

Municipal Bond Market Performance

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



Mark Pinson
Index Production and Analysis

The municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of -0.221% in January 2024, consisting of the components displayed in Table 1.

Yields dropped in the beginning of the month, bringing much of the curve down to levels not seen since April of last year. This decrease did not last, however, as the municipal curve and most of the treasury curve finished January slightly higher than they began it. One bright spot was the treasury curve, which showed a weakening inversion: the shortest terms decreased for the fourth straight month. In fact, the treasury curve was upward sloping from the 5-year to 10-year terms for the entire month, the first time in almost two years this has been the case. Lastly, although the overall Sector/Quality Return was modest, Tobacco Settlement bonds and bonds from Guam and Puerto Rico showed substantial outperformance from spread tightening.

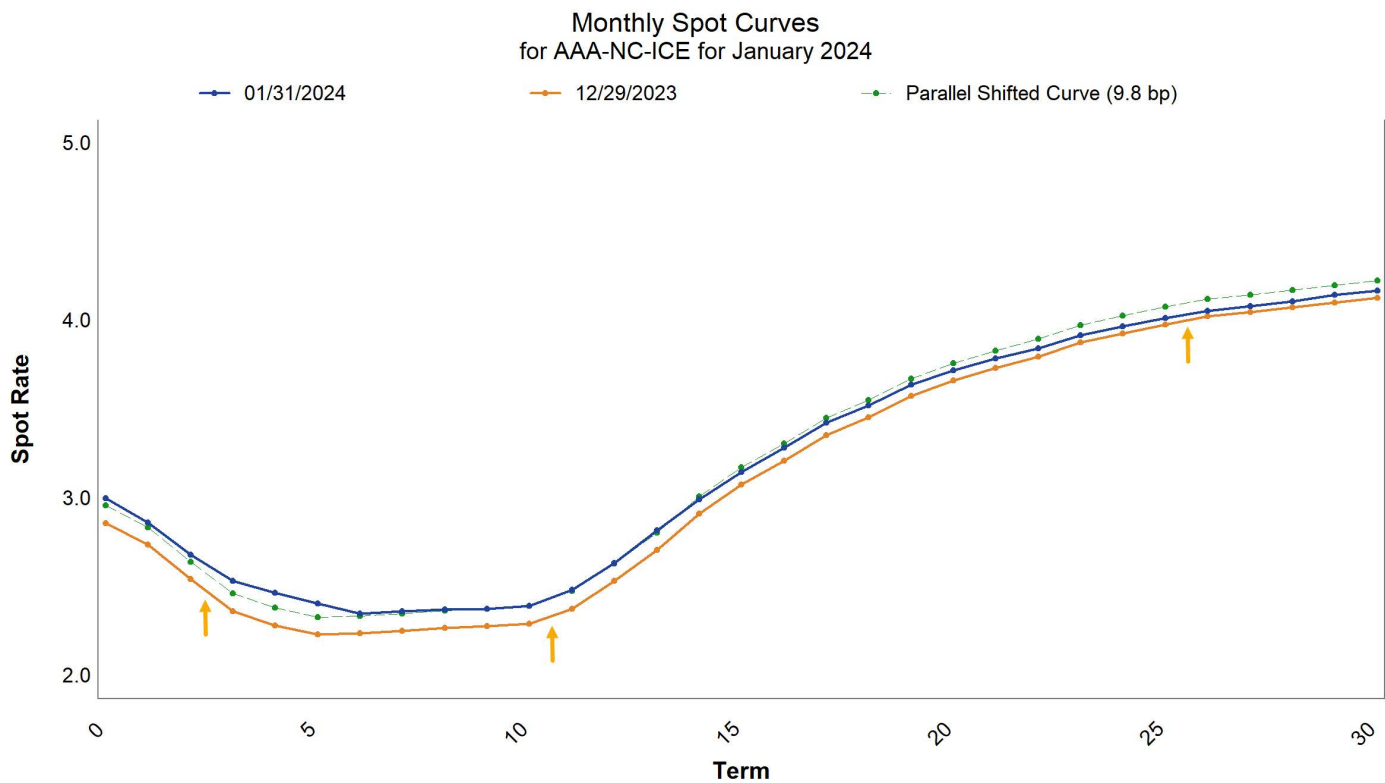
TABLE 1

	January
Total Return	-0.221%
Coupon Return	0.350%
Market Amortization Return	-0.055%
Parallel Shift Return	-0.580%
Non-Parallel Shift Return	-0.031%
Sector/Quality Return	0.094%
Residual Price Return	0.002%

Interpretation

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for January. This curve demonstrated a 9.8 bp increase in 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 -0.580% is calculated from this curve increase, as shown in Table 2.

TABLE 2

Change for 10-Year Spot Rate ^(a)	9.80
Total Key Rate Duration ^(b)	5.9170
Parallel Shift Return ^(-b*a)	-0.580

The Non-Parallel Shift Return was -0.031%. The 3-year and 5-year terms increased around twice as much as the rest of the curve, and thus had an especially noticeable impact on Non-Parallel Shift Return. 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	3.80	2.69	3.90	7.05	7.69	1.30	0.00	-3.91	-5.60
Key Rate Duration	0.041	0.121	0.249	0.494	0.662	0.834	1.623	1.547	0.347
Non-Parallel Shift Return	-0.002	-0.003	-0.010	-0.035	-0.051	-0.011	0.000	0.061	0.019

Each value in the Non-Parallel Shift Return row is calculated by multiplying together the two cells above it, dividing by 100 and reversing the sign

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 0.094%.

The sectors exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) were Tobacco Settlement, IDR / PCR, and Health Care (particularly Life Care). Most other sectors exhibited only a small change in average option-adjusted spread. As for quality-based groupings, lower-rated securities generally outperformed their higher-rated counterparts.

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

TABLE 4

	BBB-rated Housing	A-rated Insured	AAA-rated State GO	AA-rated Housing
Change in Dur-Adj Average OA Spread ^(a)	8.886	5.254	0.614	0.364
Total Key Rate Duration ^(b)	8.708	5.265	4.538	8.339
Sector/Quality Return ^(b*a)	-0.774	-0.277	-0.028	-0.030
Market Value Weight ^(c)	0.180	0.353	3.051	2.127
Contribution to Duration ^(b*c)	0.01568	0.01860	0.13845	0.17741
Contribution to Sector/Quality Return ^(-b*c*a)	-0.00139	-0.00098	-0.00085	-0.00065

TABLE 5

	A-rated Transportation	AA-rated Tax-Supported (Excl. GOs)	AA-rated Health Care	AA-rated Water / Sewer
Change in Dur-Adj Average OA Spread ^(a)	-3.482	-2.185	-3.766	-3.232
Total Key Rate Duration ^(b)	6.511	6.181	6.669	6.165
Sector/Quality Return ^(b*a)	0.227	0.135	0.251	0.199
Market Value Weight ^(c)	4.943	8.020	3.483	4.318
Contribution to Duration ^(b*c)	0.32181	0.49573	0.23227	0.26623
Contribution to Sector/Quality Return ^(b*c*a)	0.01121	0.01083	0.00875	0.00860

Coupon Return was 0.350%, based on the index's average coupon of 4.357%. The average beginning-of-month market yield was 3.260%, resulting in a Market Amortization Return of -0.055%. These two terms sum to a total income effect of 0.295%.

Note that 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. Premium bond prices, absent any change in yield, naturally decline over time to their redemption price. This decline is called market amortization.

CONTACT US

All table data and figures in this report were produced using Investortools, Inc.'s **Custom Index Manager™** product.

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