# Municipal Bond Market Performance

## March 2025

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In March 2025, the municipal bond market, as measured by the Standard & Poor's Municipal Bond Investment Grade Index, had a Total Return of -1.578%. This total return consists of the components displayed in Table 1.

Municipal yields increased across the curve in March, especially longer-term yields. In fact, March saw the largest single-month increase in long-term yields since September 2022. This increase in yields had a substantial negative impact on March's return, as captured by the Parallel Shift Return. Lower-rated bonds helped to counteract the curve movement some, as option-adjusted spreads on those bonds tightened overall.

Nevertheless, March's return brought 2025 into negative territory at the close of the first quarter. This is the seventh time in the over twenty-five-year history of the index that the first quarter has ended with an overall negative return.
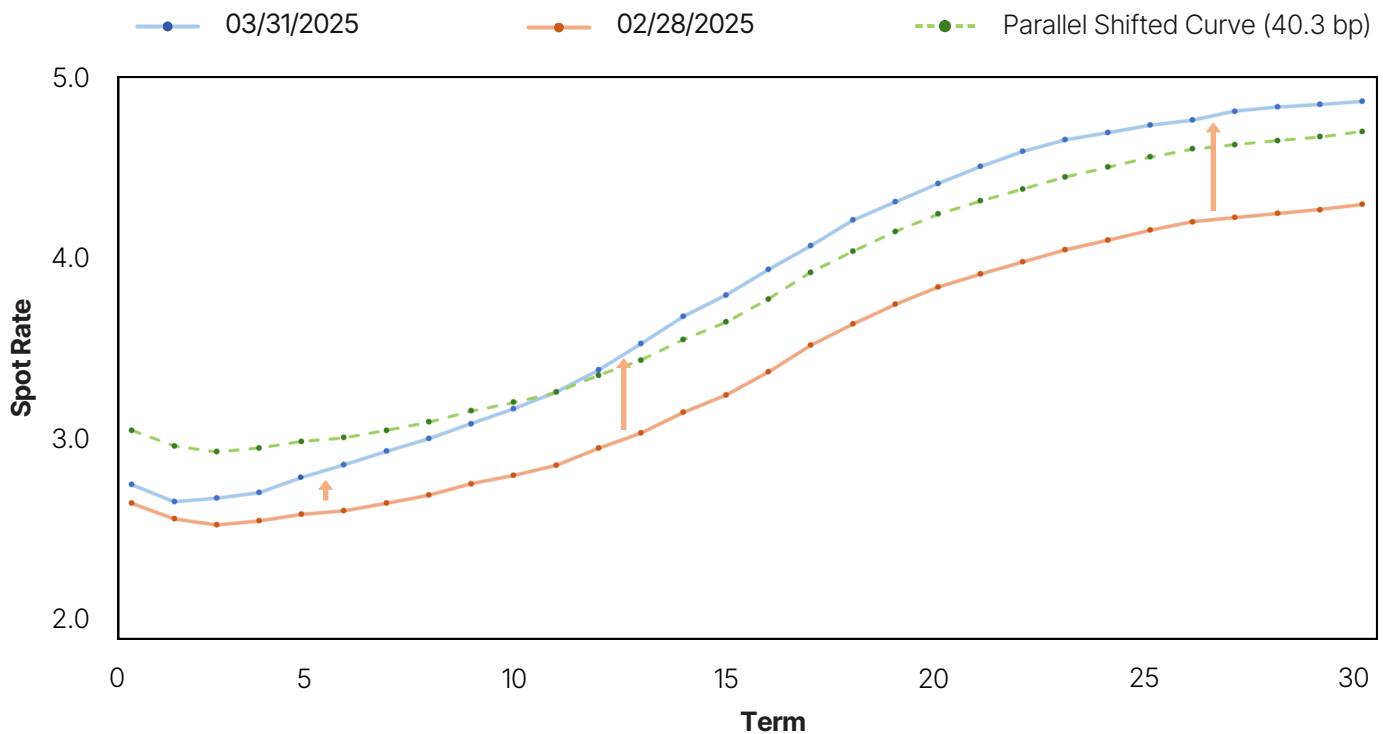
**TABLE 1**

| | March | YTD |
|---|---|---|
| Total Return | **-1.578%** | **-0.290%** |
| Coupon Return | 0.394% | 1.084% |
| Market Amortization Return | -0.099% | -0.198% |
| Parallel Shift Return | -2.380% | -1.251% |
| Non-Parallel Shift Return | 0.099% | -0.088% |
| Sector/Quality Return | 0.475% | 0.235% |
| Residual Price Return | -0.067% | -0.072% |

## Parallel and Non-Parallel Shift Return

Figure 1 shows the overall change in the ICE US Municipal AAA Noncallable spot curve for March. This curve demonstrated a 40.3 bp increase in its overall level as measured at the ten-year point.

**FIGURE 1**

### ICE US Municipal AAA Noncallable Spot Curve Change for March 2025



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

The Parallel Shift Return of -2.380% is calculated from this curve increase, as shown in Table 2.

**Table 2**

| | |
|---|---|
| Change for 10-Year Spot Rate[a] | 40.31 |
| Total Key Rate Duration[b] | 5.9047 |
| Parallel Shift Return [-b*a] | **-2.380%** |

The Non-Parallel Shift Return was 0.099%. Longer terms generally rose more than shorter terms, resulting in a significant overall steepening of the curve. See Table 3 for this term's full calculation, with negative effects seen in the longer maturities canceling out some of the positive effects seen in the shorter maturities.

**Table 3**

| | 6 Mos | 1 Yr | 2 Yrs | 3 Yrs | 5 Yrs | 7 Yrs | 10 Yrs | 20 Yrs | 30 Yrs |
|---|---|---|---|---|---|---|---|---|---|
| Non-Parallel Change | -29.32 | -30.93 | -25.55 | -24.64 | -14.91 | -9.13 | 0.00 | 18.98 | 15.42 |
| Key Rate Duration | 0.041 | 0.114 | 0.228 | 0.439 | 0.674 | 1.046 | 1.669 | 1.392 | 0.301 |
| Non-Parallel Shift Return | 0.012 | 0.035 | 0.058 | 0.108 | 0.101 | 0.096 | 0.000 | -0.264 | -0.046 |

*Each value in the Non-Parallel Shift Return row is calculated by multiplying the two cells above it, dividing by 100 and reversing the sign.*

## Sector/Quality Return

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 0.475%.

The sectors exhibiting the largest overall tightening in average option-adjusted spread (weighted by both market value and duration) were Housing and Resource Recovery. The State GO and Prefunded/ETM sectors exhibited the least spread change. Spreads generally tightened more in lower-rated bonds than in higher-rated bonds.

The sector/quality categories with the largest positive contributions to Sector/Quality Return, considering both weightings and the groupings' own sector/quality returns, are listed in Table 4. The largest negative contributors are listed in Table 5.

**Table 4**

| | AA-rated Insured | AA-rated Transportation | AAA-rated Local-GO | AA-rated Housing |
|---|---|---|---|---|
| Change in Dur-Adj Average OA Spread [a] | -10.174 | -10.143 | -5.442 | -17.593 |
| OA Spread Duration [b] | 7.064 | 5.898 | 5.834 | 7.732 |
| Sector/Quality Return [-b*a] | 0.719 | 0.598 | 0.317 | 1.360 |
| Market Value Weight% [c] | 6.445 | 6.542 | 10.965 | 2.355 |
| Contribution to Duration [b*c] | 0.45530 | 0.38580 | 0.63969 | 0.18207 |
| Contribution to Sector/Quality Return [-b*c*a] | 0.04632 | 0.03913 | 0.03481 | 0.03203 |

**Table 5**

|  | A-rated State GO | Sub B-rated Prerefunded/ ETM |
|---|---|---|
| Change in Dur-Adj Average OA Spread[a] | 4.546 | 0.376 |
| OA Spread Duration[b] | 4.857 | 1.862 |
| Sector/Quality Return[-b*a] | -0.221 | -0.007 |
| Market Value Weight%[c] | 0.849 | 0.470 |
| Contribution to Duration[b*c] | 0.04123 | 0.00875 |
| Contribution to Sector/Quality Return[-b*c*a] | -0.00187 | -0.00003 |

## Coupon Return and Other Effects

Coupon Return was 0.394%, based on the index's average coupon of 4.433%. The average beginning-of-month market yield was 3.468%, resulting in a Market Amortization Return of -0.099%. These two terms sum to a total income effect of 0.295%.

*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. Over time, premium bond prices, absent any change in yield, naturally decline to their redemption price. This decline is called market amortization.*

## Appendix: Return from State-Specific Spread Change

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.

As mentioned, spreads tightened more in the Housing sector than in any other sector. They tightened even further in Idaho, Utah, New Hampshire, and the Dakotas, contributing to those states' large state-specific spread returns. The Dakotas also saw above average tightening in the Insured sector.

The District of Columbia, Kansas, and New Jersey were all hindered by widening spreads in their Local GO and Tax-Supported (Excl. GOs) sectors. North Carolina also saw widening spreads for its Local GO bonds, but its State GO bonds saw spreads widen the most.

**Table 6**

| State or Territory | Total Return Weight | Return from Sector/Quality Composition | State-Specific Spread Return | Total Spread Return |
|---|---|---|---|---|
| New Hampshire | 0.30% | 0.811% | 0.378% | 1.189% |
| South Dakota | 0.17% | 0.745% | 0.299% | 1.044% |
| North Dakota | 0.16% | 0.953% | 0.224% | 1.177% |
| Utah | 0.85% | 0.607% | 0.203% | 0.810% |
| Idaho | 0.24% | 0.683% | 0.162% | 0.845% |

**Table 7**

| State or Territory | Total Return Weight | Return from Sector/Quality Composition | State-Specific Spread Return | Total Spread Return |
|---|---|---|---|---|
| North Carolina | 1.56% | 0.461% | -0.176% | 0.285% |
| District of Columbia | 1.12% | 0.512% | -0.200% | 0.312% |
| Kansas | 0.46% | 0.360% | -0.238% | 0.122% |
| Connecticut | 1.39% | 0.371% | -0.266% | 0.105% |
| New Jersey | 2.99% | 0.520% | -0.340% | 0.180% |

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