Parametric

Municipal Bond Market Insight | November 2026

Resilience

Key takeaways

- October's powerful municipal bond rally erased much of September's loss.
- Investment grade muni yields are still among the highest in 20 years.
- The return of orderly bid-ask spreads facilitates tax-loss harvesting.
- Munis may serve as a high-quality diversifier against equity market volatility

General market update

Tax-exempts outperformed sharply last month, with the Bloomberg Municipal Bond Index increasing 3.85% and offsetting much of September's 4.36% loss, the worst monthly performance in 18 years. In sharp contrast, the October gain was the strongest since November 2023, when the Federal Reserve signaled it was done raising rates, and now stands as the best October since the inception of the index in 1980. Both investment-grade (IG) and high-yield muni indexes outperformed all major taxable fixed income and equity alternatives in October.

The driver of the broader fixed income rally arrived early in the month despite stubborn inflation readings and came in the form of market concerns over AI-related risk, which spurred a flight to quality into downtrodden Treasurys and other high-quality fixed income. As equities sagged, odds of a rate hike at the October Federal Open Markets Committee (FOMC) meeting dwindled. This low expectation was proven correct, and Chair Warsh's comments suggested that the Fed still has patience regarding the timeline for bringing inflation down to its 2% target. Meanwhile, the muni market's outsized rebound was built on a foundation of tax-exempt yields that handily eclipsed 20-year records.

When the dust settled, the major Bloomberg fixed income indexes were still left with mildly negative year-to-date (YTD) total returns. As noted, munis led the October performance parade, which left the asset class with a -0.48% YTD return. Rivaling that slightly negative return was Treasurys at -0.47%. The US Aggregate index, which includes US government, IG corporate, mortgage and asset-backed securities, followed with a -0.54% YTD return. Rounding out the group was the IG corporate index, at -1.02% YTD.

Supply

Despite maintaining a record YTD pace, supply fell year-over-year (YoY) in October because of a higher rates-driven slowdown in refunding activity, holiday- and Fed-impacted weeks of lighter issuance and the comparison to sharply elevated October 2025 supply.

October primary market issuance was $50.5 billion, down 15% YoY according to *The Bond Buyer*. Nonetheless YTD tax-exempt supply is running 6% higher than this time last year. Total muni issuance of $511 billion, which includes federally taxable munis that are down 16% YoY, is up 4% versus last year's then-record levels.

According to *The Bond Buyer*, California retains the title of largest issuer YTD, at approximately $81 billion, up 13% YoY. Texas followed with almost $64 billion, down 13%. New York came in third with $50 billion, down 11%, followed by a distant Alabama at $22 billion, up 77%, and Florida close behind in fifth, with $21 billion and a 4.6% increase from the same period in 2025.

Figure 1: Fixed income returns as of October 30, 2026

	MTD RETURN	YTD RETURN
Bloomberg Muni Index	3.85%	-0.48%
Bloomberg US Treasury Index	2.36%	-0.47%
Bloomberg US Aggregate Index	2.44%	-0.54%
Bloomberg US Corporate Index	2.16%	-1.02%

Source: Bloomberg, 10/30/2026. For illustrative purposes only. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

Figure 2: AAA municipal yields as of October 30, 2026

YEAR	CURRENT	MTD CHANGE	YTD CHANGE
2-year	2.66%	-88 bps	27 bps
5-year	2.98%	-76 bps	57 bps
10-year	3.39%	-71 bps	63 bps
30-year	4.81%	-32 bps	57 bps

Source: Thomson Reuters Municipal Market Data, 10/30/2026. The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. Not a recommendation to buy or sell any security. **Past performance is no guarantee of future results.**

Figure 3: US Treasury yields as of October 30, 2026

YEAR	CURRENT	MTD CHANGE	YTD CHANGE
2-year	4.57%	-32 bps	111 bps
5-year	4.71%	-38 bps	102 bps
10-year	4.92%	-38 bps	78 bps
30-year	5.31%	-33 bps	49 bps

Source: Bloomberg, 10/30/2026. The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. Not a recommendation to buy or sell any security. **Past performance is no guarantee of future results.**

On the demand front, muni mutual fund flows continue to be impressive YTD. Fund flows ended October with a massive weekly net inflow of $1.7 billion, which masks the likely heavy tax-loss harvesting activity between open-end funds and ETFs. Since the beginning of September's price weakness, ETFs appear to have been the recipient of tax-related selling out of open-end funds, with the final week of October showing open-ends surrendering $1.8 billion and ETFs capturing $3.5 billion, according to LSEG and JP Morgan.

Despite the apparent tax-loss harvesting activity, YTD inflows of approximately $82 billion are the third highest on record, with ETFs accounting for 88% of the inflows, according to LSEG and JPMorgan on November 4.

Market opportunity

The intense September downside volatility, followed by the powerful October rally, resulted in a near-round-trip ride for muni investors. With such contrasting consecutive months, it's important to note where we are right now, as well as where we were before it all began. In a word, the answer to both is "attractive".

For investors who stepped in during the September dislocation, the October outcome couldn't have been better. For those who implemented tax-loss harvesting where and when economically appropriate, the ensuing rally was optimal. For muni bondholders who sat tight, it was a wild ride for the textbooks, adding to muni lore. For those who remained on the sidelines, the entry points are still attractive.

Were the yields higher in September? Yes, but the opportunity to capture historically attractive tax exempt yields isn't gone.

In our September insight, we highlighted that "muni yields are the highest they've been in 20 years." Today we're still looking at tax-exempt yields among the highest in 20 years. In fact, using Bloomberg index data from November 6, we see that muni yields for five-, 10-, 15- and 20-year maturities are higher than 95%, 95%, 93% and 94% of the time during the last two decades, respectively. For upper tax-bracket investors, national taxable-equivalent yields (TEYs) range from 5.5% to 7.5%, and California and New York TEYs range from 6% to 9.5% (Bloomberg, Parametric, 11/2/2026).

Also worth noting is that during the October rally, the slope of an already steep muni curve steepened further by more than 30%. This tax-exempt trajectory may reward investors for extending maturities with attractive yields and potentially better entry points. For context, the yield pickup between 10- and 30-year munis is 145 basis points (bps), more than three times the 40-bps pickup available in Treasurys (LSEG, 11/6/2026).

Circling back to tax-loss harvesting, the speed of the September correction in munis made the economics of conducting tax-loss harvesting temporarily unfavorable to the bondholder. This weak bid side created a backlog of desired selling and, along with massive new-issue supply, hindered the muni market's ability to find its footing. In the opening days of October, the market rebounded sharply, and the ability to prudently harvest tax losses returned. While the losses aren't what they were during the depths of the dislocation, an orderly market is required to transact efficiently to benefit the bondholder.

We continue to favor year-round tax-loss harvesting as losses present themselves. This approach differs materially from the traditional exercise of reviewing losses in October and November, then selling by year-end. For clients interested in such transactions, we suggest acting sooner rather than later, as tax-loss harvesting typically becomes a crowded trade in mid-December, and the economics may become strained.

Key economic data

Change in nonfarm payrolls (Oct.)	+165K
Unemployment rate (Sep.)	4.1%
Core CPI–YoY change (Sep.)	2.6%
Core PCE–YoY change (Sep.)	3.1%
Average hourly earnings–YoY change (Oct.)	3.1%
Real GDP annualized (Q3 2026)	3.4%

Source: Bloomberg, 11/6/2026.

Economic outlook

October's FOMC meeting resulted in unchanged monetary policy, as widely expected. The inaction left the Fed funds target range between 3.75% and 4% and continued a course of data dependency for the Warsh Fed. While the futures market still anticipates rate hikes at the December and March meetings, Chair Warsh's comments during the presser were interpreted by market participants as being more patient regarding the timeline for returning inflation to the 2% target.

As we noted last month, markets began pricing in a materially more aggressive path after the September rate hike, despite the updated Summary of Economic Projection's (the "dot plot") median dot indicating just one more hike in 2026. Such market expectations were diminished immediately following FOMC's October pause. With market anxiety over additional hikes already appearing overdone, concerns in the AI sector then sparked a flight to quality into Treasurys and other high-quality fixed income.

Recent economic data have been mixed. Core PCE, the Fed's preferred measure for inflation, came in hotter for September, at +0.3% compared with the prior +0.2%, and hastened the YoY pace to 3.1% from the prior 3% reading. Note that this reading two months ago was 3.3%, so the slight uptick was exactly that slight. In the interim, oil prices eased to below $100 per barrel, which also helped to reduce

bond market anxieties since Chair Warsh had referenced commodity prices back in the September convocation.

With a paused Fed in data dependent mode, the Employment Situation Report for October appeared to hold even more weight than usual. Also adding to the anticipation was a severe equity market correction the day before the jobs data that more than reversed the prior day's rally in the wake of the Democrats' sweep of the mid-term elections. The driver of the downside equity volatility appeared to be growing concerns regarding government scrutiny and the potential slowing of AI infrastructure plans and related capital expenditures. The result was a 4.4% decline in the S&P 500® that was led by the information technology sector and marked the worst daily performance since April 2025. The bond market reaction to the equity consolidation was muted, with the 10-year Treasury yield dipping just five bps, which may have reflected bond market anxieties over the next morning's pending employment data.

Released on November 6, the payrolls report was robust across the board, with a headline jobs number that sharply exceeded market expectations. At 165,000 jobs created in October plus upward revisions to prior months, the headline data handily eclipsed the meager consensus estimate of just 70,000. The outsized gain meaningfully increased the three-month moving average to 137,000 from a revised 79,000. The unemployment rate declined to 4.1% against expectations of no change from the prior 4.2% reading. On the wages front, average hourly earnings grew by a solid 0.4% month over month, compared with a consensus forecast of 0.3%, which accelerated YoY earnings growth to 3.1%, compared with expectations of 2.9%.

All in, it was a strong report, but as we've repeatedly commented, one month doesn't make a trend. The October jobs report was opposite the sharp miss of September's data. This polarizing two-month trend, in concert with a tepid equity market opening, led to an understandably muted bond market reaction, with the two-year Treasury yield up just two bps, and the 10-year largely unchanged by midday. Fed funds futures pricing according to Bloomberg on November 6 suggested a 79% chance of a hike in mid-December and a 36% chance at the mid-March FOMC meeting.

Given the recent volatility in equity markets and mixed economic data month to month, muni yields that still rank among the highest in 20 years may be worth considering as a high-quality diversifier in individual investor asset allocation models. Fall has thus far not disappointed as we race toward the close of this very interesting year.

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