Investortools

Municipal Bond Market Performance

May 2026

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In May 2026, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of 0.400%. This total return consists of the components displayed in Table 1.

Yields rose sharply in mid-May with the 30-year Treasury yield eventually reaching levels not seen since 2007. However, the municipal yield curve finished the month declining back to approximately where it had begun. Since overall yield curve change ended up being negligible, May's performance was dominated by Coupon Return. IDR/PCR bonds and BBB-rated Transportation bonds performed especially well due to tightening spreads. Gas & energy prepay bond spreads also tightened overall this month, continuing their trend of notable spread movements over the past several months.

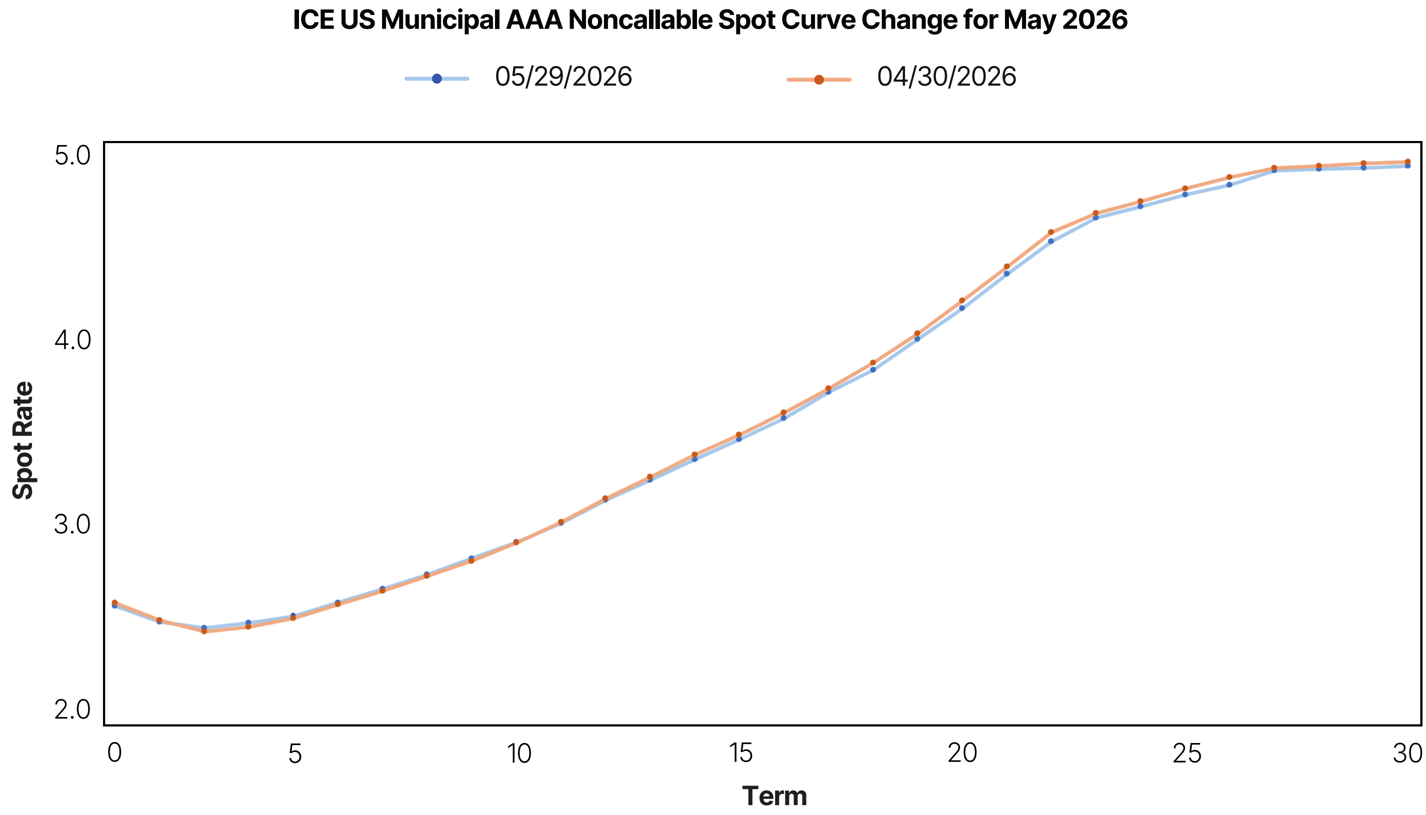
Table 1

	May	YTD
Total Return	**0.400%**	**1.230%**
Coupon Return	0.376%	1.823%
Market Amortization Return	-0.093%	-0.411%
Parallel Shift Return	0.040%	-1.495%
Non-Parallel Shift Return	0.008%	0.697%
Sector/Quality Return	0.015%	0.492%
Residual Price Return	0.055%	0.125%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for May. This curve demonstrated a 0.65 bp decrease in its overall level as measured at the ten-year point.

Figure 1



The Parallel Shift Return of 0.040% is calculated from this curve decrease, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate[a]	-0.65
Total Key Rate Duration[b]	6.1307
Parallel Shift Return[-b*a]	**0.040%**

The Non-Parallel Shift Return was only 0.008%, due to the shape of the yield curve largely remaining unchanged. 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	-0.99	-0.19	2.71	2.96	1.77	1.54	0.00	-3.27	-1.32
Key Rate Duration	0.040	0.103	0.199	0.401	0.678	1.097	1.799	1.501	0.314
Non-Parallel Shift Return	**0.000**	**0.000**	**-0.005**	**-0.012**	**-0.012**	**-0.017**	**0.000**	**0.049**	**0.004**

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 0.015%.

The sector exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) was IDR/PCR. The sector exhibiting the largest overall widening was Resource Recovery. Spreads for A-rated and BBB-rated groupings tightened slightly.

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 Transportation	BBB-rated IDR/PCR
Change in Dur-Adj Average OA Spread (a)	-4.192	-5.511	-6.871	-5.363
OA Spread Duration (b)	4.867	5.045	8.134	6.367
Sector/Quality Return (-b*a)	0.204	0.278	0.559	0.341
Market Value Weight% (c)	3.401	1.613	0.580	0.927
Contribution to Duration (b*c)	0.16552	0.08137	0.04717	0.05901
Contribution to Sector/Quality Return (-b*c*a)	**0.00694**	**0.00448**	**0.00324**	**0.00316**

Table 5

	AA-rated Water/Sewer	AAA-rated Tax-Supported (Excl. GOs)	AA-rated Tax-Supported (Excl. GOs)	AA-rated Transportation
Change in Dur-Adj Average OA Spread (a)	1.312	1.532	0.475	0.507
OA Spread Duration (b)	6.527	6.432	6.100	6.123
Sector/Quality Return (-b*a)	-0.086	-0.099	-0.029	-0.031
Market Value Weight% (c)	4.320	3.534	7.657	6.744
Contribution to Duration (b*c)	0.28198	0.22727	0.46713	0.41291
Contribution to Sector/Quality Return (-b*c*a)	**-0.00370**	**-0.00348**	**-0.00222**	**-0.00209**

Coupon Return and Other Effects

Coupon Return was 0.376%, based on the index's average coupon of 4.516%. The average beginning-of-month market yield was 3.557%, resulting in a Market Amortization Return of -0.093%. These two terms sum to a total income effect of 0.283%.

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. With curve change not being a substantial factor in May, states that outperformed largely did so due to tightening spreads. For instance, Alabama's outperformance was due to the tightening spreads of its IDR/PCR bonds. The IDR/PCR sector had spreads tighten overall across the nation, but the tightening was even more pronounced in Alabama. Similarly, Wisconsin's outperformance was due to the tightening spreads of BBB-rated Transportation bonds. Conversely, spreads widened overall for Transportation bonds in New Jersey, contributing to its underperformance.

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	2.28%	0.605%	1.38	0.308%	0.051%	0.160%	0.086%
Wisconsin	1.49%	0.501%	0.75	0.297%	0.087%	0.107%	0.011%
Georgia	2.40%	0.470%	1.13	0.279%	0.070%	0.049%	0.072%
North Carolina	1.52%	0.440%	0.67	0.269%	0.084%	-0.005%	0.092%
Maryland	1.83%	0.437%	0.80	0.268%	0.080%	0.011%	0.077%
California	15.81%	0.426%	6.74	0.272%	0.108%	0.022%	0.024%
Tennessee	1.45%	0.419%	0.61	0.285%	0.085%	0.045%	0.005%
Illinois	3.50%	0.418%	1.46	0.295%	0.094%	0.014%	0.015%
Colorado	2.24%	0.406%	0.91	0.286%	0.110%	0.003%	0.007%
Florida	3.99%	0.401%	1.60	0.291%	0.107%	-0.002%	0.005%
Ohio	2.37%	0.394%	0.93	0.284%	0.097%	0.019%	-0.006%
Michigan	1.67%	0.388%	0.65	0.288%	0.136%	0.001%	-0.037%
Massachusetts	3.15%	0.385%	1.21	0.278%	0.109%	0.024%	-0.025%
New York	12.90%	0.380%	4.90	0.290%	0.131%	-0.008%	-0.033%
Virginia	1.90%	0.379%	0.72	0.273%	0.089%	0.009%	0.009%
Texas	12.14%	0.378%	4.59	0.289%	0.118%	-0.009%	-0.020%
Arizona	1.57%	0.378%	0.59	0.272%	0.081%	0.013%	0.013%
Pennsylvania	3.82%	0.372%	1.42	0.291%	0.099%	0.034%	-0.053%
Washington	2.87%	0.339%	0.97	0.266%	0.074%	0.006%	-0.007%
New Jersey	2.81%	0.306%	0.86	0.274%	0.080%	0.013%	-0.061%

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.

Appendix: Parallel and Non-Parallel Shift Return

Index constituents associated with credits in Tables 7 and 8 experienced substantial overall change in average OA spread (weighted by the constituents' market value in the index) in May. Credits in Table 7 experienced overall spread tightening, while credits in Table 8 widened.

Table 7

Credit Name	OA Spread Change (bp)	Index Mkt Value ($mil)	Index Bond Count
New Orleans, LA	-17	561	65
Rhode Island Student Loan Authority - 2018 Indenture	-14	352	39
Broward County Aviation Department : Fort Lauderdale - Hollywood International Airport	-14	1,235	59
King County Housing Authority	-12	623	47
Pennsylvania State System of Higher Education	-12	560	107
Municipal Electric Authority of Georgia - Plant Vogtle Units 3 & 4 Project J	-11	1,274	48
Suffolk University	-10	460	33

Table 8

Credit Name	OA Spread Change (bp)	Index Mkt Value ($mil)	Index Bond Count
San Diego Water Utility Fund	10	1,203	92
District of Columbia	10	6,717	231
Montgomery Independent School District	10	469	49
Indiana University Health Inc & Subs	10	2,507	37
New Mexico Finance Authority Public Project Revolving Fund	10	1,439	325
Florida	11	6,078	596
Cambridge, MA	12	734	115
Los Angeles Sewer Construction & Maintenance Fund	18	2,273	87
Pennsylvania Turnpike Commission : Mainline	20	13,486	628
Los Angeles County Metropolitan Transportation Authority Measure R Sales Tax Bonds	33	3,687	90

These credit names were selected by the size of the OA spread change, the dollar impact of that change, and number of associated bonds in the index.

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All table data and figures in this report were produced using Investortools, Inc.'s Custom Index Manager™ product. Credit name information is provided by CreditScope®.

To learn more, visit www.investortools.com or contact our team at sales@invtools.com.

