Investortools

Municipal Bond Market Performance

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Overview

In October 2026, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of 3.595%. This total return consists of the components displayed in Table 1.

A single month with a return of more than 3% is quite rare in the municipal bond market. The index, nearly 30 years old now, has only seen a single-month return this strong four other times. A large drop in yields was the driving force behind this strong return. Yields are still up overall in 2026, and the index's return is still in the red, but both are much less so than a month ago. Additionally, October reversed September's flattening trend, leaving the curve substantially steeper overall.

IDR/PCR and Tobacco Settlement underperformed in October as spreads on those sectors widened substantially. Georgia, and especially Alabama, lagged behind national performance due to their relatively large exposure to the underperforming IDR/PCR sector.

Table 1

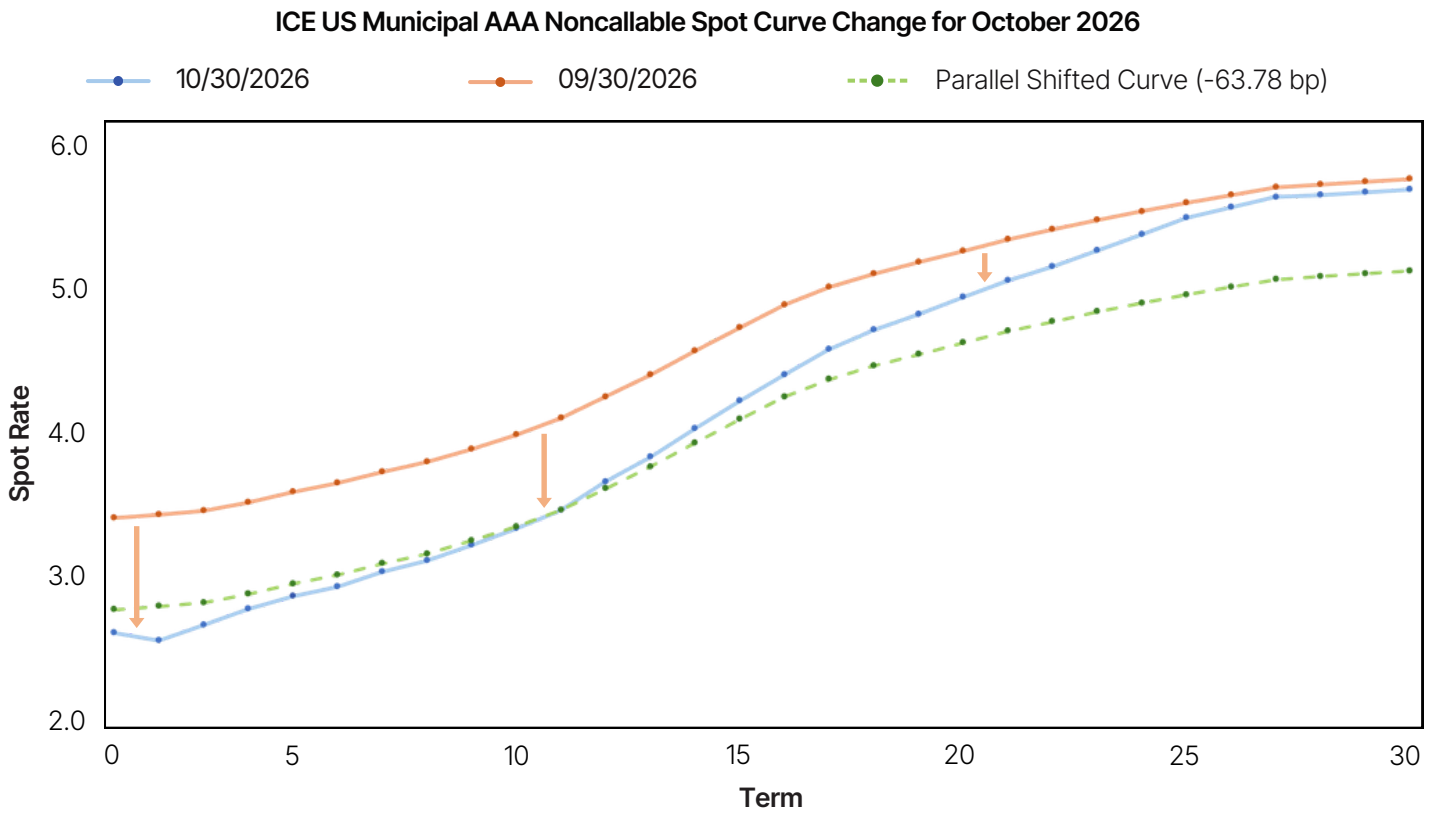
	September	YTD
Total Return	**3.595%**	**-0.246%**
Coupon Return	0.402%	3.683%
Market Amortization Return	-0.023%	-0.645%
Parallel Shift Return	4.272%	-4.333%
Non-Parallel Shift Return	-0.585%	0.477%
Sector/Quality Return	-0.436%	0.577%
Residual Price Return	-0.036%	-0.005%

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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 October. This curve demonstrated a 63.78 bp decrease 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 4.272% is calculated from this curve decrease, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate [a]	-63.78
Total Key Rate Duration [b]	6.6986
Parallel Shift Return [-b*a]	**4.272%**

The Non-Parallel Shift Return was -0.585%. The long end of the curve decreased much less than the rest of the curve, resulting in an overall steepening 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	-18.98	-23.78	-15.46	-10.25	-7.98	-4.58	0.00	34.94	56.80
Key Rate Duration	0.032	0.095	0.187	0.407	0.708	1.093	2.113	1.745	0.319
Non-Parallel Shift Return	**0.006**	**0.023**	**0.029**	**0.042**	**0.056**	**0.050**	**0.000**	**-0.610**	**-0.181**

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 -0.436%.

The sectors exhibiting the largest overall widening in average option-adjusted spread (weighted by both market value and duration) were Tobacco Settlement and IDR/PCR. The Housing sector exhibited the least spread change. Lower-rated securities saw spreads widen 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 Housing	A-rated Insured	A-rated Housing	BBB-rated Insured
Change in Dur-Adj Average OA Spread [(a)]	-0.514	-7.316	-5.445	-16.716
OA Spread Duration [(b)]	7.512	5.549	7.377	3.791
Sector/Quality Return [(-b*a)]	0.039	0.406	0.402	0.634
Market Value Weight% [(c)]	3.736	0.167	0.142	0.033
Contribution to Duration [(b*c)]	0.28066	0.00925	0.01047	0.00127
Contribution to Sector/Quality Return [(-b*c*a)]	**0.00144**	**0.00068**	**0.00057**	**0.00021**

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Table 5

	A-rated Transportation	A-rated IDR/PCR	AA-rated Tax-Supported (Excl. GOs)	AA-rated Local GO
Change in Dur-Adj Average OA Spread [(a)]	8.686	21.556	6.762	3.752
OA Spread Duration [(b)]	6.754	5.069	6.606	6.796
Sector/Quality Return [(-b*a)]	-0.587	-1.093	-0.447	-0.255
Market Value Weight% [(c)]	6.725	3.548	7.713	9.805
Contribution to Duration [(b*c)]	0.45420	0.17985	0.50953	0.66633
Contribution to Sector/Quality Return [(-b*c*a)]	**-0.03945**	**-0.03877**	**-0.03445**	**-0.02500**

Coupon Return and Other Effects

Coupon Return of 0.402% and Market Amortization Return of -0.023% summed to a total income effect of 0.380%.

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.

Minnesota, Virginia, and Wisconsin all benefited from tightening spreads on their Local GO bonds. The spreads widened nationally but tightened in these states. Minnesota's State GO also outperformed in this same way. This effect is captured by the State-Specific Spread Return column in Table 6.

Georgia and especially Alabama have a large exposure to the IDR/PCR sector. Spreads in this sector widened substantially in October, holding these states back compared to the rest of the nation. This effect is captured by the Return from Sector/Quality Composition column in Table 6.

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
Texas	12.29%	3.88%	47.67	0.38%	3.82%	-0.34%	0.02%
Minnesota	1.37%	3.83%	5.25	0.37%	3.55%	-0.32%	0.23%
Florida	3.97%	3.80%	15.07	0.39%	3.73%	-0.46%	0.13%
Virginia	1.88%	3.78%	7.10	0.37%	3.53%	-0.35%	0.23%
Wisconsin	1.46%	3.72%	5.43	0.39%	3.56%	-0.42%	0.19%
New Jersey	2.70%	3.70%	10.00	0.38%	3.52%	-0.42%	0.22%
New York	12.77%	3.70%	47.26	0.39%	3.75%	-0.50%	0.07%
Massachusetts	3.16%	3.69%	11.65	0.38%	3.83%	-0.47%	-0.05%
Michigan	1.76%	3.66%	6.44	0.38%	3.71%	-0.34%	-0.09%
North Carolina	1.52%	3.61%	5.49	0.37%	3.54%	-0.33%	0.04%
Maryland	1.81%	3.56%	6.45	0.37%	3.41%	-0.31%	0.10%
Colorado	2.32%	3.56%	8.25	0.38%	3.58%	-0.40%	-0.01%
Pennsylvania	3.70%	3.54%	13.09	0.39%	3.64%	-0.38%	-0.11%
Ohio	2.38%	3.44%	8.19	0.38%	3.51%	-0.42%	-0.03%
California	15.56%	3.44%	53.45	0.37%	3.69%	-0.48%	-0.14%
Washington	2.87%	3.41%	9.79	0.37%	3.51%	-0.39%	-0.08%
Illinois	3.53%	3.37%	11.89	0.39%	3.47%	-0.48%	-0.02%
Arizona	1.55%	3.34%	5.17	0.37%	3.47%	-0.45%	-0.05%
Alabama	2.64%	3.14%	8.29	0.40%	3.65%	-0.85%	-0.06%
Georgia	2.44%	3.14%	7.66	0.38%	3.42%	-0.54%	-0.12%

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 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 State Housing Finance Agency: Affordable Housing Revenue Bonds 2007 Resolution	-16.0	5,852	480
Connecticut Housing Finance Authority	-14.4	2,637	337
New York City Housing Development Corporation: Multi-Family Housing Revenue Bonds 1993 General Resolution	-13.3	8,792	547
Virginia Housing Development Authority	-11.3	3,154	379
Massachusetts Housing Finance Agency: Housing Bonds 2002 Bond Resolution	-10.3	2,087	215
Utah Housing Corporation: Tax-Exempt Mortgage-backed Securities	-10.0	749	71
Piedmont Healthcare Inc & Affiliates	-7.5	909	68
Miami-Dade Water & Sewer Department	-6.3	3,562	123
Metro Pier & Exposition Authority McCormick Place Expansion Project Bonds	-5.7	4,420	81

Table 8

Credit Name	OA Spread Change (bp)	Index Mkt Value ($mil)	Index Bond Count
Los Angeles International Airport	18.3	13,824	630
Illinois	17.5	17,856	407
Washington	15.6	25,077	1199
University of California	12.6	21,438	437
New York City Transitional Finance Authority Future Tax Secured Revenue Bonds	12.2	50,552	1002
California	11.9	58,918	1287
Chicago O'Hare International Airport	11.9	12,162	385
Massachusetts	10.6	27,830	742
New York	7.5	33,305	785
New York State Personal Income Tax Revenue Bonds	7.4	41,027	683

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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