

# Municipal Bond Market Performance

June 2024



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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 1.559% in June 2024, consisting of the components displayed in Table 1.

Municipal yields decreased sharply in the first half of the month, largely mirroring the intermediate-to-long parts of the treasury curve. This made the first two weeks of the month two of the three best weeks so far this year. The slight bounceback in yields at the end of the month was much more muted than the end-of-month treasury yield increase, giving June a substantial positive return that lifted the year-to-date return within striking distance of positive territory. However, the Tobacco Settlement sector that has been a bright spot for many months saw substantial spread widening in June. Similarly with Puerto Rico bonds, although Arkansas bond spreads tightened overall after underperforming in May.

In terms of year-to-date performance, although the municipal yield curve has been up overall for the year, much of this has been offset by income and spread tightening in lower-rated bonds.

**TABLE 1**

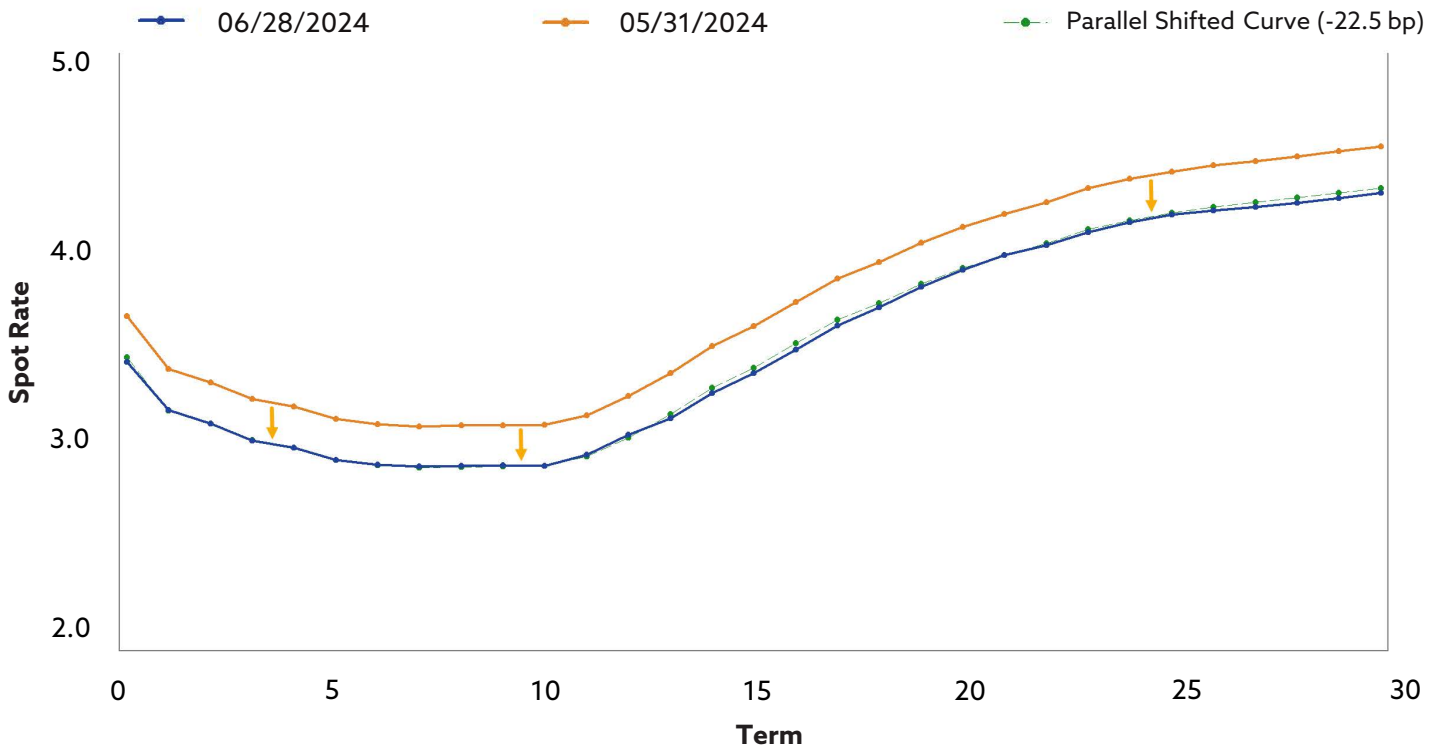
	June	YTD
Total Return	<b>1.559%</b>	<b>-0.139%</b>
Coupon Return	0.350%	2.104%
Market Amortization Return	-0.048%	-0.346%
Parallel Shift Return	1.361%	-3.450%
Non-Parallel Shift Return	0.017%	0.466%
Sector/Quality Return	-0.101%	0.979%
Residual Price Return	-0.019%	0.108%

## Interpretation

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for June. This curve demonstrated a 22.5 decrease in overall level as measured at the ten-year point.

**FIGURE 1**

**ICE US Municipal AAA Noncallable Spot Curve Change for June 2024**



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

The Parallel Shift Return of 1.361% is calculated from this curve decrease, as shown in Table 2.

**TABLE 2**

Change for 10-Year Spot Rate <sup>(a)</sup>	-22.50
Total Key Rate Duration <sup>(b)</sup>	6.0480
Parallel Shift Return <sup>(-b*a)</sup>	<b>1.361%</b>

The Non-Parallel Shift Return was merely 0.017%, due to June's curve change being almost perfectly parallel. See Table 3 for the full calculations for this term.

**TABLE 3**

	6 Mos	1Yr	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	20 Yrs	30 Yrs
Non-Parallel Change	-0.30	0.32	0.00	-0.18	0.06	0.61	0.00	-0.90	-2.61
Key Rate Duration	0.037	0.115	0.235	0.455	0.662	0.902	1.769	1.549	0.324
Non-Parallel Shift Return	0.000	0.000	0.000	0.001	0.000	-0.005	0.000	0.014	0.008

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 -0.101%.

The sectors exhibiting the largest overall widening in average option-adjusted spread (weighted by both market value and duration) were Transportation, Public Power, and especially Tobacco Settlement. The sectors exhibiting overall tightening were Housing, Local GO, and Health Care. Quality-based groupings exhibited no significant trend; performance within quality categories was quite mixed.

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**

	A-rated Transportation	AA-rated Tax-Supported (Excl. GOs)	AA-rated Transportation	AA-rated Water / Sewer
Change in Dur-Adj Average OA Spread <sup>(a)</sup>	5.919	3.810	6.152	4.780
OA Spread Duration <sup>(b)</sup>	5.237	5.359	5.361	5.413
Sector/Quality Return <sup>(b*a)</sup>	-0.310	-0.204	-0.330	-0.259
Market Value Weight <sup>(c)</sup>	6.002	7.893	4.253	4.333
Contribution to Duration <sup>(b*c)</sup>	0.31436	0.42292	0.22798	0.23453
Contribution to Sector/Quality Return <sup>(b*c*a)</sup>	-0.01861	-0.01611	-0.01402	-0.01121

**TABLE 5**

	AAA-rated Local GO	BBB-rated Health Care	BBB-rated Housing	A-rated Health Care
Change in Dur-Adj Average OA Spread <sup>(a)</sup>	-1.765	-8.429	-16.461	-1.270
OA Spread Duration <sup>(b)</sup>	5.327	5.571	8.353	5.277
Sector/Quality Return <sup>(b*a)</sup>	0.094	0.470	1.375	0.067
Market Value Weight <sup>(c)</sup>	10.601	0.972	0.171	2.863
Contribution to Duration <sup>(b*c)</sup>	0.56471	0.05416	0.01428	0.15110
Contribution to Sector/Quality Return <sup>(b*c*a)</sup>	0.00997	0.00456	0.00235	0.00192

Table 6 below shows the states and territories with the five best state-specific spread returns while Table 7 shows the states and territories with the five worst state-specific spread returns. This is the portion of return from change in spread after adjusting for the sector/quality composition of the state's bonds, capturing the extent to which the state's bonds' performance differed from the national averages.

Arkansas, Delaware, and Kansas all bounced back well in June from their relatively poor May. The Housing sector continued to lag behind the national average for all three states, but they outperformed the national average across almost all other sectors. Wyoming's IDR / PCR sector also bounced back from its weak performance in May, boosting the state's overall performance.

On the other hand, Puerto Rico's strong showing in May reversed in June as it underperformed national averages across almost all sectors. The District of Columbia similarly underperformed across most sectors, but its Health Care sector was one bright spot. Finally, South Dakota's Housing bonds and Virginia's Health Care and State GO bonds saw spreads widen more than similar bonds in other states.

**TABLE 6**

State or Territory	Total Return Weight	Return from Sector/Quality Composition	State-Specific Spread Return	Total Spread Return
Arkansas	0.27%	-0.067%	0.410%	0.343%
Delaware	0.27%	-0.055%	0.260%	0.205%
Kansas	0.45%	-0.041%	0.246%	0.205%
Virginia	2.18%	-0.081%	0.218%	0.137%
Wyoming	0.05%	-0.023%	0.212%	0.189%

**TABLE 7**

State or Territory	Total Return Weight	Return from Sector/Quality Composition	State-Specific Spread Return	Total Spread Return
Montana	0.09%	-0.026%	-0.139%	-0.165%
South Dakota	0.16%	-0.110%	-0.156%	-0.266%
District of Columbia	1.10%	-0.172%	-0.157%	-0.329%
West Virginia	0.27%	-0.044%	-0.232%	-0.276%
Puerto Rico	0.08%	-0.023%	-0.351%	-0.374%

Coupon Return was 0.350%, based on the index's average coupon of 4.384%. The average beginning-of-month market yield was 3.925%, resulting in a Market Amortization Return of -0.048%. These two terms sum to a total income effect of 0.302%.

*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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