Municipal Bond Market Performance

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In January 2026, 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.

January got the year off to a good start, as income was bolstered by falling yields on the front half of the yield curve. However, rising yields at the longest terms weighed down returns as the curve continued to steepen. In fact, the spread between the 10-year and 20-year terms of the non-callable curve is now the steepest it's been since early 2009. In state trends, New Jersey bonds saw overall spread tightening, while Michigan, Pennsylvania, and Ohio saw overall widening.

Ultimately, January represented continued momentum in the muni market. The sixth month in a row with a positive return, it brought the index's six-month trailing return to 5.434%.
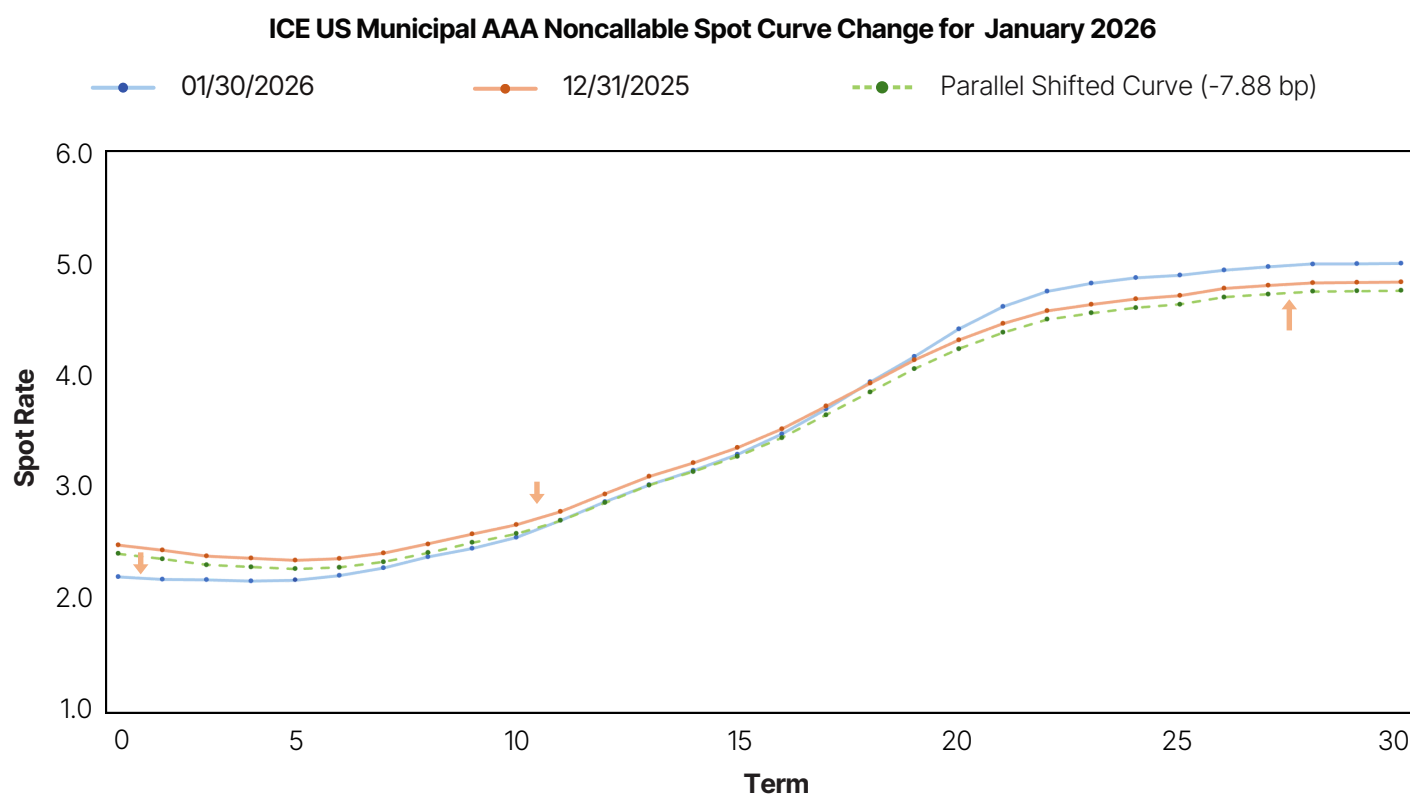
Table 1

	January
Total Return	**0.728%**
Coupon Return	0.362%
Market Amortization Return	-0.077%
Parallel Shift Return	0.488%
Non-Parallel Shift Return	-0.258%
Sector/Quality Return	0.076%
Residual Price Return	0.136%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for January. This curve demonstrated a 7.88 bp decrease in its overall level as measured at the ten-year point.

Figure 1

ICE US Municipal AAA Noncallable Spot Curve Change for January 2026

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

The Parallel Shift Return of 0.488% is calculated from this curve decrease, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate[a]	-7.88
Total Key Rate Duration[b]	6.1911
Parallel Shift Return [-b*a]	**0.488%**

The Non-Parallel Shift Return was -0.258%, 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. Full calculations for this term are shown in Table 3.

Table 3

	6 Mos	1 Yr	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	20 Yrs	30 Yrs
Non-Parallel Change	-19.78	-18.12	-13.35	-12.59	-7.24	-3.60	0.00	23.18	24.17
Key Rate Duration	0.042	0.107	0.209	0.413	0.664	1.016	1.812	1.601	0.327
Non-Parallel Shift Return	**0.008**	**0.019**	**0.028**	**0.052**	**0.048**	**0.037**	**0.000**	**-0.371**	**-0.079**

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 0.076%.

The sectors exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) were Other Utility, Transportation, and State GO. The sectors exhibiting overall widening were Tobacco Settlement, Prefunded/ETM, and IDR / PCR.

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

	AA-rated Local GO	AA-rated Tax-Suported (Excl. GOs)	AA-rated Transportation	A-rated Transportation
Change in Dur-Adj Average OA Spread [a]	-1.552	-1.804	-1.945	-3.069
OA Spread Duration [b]	6.062	6.232	6.240	6.708
Sector/Quality Return [-b*a]	0.094	0.112	0.121	0.206
Market Value Weight% [c]	9.903	7.808	6.698	3.441
Contribution to Duration [b*c]	0.60033	0.48656	0.41793	0.23083
Contribution to Sector/Quality Return [-b*c*a]	**0.00932**	**0.00878**	**0.00813**	**0.00708**

Table 5

	AA-rated IDR/PCR	A-rated IDR/PCR	BBB-rated Education	A-rated Health Care
Change in Dur-Adj Average OA Spread [a]	4.929	1.458	4.179	0.586
OA Spread Duration [b]	5.069	4.973	7.296	6.256
Sector/Quality Return [-b*a]	-0.250	-0.072	-0.305	-0.037
Market Value Weight% [c]	1.493	3.253	0.654	2.812
Contribution to Duration [b*c]	0.07569	0.16175	0.04771	0.17590
Contribution to Sector/Quality Return [-b*c*a]	**-0.00373**	**-0.00236**	**-0.00199**	**-0.00103**

Coupon Return and Other Effects

Coupon Return was 0.362%, based on the index's average coupon of 4.498%. The average beginning-of-month market yield was 3.471%, resulting in a Market Amortization Return of -0.077%. These two terms sum to a total income effect of 0.285%.

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 0.136%, 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 shows the 20 states with the largest contributions to the index's total return sorted by their total return. New Jersey outperformed the rest largely due to tightening spreads in its large Transportation sector. Conversely, Michigan, Pennsylvania, and Ohio underperformed the rest of the market due to widening spreads across most sectors.

Alabama was something of an outlier – it slightly outperformed the overall market despite its large exposure to the widening spreads of the IDR / PCR sector. Alabama's above-average return came from high yields and unusually small exposure to the portion of the curve at 20 years and beyond.

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
New Jersey	2.84%	0.926%	2.63	0.279%	0.418%	0.104%	0.125%
Illinois	3.52%	0.870%	3.06	0.300%	0.384%	0.127%	0.058%
Connecticut	1.38%	0.836%	1.15	0.252%	0.515%	0.080%	-0.010%
Washington	2.90%	0.812%	2.35	0.268%	0.464%	0.069%	0.011%
Alabama	2.11%	0.788%	1.66	0.307%	0.532%	-0.017%	-0.034%
North Carolina	1.53%	0.774%	1.18	0.268%	0.416%	0.072%	0.017%
Massachusetts	3.10%	0.764%	2.37	0.284%	0.323%	0.104%	0.052%
Maryland	1.84%	0.758%	1.39	0.266%	0.395%	0.047%	0.050%
Tennessee	1.34%	0.750%	1.01	0.290%	0.425%	0.054%	-0.019%
Colorado	2.23%	0.748%	1.67	0.291%	0.375%	0.081%	0.001%
California	15.72%	0.743%	11.68	0.270%	0.363%	0.072%	0.037%
Texas	12.34%	0.735%	9.07	0.290%	0.335%	0.054%	0.056%
New York	13.01%	0.725%	9.43	0.296%	0.294%	0.111%	0.024%
Arizona	1.49%	0.712%	1.06	0.277%	0.397%	0.062%	-0.025%
Virginia	1.93%	0.658%	1.27	0.274%	0.369%	0.070%	-0.055%
Georgia	2.45%	0.654%	1.60	0.286%	0.413%	0.023%	-0.066%
Florida	3.97%	0.624%	2.48	0.295%	0.305%	0.086%	-0.062%
Ohio	2.36%	0.604%	1.43	0.286%	0.374%	0.055%	-0.111%
Pennsylvania	3.75%	0.596%	2.24	0.295%	0.346%	0.078%	-0.125%
Michigan	1.70%	0.593%	1.01	0.291%	0.336%	0.080%	-0.115%

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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