41	0.297%	0.032%	-0.065%	0.008%
Indiana	1.30%	0.252%	0.33	0.312%	0.030%	-0.071%	-0.017%
Colorado	2.25%	0.250%	0.56	0.321%	0.001%	-0.093%	0.021%
Washington	2.95%	0.245%	0.72	0.296%	0.052%	-0.073%	-0.029%
New Jersey	2.87%	0.231%	0.66	0.308%	0.031%	-0.098%	-0.010%
Michigan	1.72%	0.229%	0.39	0.321%	-0.030%	-0.080%	0.017%
Pennsylvania	3.77%	0.219%	0.83	0.325%	-0.030%	-0.104%	0.029%
Virginia	1.96%	0.217%	0.43	0.302%	-0.009%	-0.072%	-0.005%
Arizona	1.50%	0.216%	0.32	0.305%	0.033%	-0.090%	-0.033%
Texas	12.32%	0.209%	2.57	0.320%	-0.053%	-0.064%	0.005%
Maryland	1.83%	0.206%	0.38	0.294%	0.016%	-0.066%	-0.038%
Florida	3.98%	0.201%	0.80	0.325%	-0.040%	-0.089%	0.007%
Massachusetts	3.09%	0.190%	0.59	0.312%	-0.031%	-0.084%	-0.007%
Ohio	2.34%	0.184%	0.43	0.315%	-0.004%	-0.100%	-0.026%
New York	12.97%	0.176%	2.28	0.326%	-0.076%	-0.109%	0.034%
Georgia	2.43%	0.165%	0.40	0.312%	0.035%	-0.174%	-0.008%
California	15.60%	0.130%	2.03	0.293%	-0.023%	-0.114%	-0.027%

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.

2025 Year in Review

Table 8 contains the 2025 monthly and annual total returns and their breakdowns.

Table 7

	Total Return	Coupon Return	Mkt Amort Return	Parallel Shift Return	Non-Parallel Shift Return	Sector/Quality Return	Residual Price Return
Year	4.343%	4.415%	-0.686%	2.029%	-1.056%	-0.617%	0.259%
Dec	0.199%	0.373%	-0.060%	-0.043%	-0.072%	-0.099%	0.099%
Nov	0.279%	0.349%	-0.082%	0.091%	-0.071%	-0.056%	0.048%
Oct	1.074%	0.375%	-0.074%	1.221%	-0.695%	0.077%	0.169%
Sep	2.197%	0.358%	-0.028%	1.726%	0.023%	0.141%	-0.024%
Aug	0.852%	0.371%	-0.064%	0.558%	0.198%	-0.218%	0.006%
Jul	-0.173%	0.381%	-0.054%	-0.617%	0.255%	-0.131%	-0.007%
Jun	0.728%	0.357%	-0.022%	0.539%	-0.057%	-0.124%	0.035%
May	-0.085%	0.380%	-0.054%	0.084%	-0.076%	-0.356%	-0.063%
Apr	-0.491%	0.353%	-0.045%	-0.317%	-0.450%	-0.086%	0.054%
Mar	-1.578%	0.394%	-0.099%	-2.380%	0.099%	0.475%	-0.067%
Feb	0.980%	0.324%	-0.048%	0.803%	0.021%	-0.134%	0.013%
Jan	0.326%	0.360%	-0.050%	0.355%	-0.209%	-0.112%	-0.017%

As is often the case, Coupon Return had the largest positive contribution over the course of the year. Parallel Shift Return had the next largest contribution, as the 10-year term of the curve fell about 30 basis points in 2025. However, the curve also steepened substantially with the long end of the curve rising by almost 30 basis points. This resulted in a large and negative Non-Parallel Shift Return. Sector/Quality Return was also negative, due to widening spreads particularly on lower-rated bonds.

CONTACT US

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

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