

Municipal Bond Market Performance

September 2026



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Overview

In September 2026, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of -3.867%. This total return consists of the components displayed in Table 1.

Municipal yields marched upwards all month long, significantly outpacing the increase in Treasury yields (which started the month fairly flat). Short-term municipal yields increased by almost 100 basis points – the largest single-month increase in the 23-year history of the ICE US Municipal AAA Noncallable yield curve. The impact of these increases on the index is captured primarily by the Parallel Shift Return shown below. Year-to-date returns were pushed substantially into the red.

Amid the red ink, some bright spots included tightening spreads in Tobacco Settlement bonds and higher-rated Tax-Supported bonds. State GOs for Washington, Massachusetts, New York, and Illinois also saw overall tightening spreads, as well as Texas Local GOs. Additionally, as the long end of the municipal curve topped 5% for the first time since the 2008 financial crisis, new buyers were presented with entry points not seen in almost eighteen years.

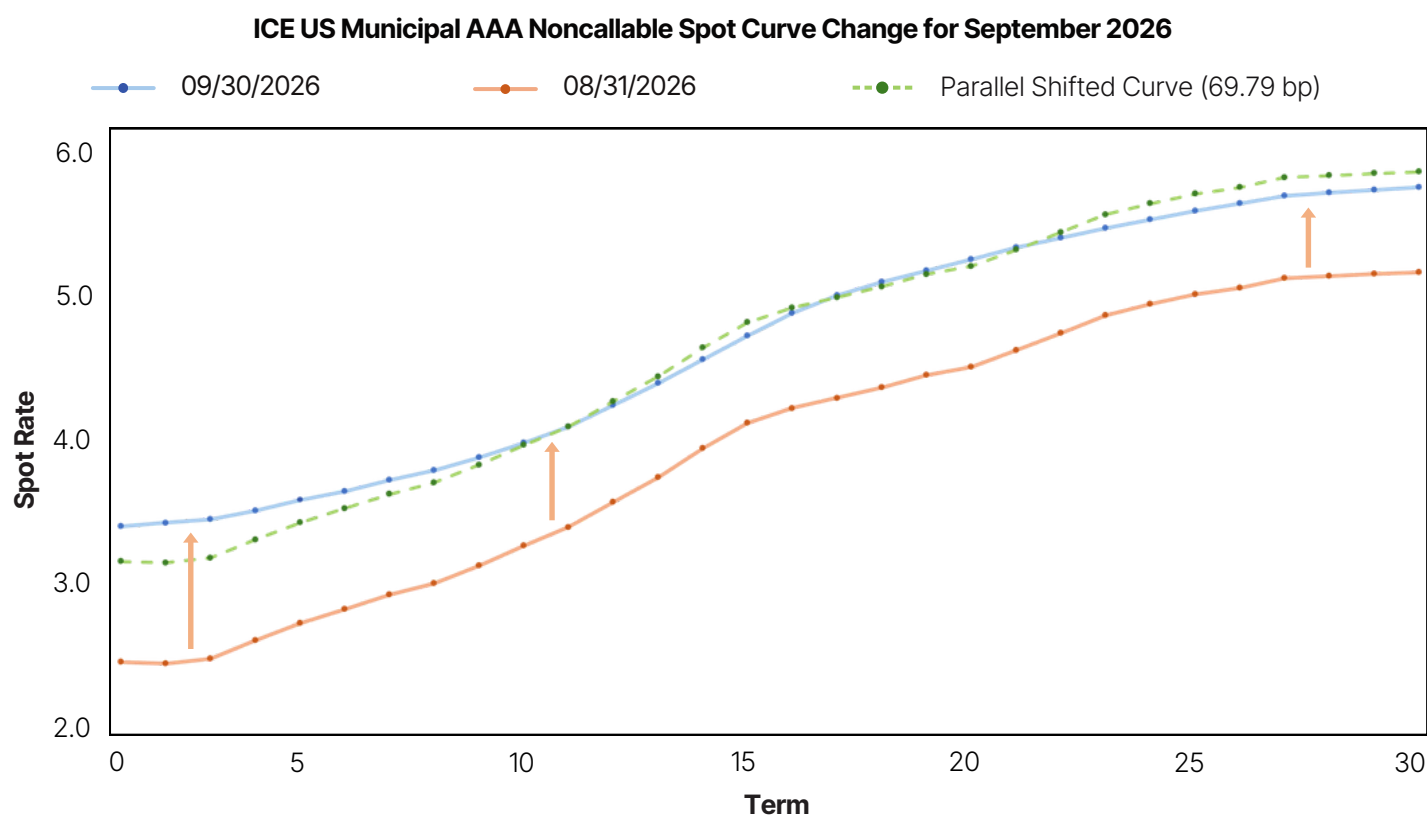
Table 1

	September	YTD
Total Return	-3.867%	-3.708%
Coupon Return	0.361%	3.295%
Market Amortization Return	-0.043%	-0.623%
Parallel Shift Return	-4.511%	-8.447%
Non-Parallel Shift Return	-0.339%	1.040%
Sector/Quality Return	0.433%	0.997%
Residual Price Return	0.232%	0.029%

Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for September. This curve demonstrated a 69.79 bp increase in its overall level as measured at the ten-year point.

Figure 1



Note: The green dotted line depicts the parallel shift implied by the ten-year point's spot curve change.

The Parallel Shift Return of -4.511% is calculated from this curve increase, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate ^(a)	69.79
Total Key Rate Duration ^(b)	6.4631
Parallel Shift Return ^(-b*a)	-4.511%

The Non-Parallel Shift Return was -0.339%. The curve flattened slightly, as shorter-term yields increased more than longer-term yields. The Non-Parallel Shift Return captures the impact of these additional increases at shorter maturities. 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	27.49	27.76	26.86	20.06	11.88	8.61	0.00	1.67	-10.52
Key Rate Duration	0.034	0.099	0.188	0.409	0.702	1.072	2.029	1.622	0.309
Non-Parallel Shift Return	-0.009	-0.027	-0.050	-0.082	-0.083	-0.092	0.000	-0.027	0.033

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 0.433%.

The sectors exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) were Tobacco Settlement, Public Power, and Resource Recovery. The Prerefunded/ETM sector exhibited overall widening in average option-adjusted spread.

The sector/quality categories with the largest positive contributions to Sector/Quality Return, considering both weightings and the groupings' own sector/quality returns, are listed in Table 4. The largest negative contributors are listed in Table 5.

Table 4

	AA-rated Transportation	AA-rated Tax- Supported (Excl. GOs)	AAA-rated Tax- Supported (Excl. GOs)	AA-rated Local GO
Change in Dur-Adj Average OA Spread ^(a)	-9.678	-7.685	-14.522	-5.306
OA Spread Duration ^(b)	6.460	6.362	6.878	6.573
Sector/Quality Return ^(-b*a)	0.625	0.489	0.999	0.349
Market Value Weight% ^(c)	6.767	7.700	3.592	9.838
Contribution to Duration ^(b*c)	0.43717	0.48983	0.24704	0.64670
Contribution to Sector/Quality Return ^(-b*c*a)	0.04231	0.03764	0.03587	0.03431

Table 5

	A-rated Housing	A-rated Local GO	A-rated Tax-Supported (Excl. GOs)	AA-rated Prerefunded/ETM
Change in Dur-Adj Average OA Spread ^(a)	13.705	3.475	0.971	4.375
OA Spread Duration ^(b)	7.105	5.484	6.542	1.245
Sector/Quality Return ^(-b*a)	-0.974	-0.191	-0.064	-0.054
Market Value Weight% ^(c)	0.141	0.378	0.912	0.720
Contribution to Duration ^(b*c)	0.00999	0.02071	0.05965	0.00897
Contribution to Sector/Quality Return ^(-b*c*a)	-0.00137	-0.00072	-0.00058	-0.00039

Coupon Return and Other Effects

Coupon Return was 0.361%, based on the index's average coupon of 4.541%. The average beginning-of-month market yield was 3.862%, resulting in a Market Amortization Return of -0.043%. These two terms sum to a total income effect of 0.317%.

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 0.232%, reflecting the positive effects of rolling down the yield curve as well as the more substantial effects of convexity in a month with such a large market shift.

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. September was a month that undoubtedly favored short duration. States with above-average duration generally underperformed. Texas was one state that performed better than its duration would suggest – it was partially buoyed up by spreads tightening in its large Local GO sector. Conversely, widening spreads on Virginia's Local GO bonds brought its overall performance down further.

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
Washington	2.87%	-3.447%	-9.89	0.302%	-4.279%	0.467%	0.064%
Alabama	2.48%	-3.460%	-8.58	0.341%	-4.262%	0.440%	0.021%
Georgia	2.43%	-3.601%	-8.75	0.314%	-4.241%	0.428%	-0.103%
Ohio	2.38%	-3.723%	-8.86	0.316%	-4.511%	0.388%	0.084%
Maryland	1.81%	-3.744%	-6.78	0.302%	-4.277%	0.341%	-0.110%
Illinois	3.45%	-3.773%	-13.02	0.329%	-4.420%	0.349%	-0.030%
California	15.70%	-3.849%	-60.43	0.305%	-4.635%	0.457%	0.024%
Tennessee	1.42%	-3.857%	-5.48	0.320%	-4.467%	0.351%	-0.062%
New Jersey	2.71%	-3.864%	-10.47	0.307%	-4.267%	0.343%	-0.247%
Michigan	1.76%	-3.883%	-6.83	0.321%	-4.723%	0.357%	0.162%
Texas	12.22%	-3.901%	-47.67	0.326%	-4.941%	0.418%	0.297%
Massachusetts	3.17%	-3.928%	-12.45	0.315%	-4.922%	0.524%	0.154%
New York	12.80%	-3.943%	-50.47	0.325%	-4.902%	0.589%	0.044%
North Carolina	1.53%	-3.969%	-6.07	0.301%	-4.394%	0.391%	-0.267%
Colorado	2.33%	-3.996%	-9.31	0.320%	-4.588%	0.384%	-0.112%
Pennsylvania	3.68%	-4.011%	-14.76	0.326%	-4.623%	0.339%	-0.054%
Wisconsin	1.47%	-4.066%	-5.98	0.327%	-4.586%	0.368%	-0.175%
Virginia	1.91%	-4.073%	-7.78	0.306%	-4.416%	0.384%	-0.348%
Florida	4.05%	-4.103%	-16.62	0.326%	-4.719%	0.428%	-0.139%
Missouri	1.12%	-4.147%	-4.64	0.321%	-4.567%	0.303%	-0.204%

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) this month. 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 York City Transitional Finance Authority Future Tax Secured Revenue Bonds	-17.3	52,423	1002
State of Washington	-17.9	25,837	1199
State of Massachusetts	-14.7	28,245	719
State of New York	-11.2	34,046	782
New York City Water & Sewer System	-11.1	26,673	519
Los Angeles International Airport	-16.0	14,324	630
State of Illinois	-12.3	18,035	396
University of California	-12.7	22,241	437
Los Angeles Department of Water & Power - Power System	-11.8	12,720	424
Salt River Project	-24.1	5,855	110

Table 8

Credit Name	OA Spread Change (bp)	Index Mkt Value (\$mil)	Index Bond Count
New York City Housing Development Corporation : Multi-Family Housing Revenue Bonds 1993 General Resolution	19.2	9,349	547
New York State Housing Finance Agency : Affordable Housing Revenue Bonds 2007 Resolution	25.1	6,136	480
CommonSpirit Health	20.3	6,838	195
Chicago Sales Tax Securitization Corporation	14.5	3,138	117
BJC Health System	9.9	2,541	69
Washington Suburban Sanitary Commission	10.8	3,178	303
Metro Pier & Exposition Authority McCormick Place Expansion Project Bonds	11.6	4,708	78
Build Illinois Bonds	14.7	2,843	133
Massachusetts Housing Finance Agency : Housing Bonds 2002 Bond Resolution	18.6	2,214	215
Virginia Housing Development Authority	15.4	3,385	373

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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