Municipal Bond Market Performance

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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 0.326% in January 2025, consisting of the components displayed in Table 1.

The municipal yield curve shifted to sloping entirely upward in January, finally breaking the inversion that has been in the curve for over two years. Intermediate and especially short terms of the curve fell, while the entire long end of the curve rose. This resulted in only a small net return from yield curve movement as the Non-Parallel Shift Return offset much of the positive Parallel Shift Return. The Public Power sector saw overall widening of option-adjusted spread, largely due to California. In fact, spreads widened across all sectors in California as the state battled destructive wildfires.

Table 1	January
Total Return	**0.326%**
Coupon Return	0.360%
Market Amortization Return	-0.050%
Parallel Shift Return	0.355%
Non-Parallel Shift Return	-0.209%
Sector/Quality Return	-0.112%
Residual Price Return	-0.017%

Interpretation

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for January. This curve demonstrated a 6.0 bp decrease in overall level as measured at the ten-year point.

FIGURE 1

ICE US Municipal AAA Noncallable Spot Curve Change for January 2025
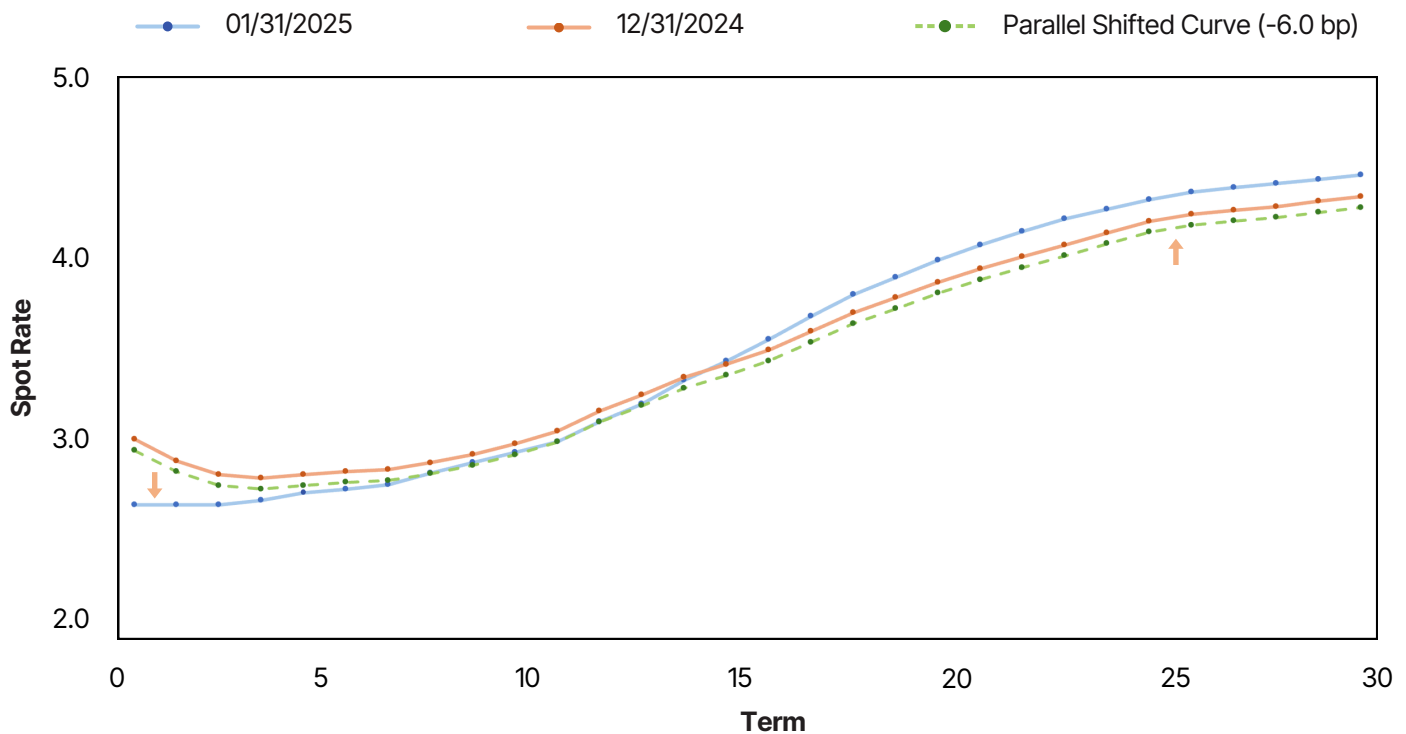
The green dotted line depicts the parallel shift implied by the ten-year point's spot curve change.

The Parallel Shift Return of 0.355% is calculated from this curve decrease, as shown in Table 2.

Table 2

Change for 10-Year Spot Rate[a]	-5.97
Total Key Rate Duration[b]	5.9356
Parallel Shift Return [-b*a]	**0.355%**

The Non-Parallel Shift Return was -0.209%. As already mentioned, the curve fell at intermediate and especially short terms, while the entire long end of the curve rose. This resulted in an overall steepening of the curve and even a full de-inversion. 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	-25.81	-18.47	-10.82	-6.33	-3.72	0.22	0.00	19.18	17.98
Key Rate Duration	0.041	0.114	0.230	0.448	0.685	1.024	1.721	1.377	0.296
Non-Parallel Shift Return	0.011	0.021	0.025	0.028	0.025	-0.002	0.000	-0.264	-0.053

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 -0.112%.

The sector exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) was Housing (both single-family and multi-family segments). The sector exhibiting the largest overall widening was Public Power, led by California and, to a lesser extent, Utah.

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 Housing	AAA-rated Housing	BBB-rated IDR/PCR	A-rated State GO
Change in Dur-Adj Average OA Spread [a]	-3.918	-5.511	-3.029	-2.261
OA Spread Duration [b]	7.938	7.560	6.439	4.880
Sector/Quality Return [-b*a]	0.311	0.417	0.195	0.110
Market Value Weight% [c]	2.366	1.659	1.011	0.871
Contribution to Duration [b*c]	0.18784	0.12543	0.06512	0.04253
Contribution to Sector/Quality Return [-b*c*a]	0.00736	0.00691	0.00197	0.00096

Table 5

	AA-rated Public Power	AA-rated Water/Sewer	AA-rated Tax-Supported (Excl. GOs)	AA-rated Local GO
Change in Dur-Adj Average OA Spread[a]	16.704	4.463	2.360	1.791
OA Spread Duration[b]	5.948	6.099	6.035	5.966
Sector/Quality Return[-b*a]	-0.993	-0.272	-0.142	-0.107
Market Value Weight%[c]	1.955	4.310	7.886	9.431
Contribution to Duration[b*c]	0.11626	0.26286	0.47588	0.56263
Contribution to Sector/Quality Return[-b*c*a]	-0.01942	-0.01173	-0.01123	-0.01008

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.

California underperformed the national averages in every sector in January, but especially in the Public Power and Water/Sewer sectors. On the other hand, Public Power bonds in Nebraska and Tennessee outperformed the national average, leading to those states having some of the best State-Specific Spread Returns. Spreads tightened overall in North Carolina and Wisconsin, with bonds in those states outperforming their peers in almost every sector.

Table 6

State or Territory	Total Return Weight	Return from Sector/Quality Composition	State-Specific Spread Return	Total Spread Return
Nebraska	0.63%	-0.333%	0.237%	-0.096%
Idaho	0.21%	-0.085%	0.225%	0.140%
North Carolina	1.53%	-0.068%	0.124%	0.056%
Wisconsin	1.39%	-0.070%	0.120%	0.050%
Tennessee	1.40%	-0.136%	0.117%	-0.019%

Table 7

State or Territory	Total Return Weight	Return from Sector/Quality Composition	State-Specific Spread Return	Total Spread Return
Maine	0.25%	-0.023%	-0.048%	-0.071%
Puerto Rico	0.07%	0.014%	-0.066%	-0.052%
Guam	0.06%	-0.174%	-0.075%	-0.249%
West Virginia	0.26%	-0.058%	-0.179%	-0.237%
California	15.67%	-0.151%	-0.264%	-0.415%

Coupon Return was 0.360%, based on the index's average coupon of 4.424%. The average beginning-of-month market yield was 3.653%, resulting in a Market Amortization Return of -0.050%. These two terms sum to a total income effect of 0.310%.

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, resulting in 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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