

Municipal Bond Market Performance

September 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 0.975% in September 2024, consisting of the components displayed in Table 1.

September saw yields fall for most terms in both treasury and non-callable municipal curves, particularly in the 2- to 5-year range. Both curves remained inverted at the short end while becoming more upward-sloping in other terms, with the 2-year to 10-year spread reaching highs not seen in over two years. Additionally, municipal bond spreads generally tightened, led by the IDR / PCR and Housing sectors.

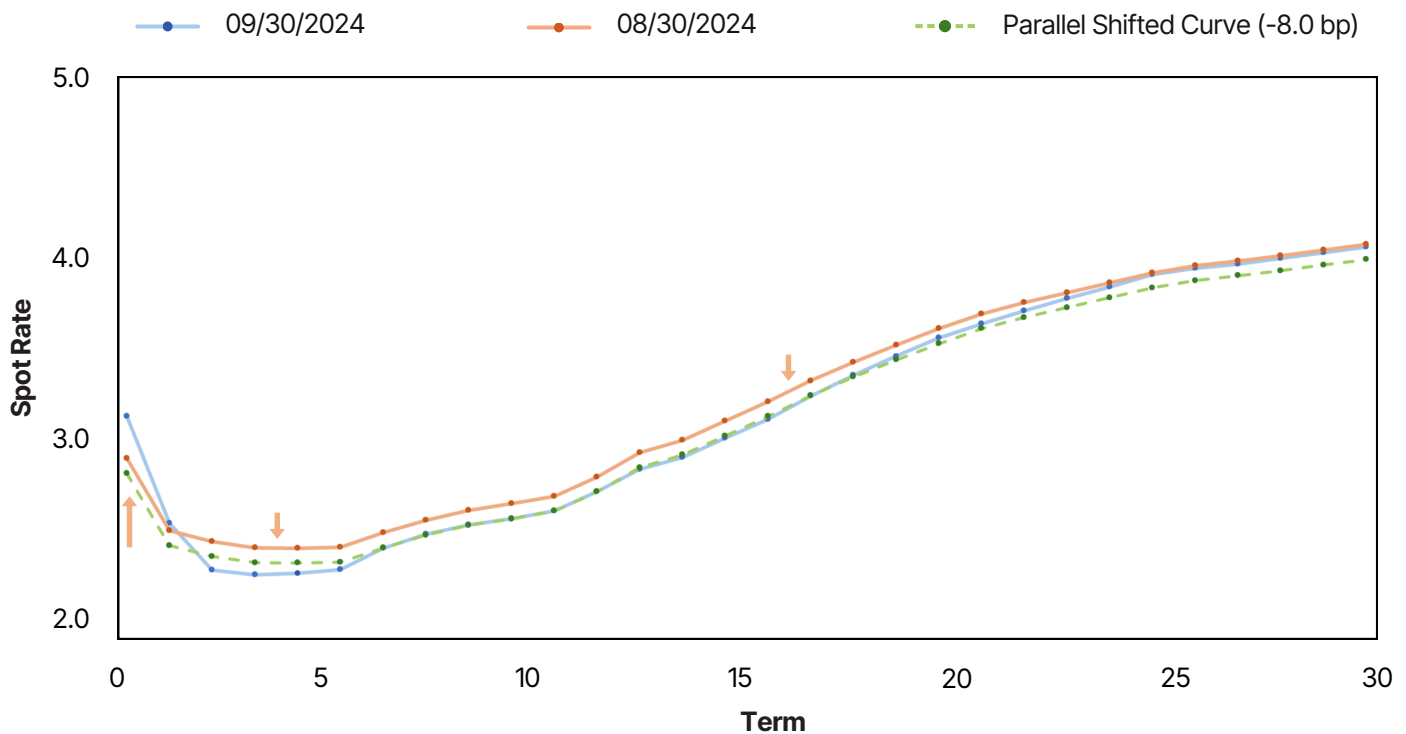
	September	YTD
Total Return	0.975%	2.509%
Coupon Return	0.344%	3.181%
Market Amortization Return	-0.055%	-0.503%
Parallel Shift Return	0.484%	-1.901%
Non-Parallel Shift Return	-0.018%	1.314%
Sector/Quality Return	0.245%	0.447%
Residual Price Return	-0.025%	-0.029%

Interpretation

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for September. This curve demonstrated a 8.0 bp decrease in overall level as measured at the ten-year point.

FIGURE 1

ICE US Municipal AAA Noncallable Spot Curve Change for September 2024



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

The Parallel Shift Return of 0.484% is calculated from this curve decrease, as shown in Table 2.

TABLE 2

Change for 10-Year Spot Rate ^(a)	-7.99
Total Key Rate Duration ^(b)	6.0637
Parallel Shift Return ^(-b*a)	0.484%

The Non-Parallel Shift Return was -0.018%. The positive effect of stronger yield decreases in some intermediate terms was largely offset by minimal movements in the longest terms and yield increases in the shortest terms. 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	21.26	11.83	-7.23	-6.64	-4.10	0.43	0.00	2.53	7.23
Key Rate Duration	0.039	0.117	0.236	0.436	0.631	0.917	1.791	1.560	0.337
Non-Parallel Shift Return	-0.008	-0.014	0.017	0.029	0.026	-0.004	0.000	-0.039	-0.024

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 0.245%.

The sectors exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) were IDR / PCR and Housing. The Prerefunded/ETM sector exhibited overall widening. 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

	AA-rated Local GO	AAA-rated Local GO	AA-rated Insured	AA-rated Tax Supported (Excl. GOs)
Change in Dur-Adj Average OA Spread ^(a)	-6.070	-4.915	-5.811	-3.379
OA Spread Duration ^(b)	5.375	5.237	6.191	5.277
Sector/Quality Return ^(-b*a)	0.326	0.257	0.360	0.178
Market Value Weight% ^(c)	9.468	10.771	6.230	7.805
Contribution to Duration ^(b*c)	0.50892	0.56414	0.38572	0.41184
Contribution to Sector/Quality Return ^(-b*c*a)	0.03089	0.02773	0.02241	0.01392

TABLE 5

	AA-rated Prerefunded/ ETM	AAA-rated Prerefunded/ ETM	BBB-rated Housing	A-rated Prerefunded/ ETM
Change in Dur-Adj Average OA Spread ^(a)	0.872	0.985	0.257	0.685
OA Spread Duration ^(b)	1.113	1.020	8.275	0.723
Sector/Quality Return ^(-b*a)	-0.010	-0.010	-0.021	-0.005
Market Value Weight ^(c)	1.777	0.768	0.173	0.490
Contribution to Duration ^(b*c)	0.01978	0.00783	0.01435	0.00354
Contribution to Sector/Quality Return ^(-b*c*a)	-0.00017	-0.00008	-0.00004	-0.00002

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.

Nebraska, Arkansas, and Iowa outperformed the other states across most sectors except for the Housing sector which substantially underperformed the national average for all three. (This was the fourth straight month of outperformance for Iowa.) New Hampshire's relatively strong spread return was due particularly to its Health Care sector which saw spreads tighten much more than the national average.

On the other side of the spectrum, Montana, Wyoming, and West Virginia all saw spreads widen more than the national average in the Health Care sector. Montana's Housing bonds, Wyoming's Housing bonds, and West Virginia's State GO bonds also contributed to the three states' respective underperformance. Finally, while Vermont's State GO sector actually outperformed the national average, the widening spreads in its Local GO and Education sectors led to it having the worst state-specific spread return of September.

TABLE 6

State or Territory	Total Return Weight	Return from Sector/Quality Composition	State-Specific Spread Return	Total Spread Return
Nebraska	0.61%	0.249%	0.157%	0.406%
Arkansas	0.28%	0.317%	0.111%	0.428%
New Hampshire	0.29%	0.252%	0.110%	0.362%
Virgin Islands	0.01%	0.028%	0.109%	0.137%
Iowa	0.44%	0.272%	0.080%	0.352%

TABLE 7

State or Territory	Total Return Weight	Return from Sector/Quality Composition	State-Specific Spread Return	Total Spread Return
West Virginia	0.27%	0.268%	-0.134%	0.134%
Montana	0.09%	0.332%	-0.136%	0.196%
Wyoming	0.05%	0.529%	-0.141%	0.388%
Guam	0.06%	0.286%	-0.161%	0.125%
Vermont	0.10%	0.233%	-0.163%	0.070%

Coupon Return was 0.344%, based on the index's average coupon of 4.408%. The average beginning-of-month market yield was 3.395%, resulting in a Market Amortization Return of -0.055%. These two terms sum to a total income effect of 0.289%.

Note that Coupon Return reflects both interest payments and changes in accrued interest throughout the month. Market Amortization Return is negative due to yields being lower than most coupon rates, producing premium bonds. 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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