Investortools

Municipal Bond Market Performance

March 2026

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In March 2026, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of -2.112%. This total return consists of the components displayed in Table 1.

The municipal yield curve rose substantially in March, particularly in the 5- through 15-year portion of the curve. For some of these terms, March yields had the biggest single-month increase since September 2022. This shift in yields was the dominant source of March's poor performance. The effect of rising yields was somewhat dampened by spreads tightening substantially in the Tobacco Settlement sector, and to a lesser degree several other sectors.

Despite March's poor performance, 2026 may not be off to as bad of a start as it seems. The first quarter of 2026 had a better return than the first quarter of all of these recent years: 2020, 2021, 2022, 2024, and 2025. In addition, the short end of the yield curve began showing more steepness in March than it has in years.

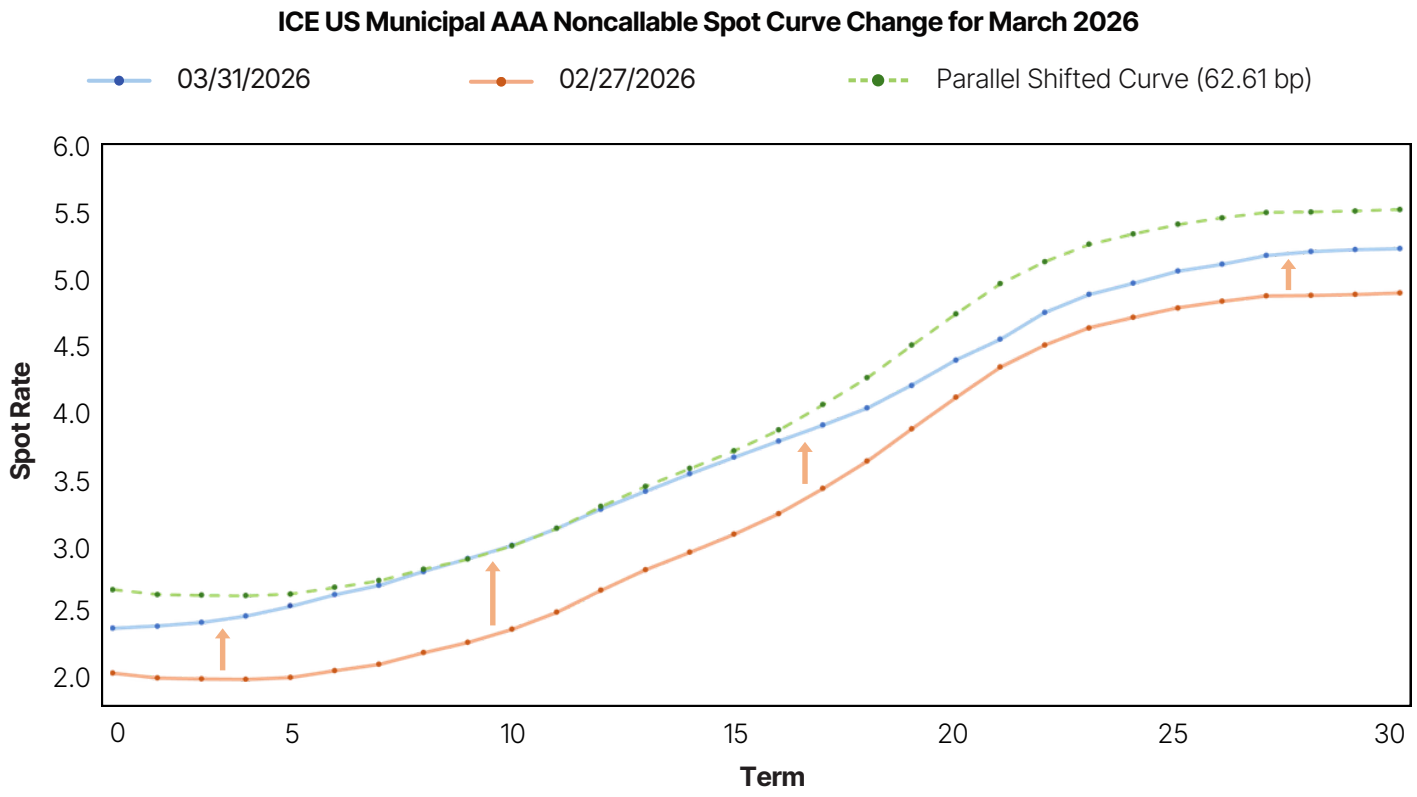
Table 1

	March	YTD
Total Return	**-2.112%**	**-0.217%**
Coupon Return	0.393%	1.090%
Market Amortization Return	-0.115%	-0.263%
Parallel Shift Return	-3.825%	-2.350%
Non-Parallel Shift Return	0.938%	0.731%
Sector/Quality Return	0.572%	0.566%
Residual Price Return	-0.075%	0.009%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for March. This curve demonstrated a 62.61 bp increase 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 -3.825% is calculated from this curve increase, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate[(a)]	62.61
Total Key Rate Duration[(b)]	6.1099
Parallel Shift Return[(-b*a)]	**-3.825%**

The shortest and longest portions of the curve increased much less than the 10-year term, resulting in a strong Non-Parallel Shift Return of 0.938%. This offset part of the negative effects of Parallel Shift Return. See Table 3 for Non-Parallel Shift Return calculations.

Table 3

	6 Mos	1 Yr	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	20 Yrs	30 Yrs
Non-Parallel Change	-26.73	-23.53	-20.56	-15.21	-5.26	-1.82	0.00	-41.83	-26.58
Key Rate Duration	0.043	0.105	0.201	0.421	0.684	1.024	1.737	1.561	0.332
Non-Parallel Shift Return	**0.011**	**0.025**	**0.041**	**0.064**	**0.036**	**0.019**	**0.000**	**0.653**	**0.088**

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 0.572%.

The sectors exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) were Tobacco Settlement, Housing (particularly Single-Family), and Transportation (particularly Airport). The Prerefunded/ETM and IDR/PCR sectors exhibited the least spread change. Spreads on BBB-rated bonds tightened compared to 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

	AA-rated Transportation	AA-rated Insured	AAA-rated Local GO	AA-rated Local GO
Change in Dur-Adj Average OA Spread [(a)]	-13.478	-10.094	-7.146	-6.647
OA Spread Duration [(b)]	6.127	7.108	5.936	5.998
Sector/Quality Return [(-b*a)]	0.826	0.717	0.424	0.399
Market Value Weight% [(c)]	6.885	6.650	10.691	9.911
Contribution to Duration [(b*c)]	0.42189	0.47263	0.63457	0.59449
Contribution to Sector/Quality Return [(-b*c*a)]	**0.05686**	**0.04771**	**0.04534**	**0.03952**

Table 5

	A-rated IDR/PCR	A-rated Insured
Change in Dur-Adj Average OA Spread [(a)]	2.597	1.526
OA Spread Duration [(b)]	4.903	5.302
Sector/Quality Return [(-b*a)]	-0.127	-0.081
Market Value Weight% [(c)]	3.311	0.212
Contribution to Duration [(b*c)]	0.16234	0.01124
Contribution to Sector/Quality Return [(-b*c*a)]	**-0.00422**	**-0.00017**

Coupon Return and Other Effects

Coupon Return was 0.393%, based on the index's average coupon of 4.505%. The average beginning-of-month market yield was 3.173%, resulting in a Market Amortization Return of -0.115%. These two terms sum to a total income effect of 0.278%.

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 shorter average durations generally suffered less than their peers as increasing yields affected them less. Michigan, despite its fairly average duration, also suffered less than many other states. This was largely due to spreads tightening more on average for Michigan bonds than for bonds in most other states.

Alabama's substantial exposure to the IDR / PCR sector continues to make it something of an outlier. While many sectors had spreads tighten substantially in March, the IDR / PCR sector lagged behind, reversing its trend from February. Alabama's performance (led by its gas and energy prepay bonds) was dragged down right along with it.

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
Arizona	1.51%	-1.845%	-2.79	0.268%	-2.721%	0.526%	0.082%
Michigan	1.73%	-1.860%	-3.22	0.284%	-2.905%	0.568%	0.193%
Wisconsin	1.57%	-1.877%	-2.95	0.293%	-2.932%	0.680%	0.082%
Florida	4.00%	-1.928%	-7.71	0.290%	-2.901%	0.651%	0.031%
Pennsylvania	3.79%	-1.941%	-7.36	0.290%	-2.915%	0.631%	0.052%
Washington	2.89%	-1.981%	-5.73	0.258%	-2.772%	0.497%	0.037%
New Jersey	2.81%	-1.987%	-5.58	0.269%	-2.822%	0.638%	-0.072%
Illinois	3.53%	-1.992%	-7.03	0.292%	-2.934%	0.588%	0.062%
Georgia	2.42%	-2.009%	-4.86	0.274%	-2.662%	0.489%	-0.111%
Maryland	1.85%	-2.024%	-3.74	0.260%	-2.699%	0.516%	-0.102%
Colorado	2.27%	-2.031%	-4.61	0.283%	-2.987%	0.595%	0.078%
Tennessee	1.42%	-2.098%	-2.98	0.282%	-2.945%	0.549%	0.015%
Ohio	2.36%	-2.099%	-4.95	0.281%	-2.931%	0.590%	-0.040%
Massachusetts	3.12%	-2.137%	-6.67	0.276%	-3.109%	0.566%	0.130%
New York	12.94%	-2.153%	-27.86	0.289%	-3.172%	0.686%	0.045%
Virginia	1.92%	-2.170%	-4.17	0.268%	-2.828%	0.566%	-0.176%
North Carolina	1.51%	-2.173%	-3.28	0.259%	-2.786%	0.556%	-0.202%
California	15.75%	-2.225%	-35.04	0.262%	-2.923%	0.501%	-0.067%
Texas	12.11%	-2.341%	-28.35	0.286%	-3.205%	0.554%	0.025%
Alabama	2.17%	-2.433%	-5.28	0.296%	-2.903%	0.301%	-0.128%

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.

CONTACT US

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

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