Investortools

Municipal Bond Market Performance

July 2026

Joel A. Buursma, CIPM
Vice President, Senior Software Architect

Mark Pinson
Index Production and Analysis

Overview

In July 2026, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of -1.661%. This total return consists of the components displayed in Table 1.

Yields increased in July for all but the shortest terms, wiping out most of the index's gains so far this year. The treasury curve steepened, with long-term yields hitting highs not seen in 19 years. The municipal curve also changed shape, but unlike the treasury curve it increased especially in the 10-year through 18-year range. Tightening spreads on lower-rated securities partially offset the effect of increasing yields. Illinois's State GO bonds and the entire Tobacco Settlement sector were a couple portions of the index that particularly benefited from this effect.

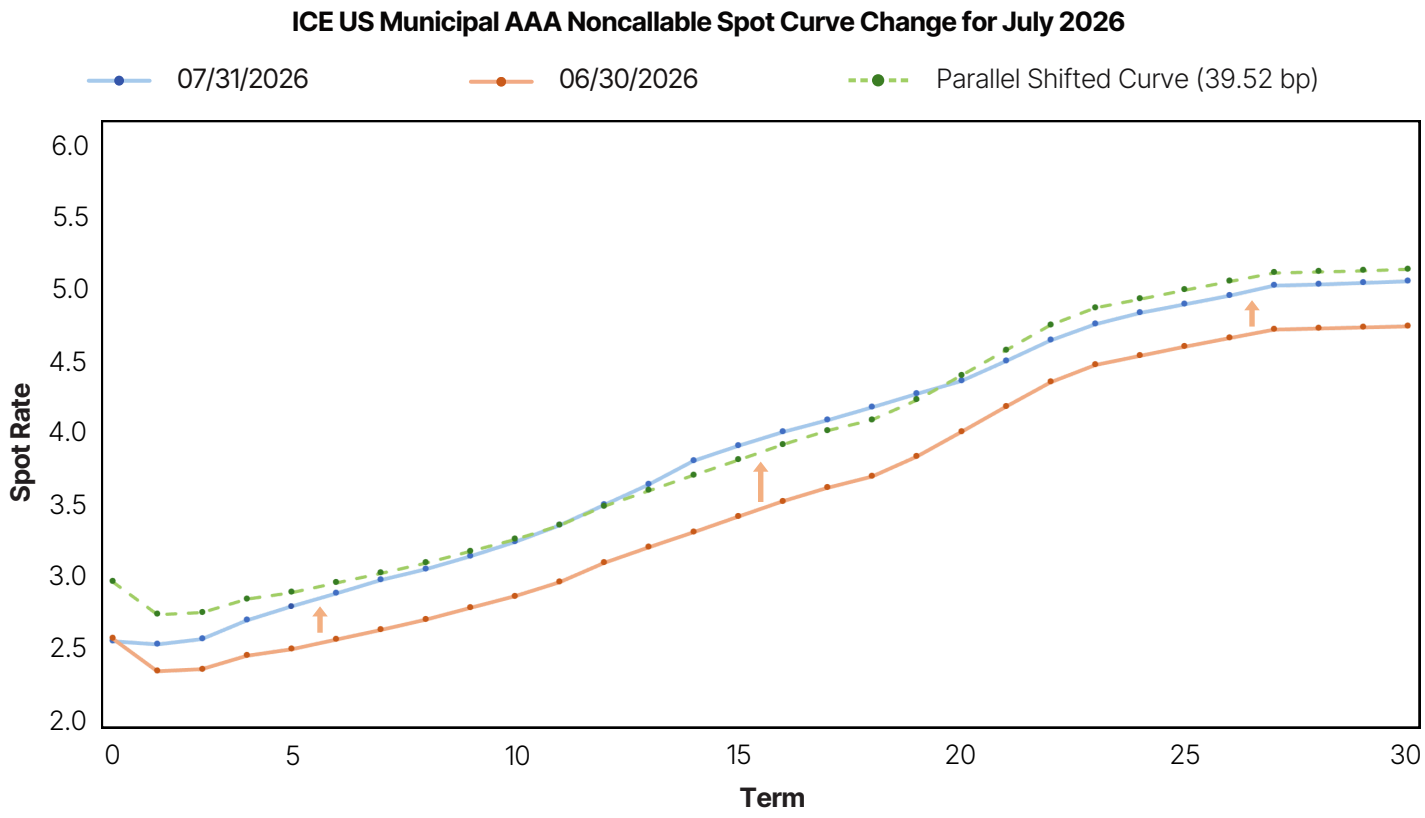
Table 1

	July	YTD
Total Return	**-1.661%**	**0.249%**
Coupon Return	0.375%	2.562%
Market Amortization Return	-0.078%	-0.533%
Parallel Shift Return	-2.404%	-3.638%
Non-Parallel Shift Return	0.364%	1.273%
Sector/Quality Return	0.200%	0.649%
Residual Price Return	-0.117%	-0.064%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for July. This curve demonstrated a 39.52 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 -2.404% is calculated from this curve increase, as shown in Table 2. (Note: this value is slightly higher than the -2.405% shown in Table 2 because the actual calculation uses a Parallel Shift Return of 0% for constituents very close to maturity.)

Table 2

Change for 10-Year Spot Rate [a]	39.52
Total Key Rate Duration [b]	6.0845
Parallel Shift Return [-b*a]	**-2.405%**

The Non-Parallel Shift Return was 0.364%, due to most of the curve increasing less than the 10-year term. 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	-34.48	-20.68	-18.34	-14.61	-7.29	-4.49	0.00	-7.73	-8.04
Key Rate Duration	0.037	0.102	0.195	0.407	0.697	1.136	1.797	1.419	0.295
Non-Parallel Shift Return	**0.013**	**0.021**	**0.036**	**0.059**	**0.051**	**0.051**	**0.000**	**0.110**	**0.024**

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 0.200%.

The sectors exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) were Tobacco Settlement, Resource Recovery, Housing, and Transportation. The Prerefunded/ETM sector exhibited overall widening in average option-adjusted spread. BBB-rated bonds tightened several basis points on average compared to higher-rated groupings.

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 Transporation	AA-rated Insured	AA-rated Tax-Supported (Excl. GOs)	AA-rated Housing
Change in Dur-Adj Average OA Spread [(a)]	-5.702	-4.095	-3.746	-5.727
OA Spread Duration [(b)]	6.027	7.040	5.966	7.007
Sector/Quality Return [(-b*a)]	0.344	0.288	0.224	0.401
Market Value Weight% [(c)]	6.658	6.620	7.594	3.722
Contribution to Duration [(b*c)]	0.40122	0.46606	0.45308	0.26084
Contribution to Sector/Quality Return [(-b*c*a)]	**0.02288**	**0.01908**	**0.01697**	**0.01494**

Table 5

	A-rated Local GO	A-rated Housing	AA-rated Prerefunded/ ETM	Sub B-rated Prerefunded/ ETM
Change in Dur-Adj Average OA Spread [a]	2.267	2.577	1.407	1.821
OA Spread Duration [b]	4.939	6.828	1.204	1.796
Sector/Quality Return [-b*a]	-0.112	-0.176	-0.017	-0.033
Market Value Weight% [c]	0.377	0.132	0.806	0.326
Contribution to Duration [b*c]	0.01860	0.00904	0.00970	0.00585
Contribution to Sector/Quality Return [-b*c*a]	**-0.00042**	**-0.00023**	**-0.00014**	**-0.00011**

Coupon Return and Other Effects

Coupon Return was 0.375%, based on the index's average coupon of 4.529%. The average beginning-of-month market yield was 3.491%, resulting in a Market Amortization Return of -0.078%. These two terms sum to a total income effect of 0.296%.

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 -0.117%, reflecting the positive effects of rolling down the yield curve as well as the more substantial effects of convexity (in this month with significant yield curve movement).

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 durations generally underperformed states with shorter durations, as they were hurt more by the increasing yields. For instance, Texas, New York, and Massachusetts have the three highest total key rate duration (KRD) of all the states in the table, which is reflected in their more negative "Return from Curve Change/Convexity" values as well as Total Return.

Illinois, as compared to Tennessee, is an interesting exception. The two states' index bonds have nearly identical average duration and suffered equally from the increasing yields. However, Illinois substantially outperformed Tennessee. Illinois bonds, with their lower average rating, saw spreads tighten compared to Tennessee bonds, boosting the state's performance. This was observed most of all in the State GO sector, where Illinois has the lowest ratings of any state.

Michigan is another exception. It outperformed many states with a shorter average duration largely due to tightening spreads in its large Local GO sector.

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	2.41%	-1.318%	-3.18	0.324%	-1.913%	0.215%	0.054%
Illinois	3.48%	-1.422%	-4.95	0.310%	-2.083%	0.281%	0.069%
Washington	2.94%	-1.453%	-4.27	0.281%	-1.939%	0.140%	0.065%
Arizona	1.51%	-1.528%	-2.31	0.287%	-1.997%	0.198%	-0.016%
Georgia	2.41%	-1.534%	-3.7	0.294%	-1.884%	0.200%	-0.144%
Wisconsin	1.46%	-1.554%	-2.27	0.310%	-2.198%	0.328%	0.007%
New Jersey	2.70%	-1.566%	-4.23	0.288%	-1.987%	0.212%	-0.078%
Colorado	2.21%	-1.593%	-3.52	0.300%	-2.162%	0.189%	0.080%
Florida	3.98%	-1.602%	-6.38	0.306%	-2.186%	0.241%	0.039%
Ohio	2.37%	-1.617%	-3.83	0.298%	-2.126%	0.190%	0.021%
Pennsylvania	3.79%	-1.619%	-6.14	0.302%	-2.157%	0.222%	0.013%
Tennessee	1.41%	-1.624%	-2.29	0.300%	-2.093%	0.186%	-0.018%
Michigan	1.67%	-1.632%	-2.73	0.302%	-2.259%	0.200%	0.126%
California	15.83%	-1.643%	-26.01	0.283%	-2.113%	0.181%	0.006%
Maryland	1.83%	-1.650%	-3.02	0.282%	-1.938%	0.127%	-0.121%
Virginia	1.93%	-1.701%	-3.28	0.287%	-2.037%	0.201%	-0.152%
North Carolina	1.54%	-1.728%	-2.66	0.282%	-2.083%	0.183%	-0.111%
New York	12.73%	-1.774%	-22.58	0.303%	-2.345%	0.257%	0.012%
Massachusetts	3.19%	-1.794%	-5.72	0.293%	-2.318%	0.197%	0.034%
Texas	12.26%	-1.946%	-23.86	0.304%	-2.354%	0.115%	-0.011%

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: Highlighted Credit Names

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 June. Credits in Table 7 experienced overall spread tightening, while credits in Table 8 widened. Most of the credits in Table 7 belong to the Single-Family Housing sector.

Table 7

Credit Name	OA Spread Change (bp)	Index Mkt Value ($mil)	Index Bond Count
Santa Clara Unified School District	-53.7	1560	90
Oklahoma Housing Finance Agency	-21.7	899	77
Texas Department of Housing & Community Affairs	-20.0	2094	78
Missouri Housing Development Commission	-19.8	2441	150
Illinois Housing Development Authority	-19.5	2372	146
Minnesota Housing Finance Agency	-18.6	2060	152
Illinois State Toll Highway Authority	-18.2	6984	127
Utah Housing Corporation	-17.1	832	73
Hillsborough County Aviation Authority	-17.0	1314	78
South Dakota Housing Development Authority	-16.9	1440	86

Table 8

Credit Name	OA Spread Change (bp)	Index Mkt Value ($mil)	Index Bond Count
Elk Grove Unified School District	28.3	612	72
Fresno Unified School District	25.8	557	85
Bexar County	19.6	1280	148
New York State Housing Finance Agency	19.2	6342	477
White Bear Lake Independent School District #624	19.2	385	58
Massachusetts Housing Finance Agency	17.6	2317	217
Dublin Unified School District	16.7	689	105
Hillsborough County Water Enterprise Fund	16.0	412	66
University of Alabama	14.1	887	84
New York City Housing Development Corporation	13.5	9549	544

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