Investortools

Municipal Bond Market Performance

August 2026

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Overview

In August 2026, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of -0.083%. This total return consists of the components displayed in Table 1.

Municipal yields steepened slightly in August. Long-term yields increased, while short- and intermediate-term yields decreased slightly. As a result, securities with shorter durations strongly outperformed securities with longer durations. Spreads tightened overall for Tobacco Settlement bonds but widened for State GOs and Municipal Utility District bonds. Arkansas bonds performed poorly overall due to longer durations and widening spreads in the state's IDR/PCR sector.

The force of income helped keep 2026's overall return in the black despite yields surging upwards over the course of the year for many terms.

Table 1

	August	YTD
Total Return	**-0.083%**	**0.165%**
Coupon Return	0.371%	2.934%
Market Amortization Return	-0.047%	-0.579%
Parallel Shift Return	-0.290%	-3.929%
Non-Parallel Shift Return	0.108%	1.381%
Sector/Quality Return	-0.086%	0.563%
Residual Price Return	-0.139%	-0.203%

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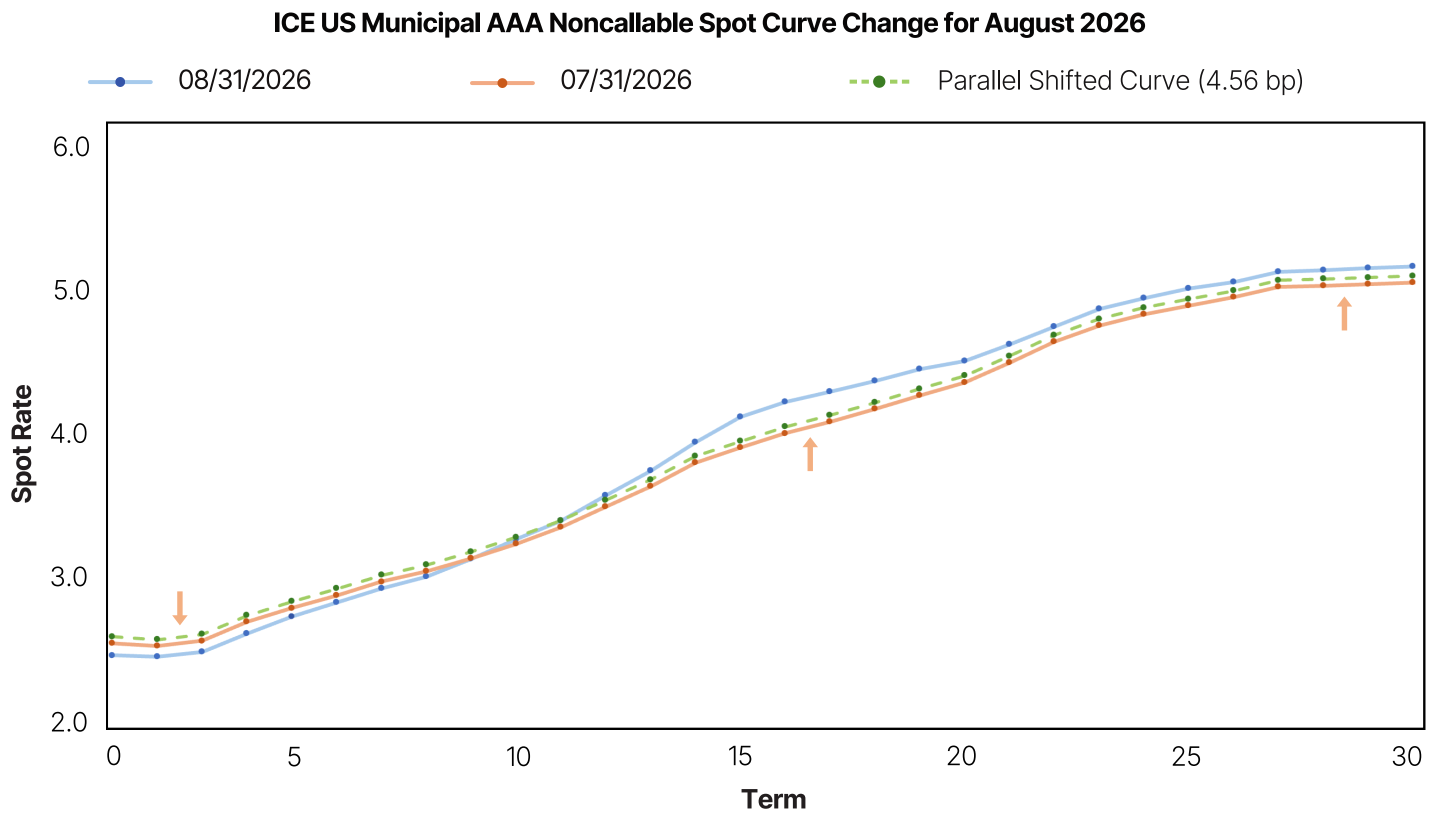
Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for August. This curve demonstrated a 4.56 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 -0.290% is calculated from this curve increase, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate (a)	4.56
Total Key Rate Duration (b)	6.3532
Parallel Shift Return (-b*a)	**-0.290%**

The Non-Parallel Shift Return was 0.108%, partially offsetting the negative Parallel Shift Return. Non-Parallel Shift Return was largely driven by the curve decreasing at the shorter end of the curve. 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	-14.25	-11.89	-12.21	-12.51	-9.70	-8.35	0.00	8.16	6.86
Key Rate Duration	0.034	0.100	0.190	0.414	0.714	1.110	1.953	1.534	0.304
Non-Parallel Shift Return	**0.005**	**0.012**	**0.023**	**0.052**	**0.069**	**0.093**	**0.000**	**-0.125**	**-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 -0.086%.

The sectors exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) were Tobacco Settlement, Prerefunded/ETM, and Housing. The sectors exhibiting the largest overall widening were State GO, Tax-Supported (Excl. GOs), and Resource Recovery.

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 Health Care	AAA-rated Housing	BBB-rated Transportation	A-rated Education
Change in Dur-Adj Average OA Spread (a)	-1.462	-2.399	-1.969	-0.771
OA Spread Duration (b)	6.529	8.673	8.213	6.793
Sector/Quality Return (-b*a)	0.095	0.208	0.162	0.052
Market Value Weight% (c)	2.988	0.869	0.570	0.880
Contribution to Duration (b*c)	0.19511	0.07535	0.04679	0.05976
Contribution to Sector/Quality Return (-b*c*a)	**0.00285**	**0.00181**	**0.00092**	**0.00046**

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Table 5

	AA-rated Local GO	AA-rated Tax-Supported (Excl. GOs)	AA-rated Insured	AAA-rated Tax-Supported (Excl. GOs)
Change in Dur-Adj Average OA Spread (a)	2.283	1.884	1.836	3.631
OA Spread Duration (b)	6.467	6.240	7.396	6.724
Sector/Quality Return (-b*a)	-0.148	-0.118	-0.136	-0.244
Market Value Weight% (c)	9.858	7.691	6.606	3.572
Contribution to Duration (b*c)	0.63753	0.47992	0.48858	0.24014
Contribution to Sector/Quality Return (-b*c*a)	**-0.01456**	**-0.00904**	**-0.00897**	**-0.00872**

Coupon Return and Other Effects

Coupon Return was 0.371%, based on the index's average coupon of 4.532%. The average beginning-of-month market yield was 3.821%, resulting in a Market Amortization Return of -0.047%. These two terms sum to a total income effect of 0.325%.

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 -0.139%, 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.

Alabama, Connecticut, Georgia, and New Jersey delivered positive returns while the other states in the table were in the red. The four states with positive returns have a relatively short average duration and so were hurt the least by curve change. Conversely, Arkansas has a particularly long average duration and so suffered from the increasing long-term yields. Widening spreads in Arkansas's IDR/PCR sector also hurt the state considerably (captured by State-Specific Spread Return).

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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	2.47%	0.250%	0.62	0.348%	-0.060%	-0.046%	0.007%
Connecticut	1.43%	0.121%	0.17	0.296%	-0.166%	-0.068%	0.059%
Georgia	2.41%	0.086%	0.21	0.322%	-0.199%	-0.053%	0.015%
New Jersey	2.74%	0.043%	0.12	0.316%	-0.264%	-0.051%	0.041%
Illinois	3.46%	-0.047%	-0.16	0.335%	-0.313%	-0.081%	0.011%
Washington	2.87%	-0.063%	-0.18	0.310%	-0.246%	-0.085%	-0.042%
Pennsylvania	3.76%	-0.064%	-0.24	0.333%	-0.333%	-0.068%	0.003%
California	15.69%	-0.076%	-1.19	0.311%	-0.312%	-0.102%	0.027%
Arizona	1.50%	-0.079%	-0.12	0.314%	-0.287%	-0.074%	-0.032%
South Carolina	1.16%	-0.084%	-0.10	0.333%	-0.353%	-0.052%	-0.012%
District of Columbia	1.09%	-0.093%	-0.10	0.322%	-0.317%	-0.125%	0.028%
Oregon	1.20%	-0.104%	-0.12	0.319%	-0.346%	-0.121%	0.044%
Massachusetts	3.20%	-0.111%	-0.36	0.323%	-0.388%	-0.137%	0.092%
Virginia	1.91%	-0.112%	-0.21	0.314%	-0.303%	-0.061%	-0.062%
Michigan	1.69%	-0.115%	-0.19	0.329%	-0.358%	-0.088%	0.003%
Colorado	2.20%	-0.135%	-0.30	0.327%	-0.358%	-0.069%	-0.035%
Texas	12.21%	-0.144%	-1.76	0.333%	-0.376%	-0.084%	-0.018%
Florida	3.98%	-0.184%	-0.73	0.332%	-0.365%	-0.077%	-0.074%
New York	12.81%	-0.226%	-2.90	0.331%	-0.411%	-0.129%	-0.019%
Arkansas	0.32%	-0.394%	-0.13	0.355%	-0.492%	-0.112%	-0.145%

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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 August. Credits in Table 7 experienced overall spread tightening, while credits in Table 8 widened. Like last month, Table 7 contains several housing-related credits.

Table 7

Credit Name	OA Spread Change (bp)	Index Mkt Value ($mil)	Index Bond Count
Denver City & County School District #1 : Denver Public Schools	-13.4	2197	80
Utah Housing Corporation : Tax-Exempt Mortgage-backed Securities	-10.2	795	72
Bexar County	-9.0	1247	148
Minnesota Housing Finance Agency	-7.2	2046	153
South Dakota Housing Development Authority: Homeownership Mortgage Bonds 1977 Resolution	-7.2	1416	86
Salt Lake City International Airport	-6.7	3832	135
New Jersey	-6.7	7979	297
Metro Pier & Exposition Auth McCormick Place Expansion Project Bonds	-6.4	4721	78
Illinois Housing Development Authority: Mortgage Loan Program 2016 Indenture	-6.3	2301	146
San Antonio City Public Service	-5.8	7692	281

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Table 8

Credit Name	OA Spread Change (bp)	Index Mkt Value ($mil)	Index Bond Count
University of Rochester & Related Entities	14.5	1063	65
University of Houston System	9.7	1249	94
California	9.5	62129	1308
Illinois State Toll Highway Authority	7.2	6762	127
Florida's Turnpike System	6.3	3844	420
San Antonio	6.0	2510	282
Miami-Dade Water & Sewer Department	5.8	3896	125
Texas State University System	5.6	1577	84
Los Angeles International Airport	5.0	11904	567

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.

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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®.

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