

Municipal Bond Market Performance

2024 Year in Review

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Overview

The municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had an annual Total Return of 1.531% in 2024. Table 1 contains the monthly and annual total returns and their breakdowns.

2024 was a year of ups and downs when it came to yield curve levels. The middle of the curve had the largest overall increase in yields across the year (reflected in the sharply negative Parallel Shift Return), and the shortest terms of the curve had the smallest yield increase (reflected in the positive Non-Parallel Shift Return). 2024 saw the continuation of a multi-year trend of tightening credit spreads for lower-rated bonds, reflected in the positive Sector-Quality Return. These bright spots, combined with the force of income, kept 2024 in the green overall.

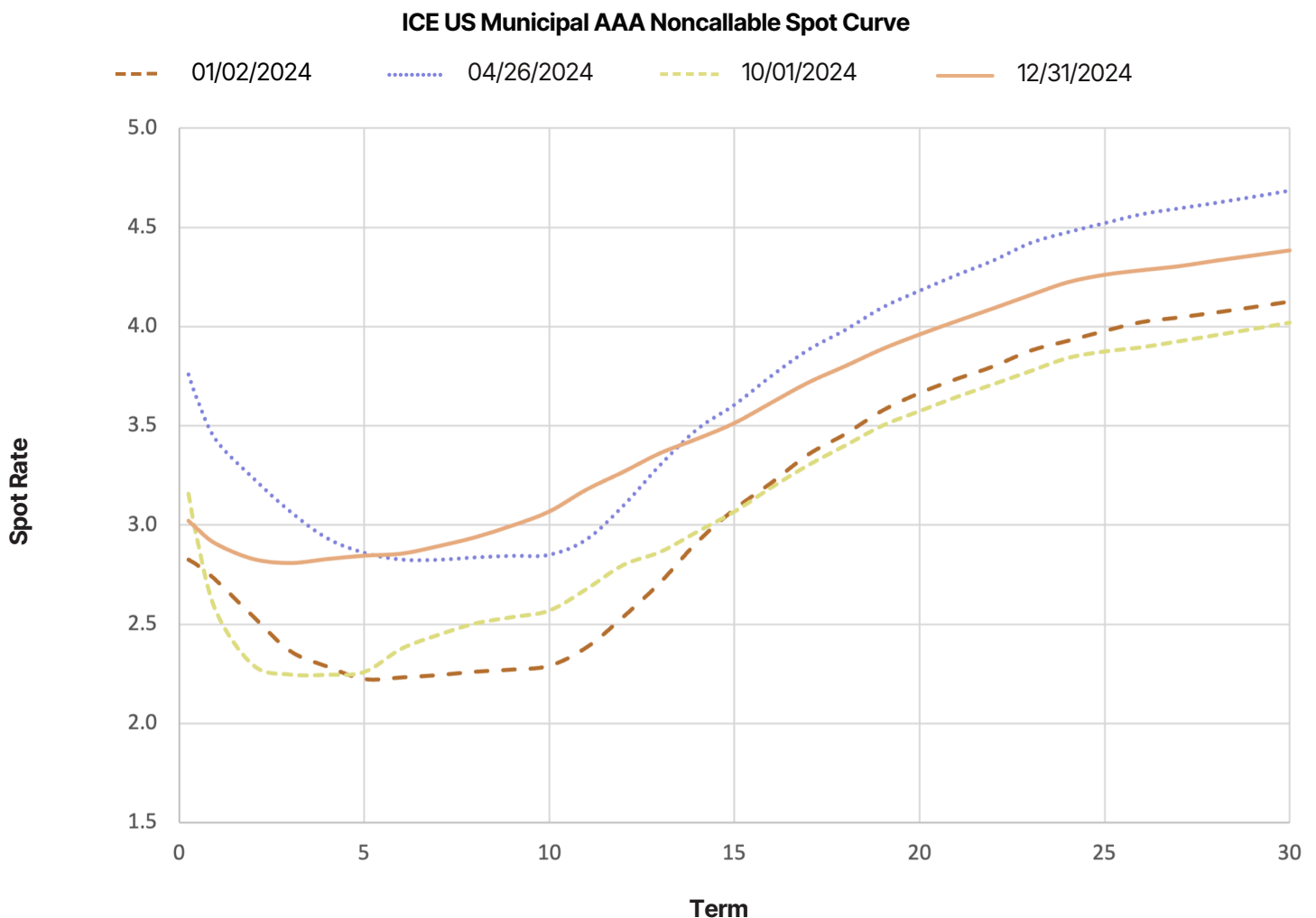
Table 1

	Total Return	Coupon Return	Mkt Amort Return	Parallel Shift Return	Non-Parallel Shift Return	Sector/Quality Return	Residual Price Return
Year	1.531%	4.281%	-0.719%	-4.644%	1.499%	1.111%	0.004%
Dec	-1.130%	0.366%	-0.067%	-1.624%	0.110%	0.072%	0.014%
Nov	1.515%	0.347%	-0.060%	1.420%	-0.201%	0.070%	-0.060%
Oct	-1.318%	0.364%	-0.085%	-2.450%	0.268%	0.507%	0.078%
Sep	0.975%	0.344%	-0.055%	0.484%	-0.018%	0.245%	-0.025%
Aug	0.808%	0.357%	-0.065%	0.560%	0.529%	-0.498%	-0.074%
Jul	0.846%	0.370%	-0.035%	0.494%	0.335%	-0.280%	-0.037%
Jun	1.559%	0.350%	-0.048%	1.361%	0.017%	-0.101%	-0.019%
May	-0.319%	0.371%	-0.048%	-1.593%	0.613%	0.208%	0.130%
Apr	-1.067%	0.343%	-0.022%	-1.784%	0.042%	0.385%	-0.030%
Mar	-0.084%	0.376%	-0.114%	-0.431%	-0.155%	0.187%	0.053%
Feb	0.011%	0.328%	-0.061%	-0.430%	-0.012%	0.211%	-0.026%
Jan	-0.221%	0.350%	-0.055%	-0.580%	-0.031%	0.094%	0.002%

Yield Curve Change

Figure 1 shows the ICE US Municipal AAA Noncallable spot curve at key dates in 2024, illustrating the ups and downs experienced by much of the curve. The 10-year spot rate rose 78 basis points in 2024, causing the Parallel Shift Return to have the largest negative contribution to the market's Total Return. However, the rest of the curve rose less, causing a positive Non-Parallel Shift Return that partially offset this Parallel Shift Return.

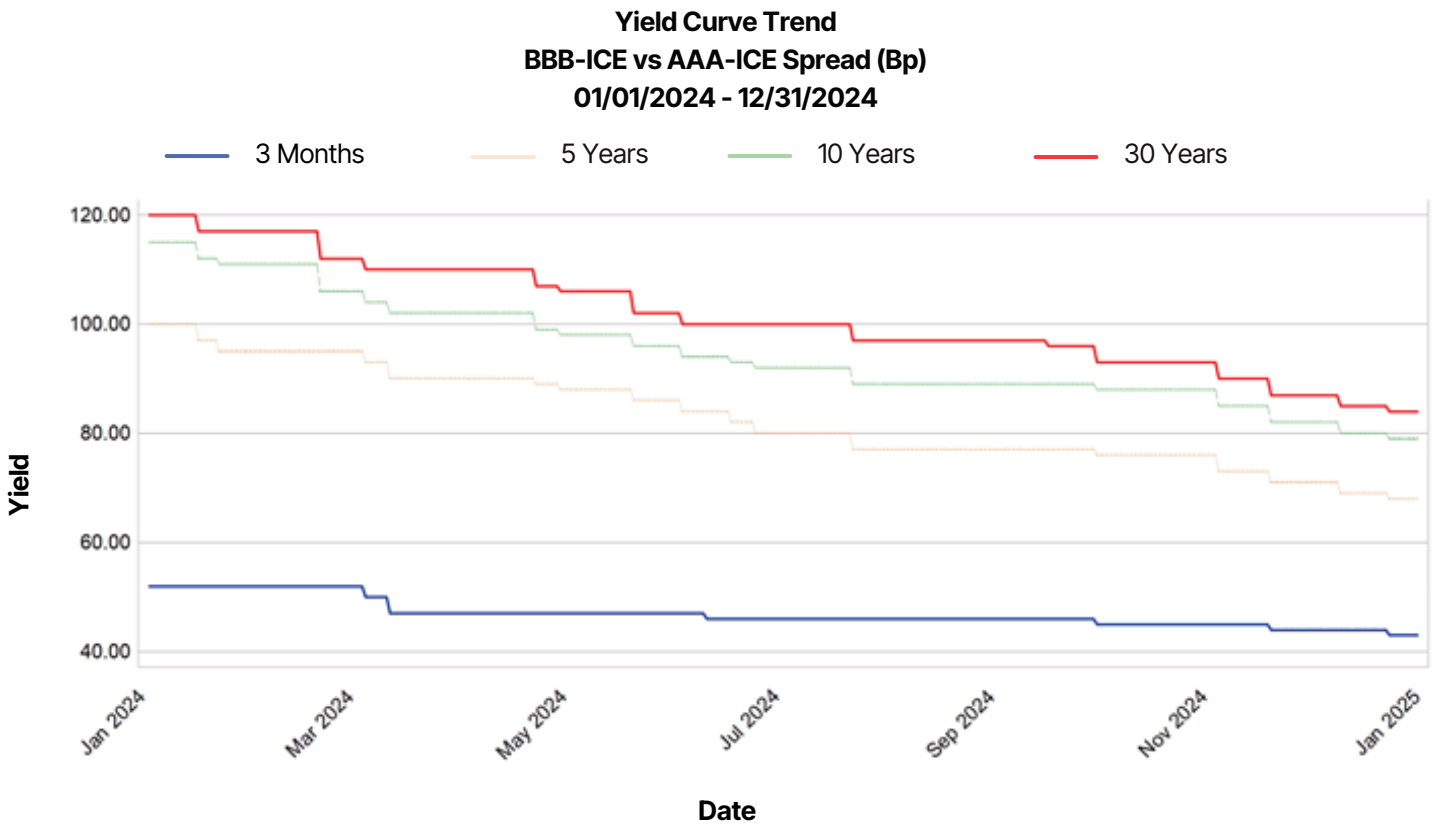
Figure 1



Spread Change for BBB-Rated Bonds

Since the middle of 2022, credit spreads for BBB-rated bonds have generally tightened. Comparing the ICE US Municipal BBB and AAA Yield Curves over the course of 2024 reveals that it was no exception. BBB-AAA spreads at the 30-year point narrowed in 2024 by 36 basis points (bp) to a mere 84 bp not seen since the low yield environment of January 2022. Spreads at the 3-Month point narrowed by a much more modest 9 bp.

Figure 2



Total Return Breakdown by Rating

In 2024, lower-rated bonds tended to benefit from higher yields in addition to the aforementioned tightening of credit spreads. This was blunted by the tendency of BBB-rated bonds to have longer durations, resulting in a more negative “Return from Curve Chg / Convexity” (see Appendix at the end of the report for more information on these terms) than other rating categories. But their higher returns from yield and spread tightening more than compensated for the increased drag from longer durations.

Table 2

	Weight Percentage	Total Return	Return from Yield	Return from Curve Change/Convexity	Return from Spread Change	Beginning Effective Duration
Grand Totals	100.00%	1.531%	3.562%	-3.141%	1.111%	6.082
AAA/Aaa	24.50%	1.063%	3.387%	-3.053%	0.730%	5.861
AA/Aa	55.28%	1.351%	3.504%	-3.176%	1.023%	6.197
A/A	15.69%	2.292%	3.833%	-3.124%	1.584%	5.905
BBB/Baa	3.90%	3.827%	4.453%	-3.636%	3.010%	7.325
Other	0.63%	2.335%	3.181%	-0.891%	0.045%	2.052

Figure 3
Return Breakdown by Rating
