Investortools

Municipal Bond Market Performance

February 2026

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In February 2026, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of 1.200%. This total return consists of the components displayed in Table 1.

The municipal yield curve fell in February, pushing yields at the shortest terms to the lowest they have been in three-and-a-half years. This was the primary source of the strong index return for February, reflected in the Parallel Shift Return of 1.054%. Additionally, spread tightening in prepaid gas and other prepaid energy bonds led the IDR / PCR sector to outperform other sectors.

February represents the seventh straight month of positive performance for the index, marking its longest uninterrupted period of monthly gains in nearly seven years. Over this timeframe, the index generated a strong cumulative return of 6.699%.

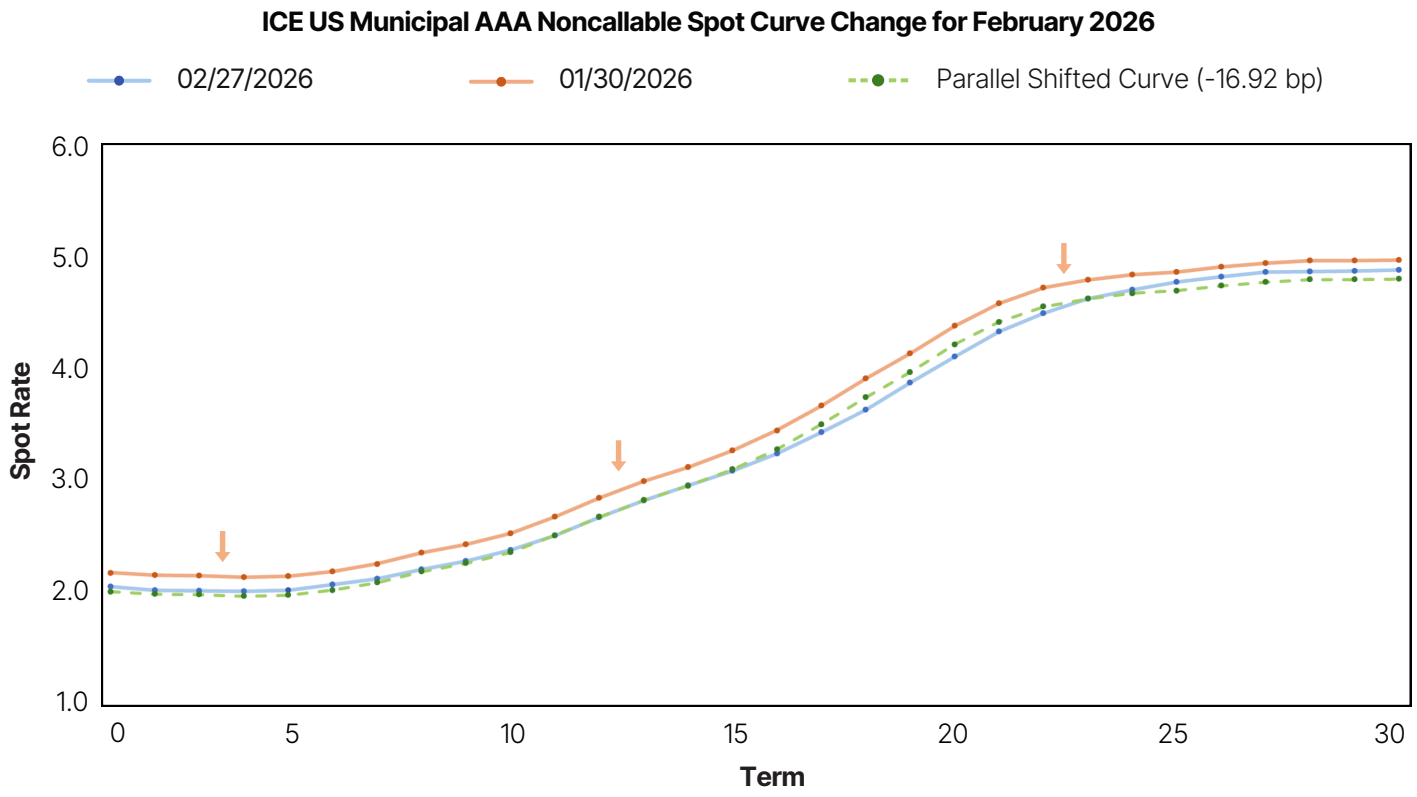
Table 1

	February	YTD
Total Return	**1.200%**	**1.936%**
Coupon Return	0.325%	0.689%
Market Amortization Return	-0.068%	-0.145%
Parallel Shift Return	1.054%	1.549%
Non-Parallel Shift Return	0.032%	-0.225%
Sector/Quality Return	-0.093%	-0.018%
Residual Price Return	-0.050%	0.086%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for February. This curve demonstrated a 16.92 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 1.054% is calculated from this curve decrease, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate[(a)]	-16.92
Total Key Rate Duration[(b)]	6.2287
Parallel Shift Return[(-b*a)]	**1.054%**

The Non-Parallel Shift Return was 0.032%. The curve decreased the most around the 20-year term, but by and large the shape of the curve remained the same. 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	4.12	3.15	3.28	4.09	5.22	2.23	0.00	-8.42	6.19
Key Rate Duration	0.043	0.105	0.207	0.412	0.665	1.012	1.804	1.650	0.332
Non-Parallel Shift Return	**-0.002**	**-0.003**	**-0.007**	**-0.017**	**-0.035**	**-0.023**	**0.000**	**0.139**	**-0.021**

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 -0.093%.

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

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	AA-rated IDR/PCR	BBB-rated Housing	A-rated Education
Change in Dur-Adj Average OA Spread [(a)]	-8.498	-11.252	-5.292	-0.889
OA Spread Duration [(b)]	4.952	5.173	7.457	6.409
Sector/Quality Return [(-b*a)]	0.421	0.582	0.395	0.057
Market Value Weight% [(c)]	3.286	1.558	0.153	0.861
Contribution to Duration [(b*c)]	0.16273	0.08057	0.01141	0.05519
Contribution to Sector/Quality Return [(-b*c*a)]	**0.01383**	**0.00907**	**0.00060**	**0.00049**

Table 5

	AAA-rated Local GO	AA-rated Transportation	AA-rated Housing	AAA-rated Local GO
Change in Dur-Adj Average OA Spread [(a)]	2.808	2.404	3.836	1.451
OA Spread Duration [(b)]	6.054	6.296	7.224	6.070
Sector/Quality Return [(-b*a)]	-0.170	-0.151	-0.277	-0.088
Market Value Weight% [(c)]	10.789	6.799	3.581	9.911
Contribution to Duration [(b*c)]	0.65319	0.42804	0.25870	0.60160
Contribution to Sector/Quality Return [(-b*c*a)]	**-0.01834**	**-0.01029**	**-0.00992**	**-0.00873**

Coupon Return and Other Effects

Coupon Return was 0.325%, based on the index's average coupon of 4.501%. The average beginning-of-month market yield was 3.345%, resulting in a Market Amortization Return of -0.068%. These two terms sum to a total income effect of 0.257%.

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

Table 6 shows the 20 states with the largest contributions to the index's total return sorted by their total return. States with longer average durations (such as New York and Massachusetts) tended to outperform in February as they benefited more from decreasing yields. Despite this general tendency, two of the top-performing states had relatively short average durations: Alabama and Georgia.

Alabama had the best Return from Sector/Quality Composition of the states listed below by a large margin. This stems from the fact that more than 60% of its investment-grade bonds' market value was in the market-leading IDR / PCR sector. Additionally, IDR / PCR spreads tightened more in Alabama, led by its prepaid gas / energy bonds, than they did on average nationally. This is reflected in Alabama's strong State-Specific Spread Return. Georgia's outperformance is a very similar story, but its exposure to the IDR / PCR sector is not as large as Alabama's.

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
Alabama	2.14%	1.51%	3.22	0.28%	0.89%	0.23%	0.11%
New York	13.02%	1.38%	18.01	0.27%	1.14%	-0.09%	0.07%
Massachusetts	3.12%	1.30%	4.07	0.26%	1.10%	-0.12%	0.07%
Georgia	2.43%	1.26%	3.05	0.26%	0.88%	0.01%	0.11%
Tennessee	1.40%	1.25%	1.75	0.26%	0.98%	-0.05%	0.06%
Ohio	2.35%	1.22%	2.86	0.26%	1.02%	-0.10%	0.04%
Texas	12.20%	1.20%	14.68	0.26%	1.18%	-0.14%	-0.10%
Florida	3.96%	1.19%	4.72	0.27%	1.05%	-0.12%	-0.01%
California	15.73%	1.19%	18.72	0.24%	1.04%	-0.07%	-0.02%
Colorado	2.24%	1.19%	2.65	0.26%	1.05%	-0.11%	-0.02%
Virginia	1.93%	1.18%	2.28	0.25%	0.94%	-0.12%	0.11%
Pennsylvania	3.82%	1.16%	4.44	0.27%	1.02%	-0.11%	-0.01%
Illinois	3.49%	1.14%	3.98	0.27%	1.01%	-0.12%	-0.02%
New Jersey	2.83%	1.13%	3.20	0.25%	0.96%	-0.11%	0.03%
North Carolina	1.52%	1.12%	1.71	0.24%	0.94%	-0.13%	0.07%
Michigan	1.71%	1.11%	1.90	0.26%	1.05%	-0.11%	-0.09%
Arizona	1.49%	1.09%	1.63	0.25%	0.93%	-0.11%	0.02%
Wisconsin	1.57%	1.06%	1.66	0.27%	1.00%	-0.10%	-0.11%
Washington	2.87%	1.03%	2.97	0.24%	0.91%	-0.13%	0.02%
Maryland	1.84%	1.03%	1.90	0.24%	0.90%	-0.12%	0.02%

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 changes in spread after adjusting for the sector/quality composition of the state's bonds. This captures the extent to which the spread changes for the state's bonds differed from the national averages.

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

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