

Municipal Bond Market Performance

July 2024



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 0.846% in July 2024, consisting of the components displayed in Table 1.

The inversion of the municipal yield curve almost disappeared in July due to yields at shorter terms dropping more than the rest of the curve. In fact, the inversion from the 1-year to 5-year terms decreased to the flattest it has been since the end of 2022. The Treasury curve likewise saw decreasing inversions with the spread between the 2-year and 10-year terms reaching the least inverted it has been since the summer of 2022.

July's good performance boosted the year-to-date Total Return into positive territory and the Total Return of the last nine months to 9.029%, the strongest Total Return over a nine month period since February 2012.

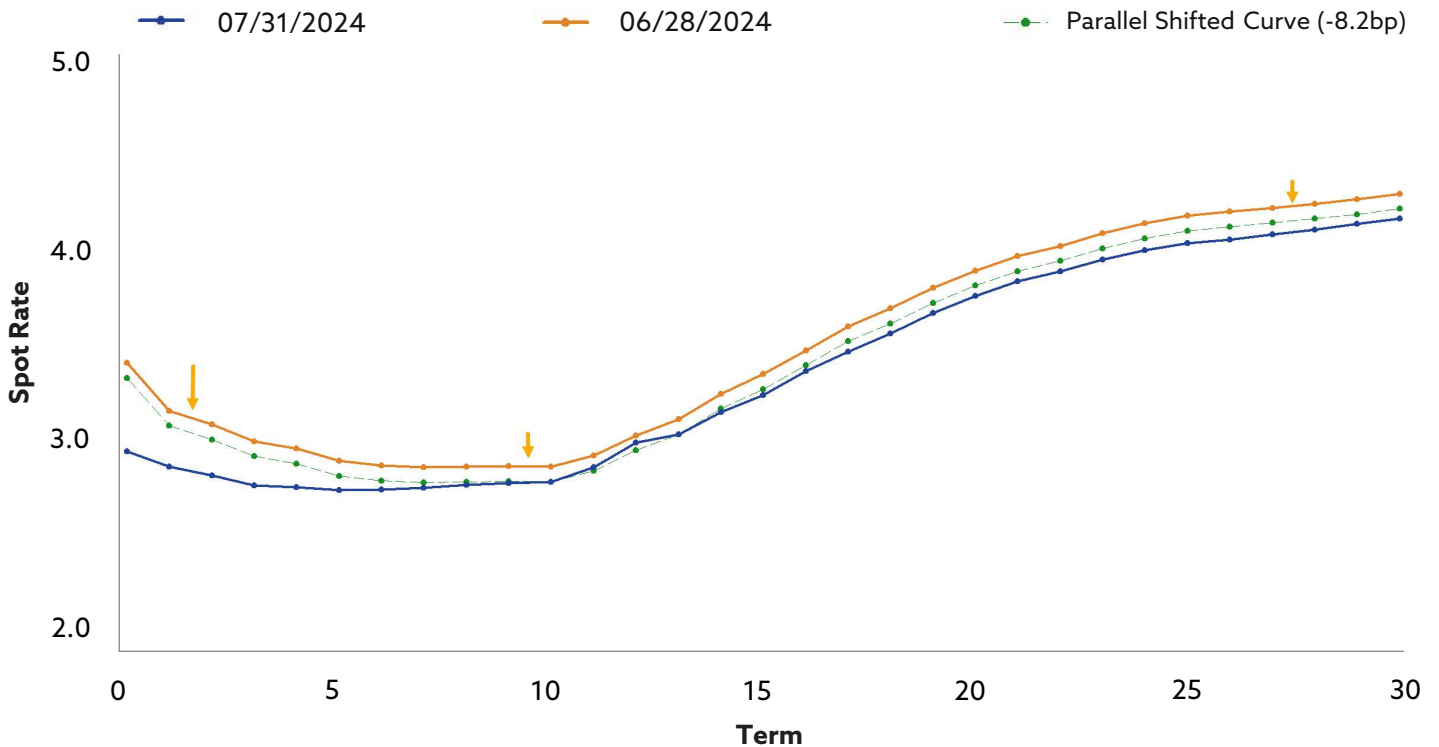
TABLE 1	July	YTD
Total Return	0.846%	0.706%
Coupon Return	0.370%	2.474%
Market Amortization Return	-0.035%	-0.381%
Parallel Shift Return	0.494%	-2.957%
Non-Parallel Shift Return	0.335%	0.800%
Sector/Quality Return	-0.280%	0.700%
Residual Price Return	-0.037%	0.070%

Interpretation

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for July. This curve demonstrated a 8.2 bp decrease in overall level as measured at the ten-year point.

FIGURE 1

ICE US Municipal AAA Noncallable Spot Curve Change for July 2024



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

The Parallel Shift Return of 0.494% is calculated from this curve decrease, as shown in Table 2.

TABLE 2

Change for 10-Year Spot Rate ^(a)	-8.23
Total Key Rate Duration ^(b)	6.0005
Parallel Shift Return ^(-b*a)	0.494%

The Non-Parallel Shift Return was 0.335%, due to most terms decreasing more than the 10-year term did. This type of movement is known as a butterfly shift. 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	-33.74	-22.27	-19.62	-15.81	-7.89	-2.78	0.00	-5.44	-5.11
Key Rate Duration	0.037	0.117	0.239	0.457	0.661	0.906	1.731	1.525	0.327
Non-Parallel Shift Return	0.012	0.026	0.047	0.072	0.052	0.025	0.000	0.083	0.017

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 -0.280%, indicating an overall widening of spreads.

The sectors exhibiting the largest overall widening in average option-adjusted spread (weighted by both market value and duration) were Tobacco Settlement, Transportation, and Health Care. The Prerefunded/ETM sector exhibited overall tightening in average option-adjusted spread. Quality-based groupings exhibited no significant trend.

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

	AAA-rated Local GO	AA-rated Local GO	AA-rated Tax Supported (Excl. GOs)	AA-rated Transportation
Change in Dur-Adj Average OA Spread ^(a)	5.507	5.235	5.520	6.642
OA Spread Duration ^(b)	5.208	5.320	5.293	5.219
Sector/Quality Return ^(b*a)	-0.287	-0.279	-0.292	-0.347
Market Value Weight ^(c)	10.633	9.647	7.850	6.049
Contribution to Duration ^(b*c)	0.55380	0.51328	0.41550	0.31569
Contribution to Sector/Quality Return ^(b*c*a)	-0.03050	-0.02687	-0.02293	-0.02097

TABLE 5

	A-rated Local GO	BBB-rated Housing	A-rated Insured	AA-rated Prerefunded/ EMT
Change in Dur-Adj Average OA Spread ^(a)	-2.139	-4.603	-2.892	-1.920
OA Spread Duration ^(b)	4.483	8.356	4.917	1.135
Sector/Quality Return ^(b*a)	0.096	0.385	0.142	0.022
Market Value Weight ^(c)	0.915	0.174	0.321	1.962
Contribution to Duration ^(b*c)	0.04100	0.01454	0.01580	0.02227
Contribution to Sector/Quality Return ^(b*c*a)	0.00088	0.00067	0.00046	0.00043

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.

Montana bounced back from its relative underperformance in June, primarily due to outperformance in its IDR / PCR sector. Although spreads of the Tobacco Settlement sector widened more in New Jersey than in other states, the state's Local GO and Transportation sectors boosted the state to outperforming its peers. Iowa's Transportation bonds outperformed even New Jersey's with spreads in this sector actually tightening in Iowa, despite the general widening trend seen nationwide.

Housing bonds in West Virginia, Mississippi, and South Dakota lagged behind their peers in other states, resulting in the second month of underperformance for South Dakota's Housing bonds. Puerto Rico's Insured bonds also continued their underperformance seen in June. Finally, while Nebraska underperformed across most sectors, its Health Care sector was especially weak compared to 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
Guam	0.06%	-0.321%	0.219%	-0.102%
Iowa	0.44%	-0.321%	0.187%	-0.134%
Montana	0.09%	-0.287%	0.177%	-0.110%
Connecticut	1.41%	-0.239%	0.136%	-0.103%
New Jersey	3.05%	-0.289%	0.133%	-0.156%

TABLE 7

State or Territory	Total Return Weight	Return from Sector/Quality Composition	State-Specific Spread Return	Total Spread Return
West Virginia	0.27%	-0.300%	-0.080%	-0.380%
Mississippi	0.28%	-0.204%	-0.081%	-0.285%
Nebraska	0.59%	-0.249%	-0.082%	-0.331%
South Dakota	0.16%	-0.318%	-0.122%	-0.440%
Puerto Rico	0.07%	-0.216%	-0.261%	-0.477%

Coupon Return was 0.370%, based on the index's average coupon of 4.389%. The average beginning-of-month market yield was 3.703%, resulting in a Market Amortization Return of -0.035%. These two terms sum to a total income effect of 0.335%.

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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