

# Municipal Bond Market Performance

August 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 0.808% in August 2024, consisting of the components displayed in Table 1.

Municipal yields continued to fall in August, particularly for terms of the yield curve between one and eight years. In fact, although the shortest-term yields rose in the second half of August, the municipal yield curve is generally upward sloping from the 2-year term to 10-year term for the first time since January 2023. Short-term treasury yields also fell, making the treasury curve essentially flat from the 2-year term to the 10-year term.

Looking back over the year so far, muni yields in the center of the curve aren't much different than they were at the end of April, but yields at longer terms have fallen about 40 basis points and 40-90 basis points at shorter terms. This is the primary reason for the unusually large year-to-date Non-Parallel Shift Return of 1.332%. In general, the year has seen contrary movement in the very shortest terms vs. short-intermediate terms vs. longer terms, known as butterfly shifts.

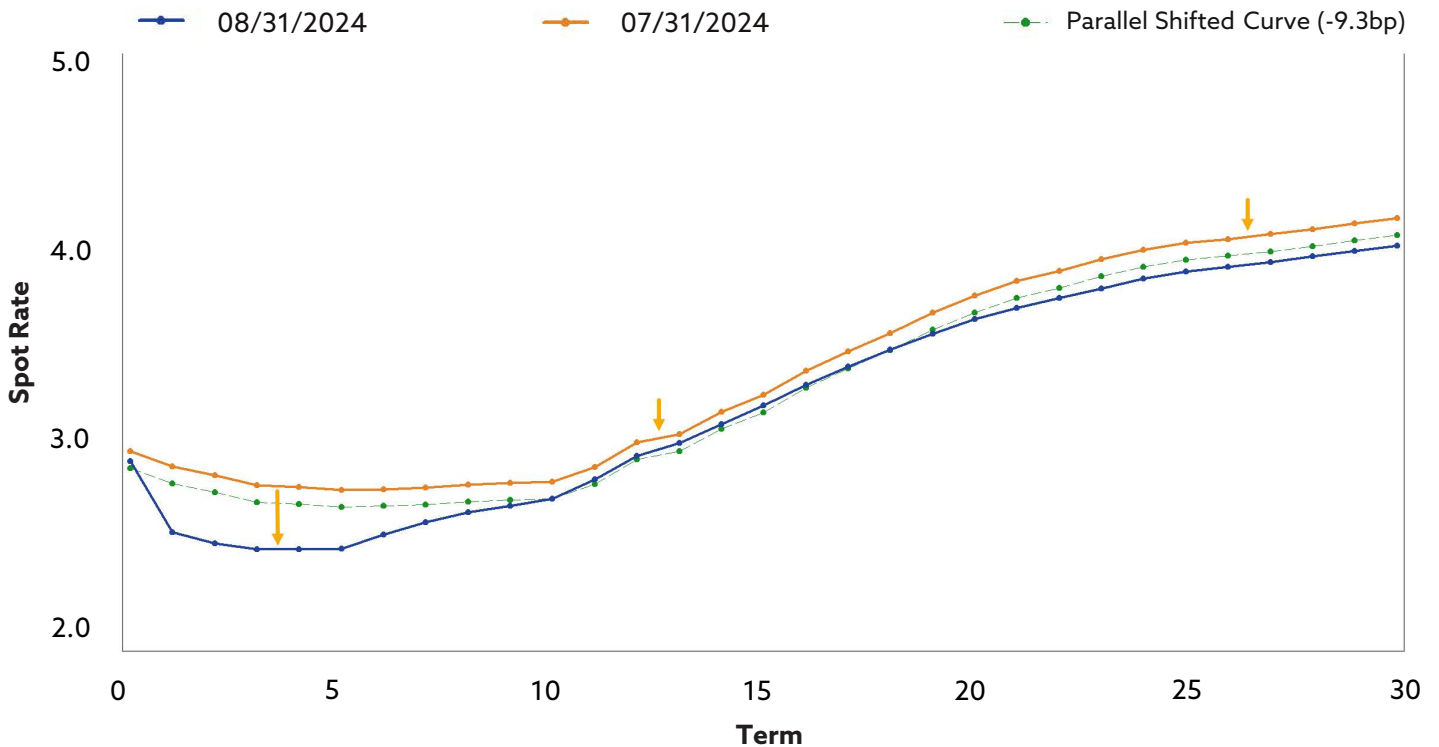
<b>TABLE 1</b>	August	YTD
Total Return	<b>0.808%</b>	<b>1.519%</b>
Coupon Return	0.357%	2.833%
Market Amortization Return	-0.065%	-0.447%
Parallel Shift Return	0.560%	-2.393%
Non-Parallel Shift Return	0.529%	1.332%
Sector/Quality Return	-0.498%	0.198%
Residual Price Return	-0.074%	-0.004%

## Interpretation

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for August. This curve demonstrated a 9.3 bp decrease in overall level as measured at the ten-year point.

**FIGURE 1**

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



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

The Parallel Shift Return of 0.560% is calculated from this curve decrease, as shown in Table 2.

**TABLE 2**

Change for 10-Year Spot Rate <sup>(a)</sup>	-9.28
Total Key Rate Duration <sup>(b)</sup>	6.0366
Parallel Shift Return <sup>(-b*a)</sup>	<b>0.560%</b>

The Non-Parallel Shift Return was 0.529%. This was primarily driven by yields dropping more at shorter terms of the curve than 10-year yields. 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	-8.77	-26.63	-27.72	-25.55	-22.64	-9.68	0.00	-3.65	-5.96
Key Rate Duration	0.037	0.118	0.238	0.449	0.657	0.918	1.757	1.533	0.329
Non-Parallel Shift Return	0.003	0.031	0.066	0.115	0.149	0.089	0.000	0.056	0.020

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 -0.498%.

The sector exhibiting the largest overall widening in average option-adjusted spread (weighted by both market value and duration) was Tobacco Settlement. The Prerefunded/ETM sector exhibited the least amount of spread change. Quality-based groupings exhibited no significant trend.

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**

	BBB-rated Housing	AAA-rated Insured
Change in Dur-Adj Average OA Spread <sup>(a)</sup>	-4.210	-1.194
OA Spread Duration <sup>(b)</sup>	8.318	3.257
Sector/Quality Return <sup>(-b*a)</sup>	0.350	0.039
Market Value Weight <sup>(c)</sup>	0.174	0.060
Contribution to Duration <sup>(b*c)</sup>	0.01449	0.00197
Contribution to Sector/Quality Return <sup>(-b*c*a)</sup>	0.00061	0.00002

**TABLE 5**

	AAA-rated Local GO	AA-rated Tax-Supported (Excl. GOs)	AA-rated Local GO	AA-rated Transportation
Change in Dur-Adj Average OA Spread <sup>(a)</sup>	8.100	10.096	7.978	12.593
OA Spread Duration <sup>(b)</sup>	5.252	5.302	5.368	5.191
Sector/Quality Return <sup>(b*a)</sup>	-0.425	-0.535	-0.428	-0.654
Market Value Weight <sup>(c)</sup>	10.786	7.841	9.435	6.116
Contribution to Duration <sup>(b*c)</sup>	0.56643	0.41577	0.50644	0.31748
Contribution to Sector/Quality Return <sup>(b*c*a)</sup>	-0.04588	-0.04198	-0.04041	-0.03998

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.

Iowa posted another strong month, this time led by its IDR / PCR sector which saw spreads tighten substantially in Iowa despite a general widening trend nationwide. The IDR / PCR sector also saw tightening spreads in Delaware and Wyoming, contributing to those states' comparatively strong performance.

Housing bonds underperformed the national average for the second straight month in West Virginia and for the third straight month in South Dakota. West Virginia actually lagged behind the national average across most sectors, but the State GO and Health Care sectors were two other sectors that particularly lagged behind their peers in West Virginia.

**TABLE 6**

State or Territory	Total Return Weight	Return from Sector/Quality Composition	State-Specific Spread Return	Total Spread Return
Iowa	0.44%	-0.490%	0.742%	0.252%
Delaware	0.26%	-0.449%	0.235%	-0.214%
Kansas	0.49%	-0.383%	0.221%	-0.162%
Puerto Rico	0.07%	-0.226%	0.176%	-0.050%
Wyoming	0.05%	-0.644%	0.174%	-0.470%

**TABLE 7**

State or Territory	Total Return Weight	Return from Sector/Quality Composition	State-Specific Spread Return	Total Spread Return
South Dakota	0.16%	-0.501%	-0.060%	-0.561%
Alabama	1.56%	-0.568%	-0.085%	-0.653%
Texas	11.86%	-0.484%	-0.091%	-0.575%
Idaho	0.19%	-0.581%	-0.099%	-0.680%
West Virginia	0.27%	-0.523%	-0.144%	-0.667%

Coupon Return was 0.357%, based on the index's average coupon of 4.401%. The average beginning-of-month market yield was 3.544%, resulting in a Market Amortization Return of -0.065%. These two terms sum to a total income effect of 0.292%.

*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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