Parametric

Municipal Bond Market Insight | July 2026

Capture the Curve

Key takeaways

- Municipal bonds continued to strengthen their year-to-date (YTD) leadership position over Treasurys and corporate bonds in June.
- July continues the seasonal shift in the tax-exempt marketplace that's price supportive, marked by robust reinvestment demand and likely lighter summer supply.
- Intermediate and long muni yields remain historically compelling despite the mild second-quarter rally.
- The slope of the muni yield curve beyond 10 years remains twice as steep as Treasurys and beckons investors seeking to lock in yields by extending duration where appropriate.

General market update

The muni market continued to build on what has become a good year for the tax-exempt asset class. YTD performance has handily outpaced both US Treasurys and US investment-grade corporate bonds, providing a meaningful down payment on our low- to mid-single-digit total return forecast for 2026. The rebound that followed March's weakness has now extended through the start of summer, supported by persistent demand for tax-exempt income and seasonal technicals that are favorable for bondholders.

The broader backdrop has also improved somewhat. Easing geopolitical tensions, lower oil prices and recent data suggesting inflation remains stubborn but manageable all support a more constructive summer technical environment. We'd still expect volatility, particularly given the Federal Reserve's less explicit forward guidance under new chair Kevin Warsh, but the supply-demand setup could drive further muni outperformance through the summer ahead of the typical mid-September seasonal reversal.

Muni bonds in June advanced 96 basis points (bps) to rest at a YTD total return of 2.32%. US Treasurys added 28 bps to arrive at a return of 0.28% and US corporates extended 19 bps to close the month at 0.86% YTD. Indeed, tax-exempt bonds have maintained fixed income leadership despite volatile rates, robust issuance and a shifting Fed communication regime.

Supply

July sits in the center of the year's peak seasonal reinvestment window, which should remain price supportive for tax-exempt bonds. Coupon payments, maturities and called-bond proceeds tend to be largest during June, July and August, creating cash that investors often seek to reinvest back into the muni market. This seasonal demand is most impactful when it coincides with lighter summer supply, as the resulting imbalance can support prices and compress yields. Meanwhile, YTD muni mutual fund and ETF flows have been positive for 11 consecutive weeks and are running at the second-best pace on record, at $53 billion, according to LSEG and JP Morgan on July 1.

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

	MTD return	YTD return
Bloomberg Muni Index	0.96%	2.32%
Bloomberg US Treasury Index	0.28%	0.28%
Bloomberg US Aggregate Index	0.24%	0.62%
Bloomberg US Corporate Index	0.19%	0.86%

Source: Bloomberg, 6/30/2026. 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 June 30 2026

Year	Current	MTD change	YTD change
2-year	2.36%	-6 bps	-3 bps
5-year	2.61%	-1 bp	20 bps
10-year	2.95%	-3 bps	19 bps
30-year	4.21%	-13 bps	-3 bps

Source: Thomson Reuters Municipal Market Data, 6/30/2026. For illustrative purposes only. Not a recommendation to buy or sell any security.

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

Year	Current	MTD change	YTD change
2-year	4.18%	18 bps	72 bps
5-year	4.23%	9 bps	54 bps
10-year	4.47%	3 bps	33 bps
30-year	4.96%	-3 bps	14 bps

Source: Bloomberg, 6/30/2026. For illustrative purposes only. Not a recommendation to buy or sell any security.

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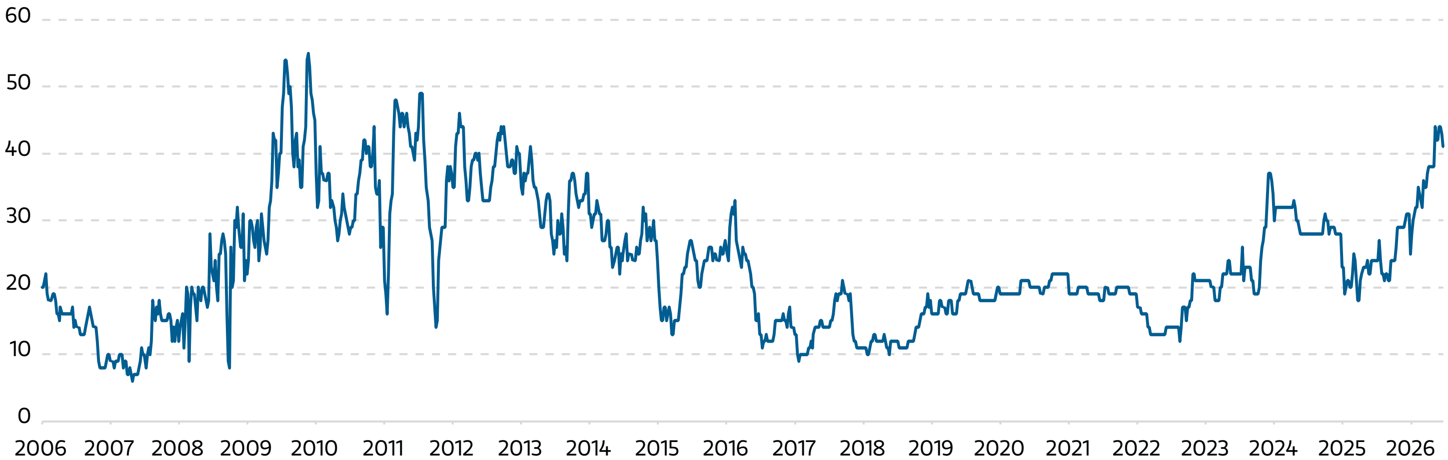
DISPLAY 1

AAA 20 to 30-year curve slope over the past two decades



Source: Thomson Reuters Municipal Markets Data, 6/30/2026. For illustrative purposes only. It is not possible to invest directly in an index.
Past performance is no guarantee of future results.

June tax-exempt issuance came close to setting a monthly record but fell short likely because of the Juneteenth holiday and a light pre-July 4 week of issuance. Even so, supply has been robust and continues to run at a record pace YTD, eclipsing the same period in 2025 by 5% according to *The Bond Buyer* on July 2. Expectations for full-year supply approaching $600 billion appear to be on track. This heavy issuance hasn't prevented muni outperformance, which speaks to the depth of demand from exchange-traded funds, open-end funds and separately managed account growth.

The three largest issuing states YTD remain California, Texas and New York. Rounding out the top 10 are Alabama (up 103%), Massachusetts, Florida, Pennsylvania, Washington State, Illinois and Michigan. The muni market is both seasonal and local. Despite record overall supply, some states show double-digit YTD declines compared with 2025. These include New Jersey, which is down 36% from last year.

According to CreditSights on June 26, net supply is expected to be negative in July, which would reportedly be the first month of net negative supply since December 2024. Net negative supply means that the amount of reinvestment cash from maturing bonds, called bonds and coupon payment proceeds entering the market exceeds the amount of new bonds expected to be available. This technical condition should be price-supportive and will likely persist until mid-September.

Market opportunity

Why go long and capture the curve? The short answer is that investors are still being paid to do so. Despite solid YTD performance, the intermediate and long ranges of the muni yield curve continue to offer a compelling mix of income, taxable-equivalent value and potential total return, with the latter admittedly requiring some patience. As illustrated below, the 20- to 30-year portion of the muni curve is at its steepest level in 14 years, which takes us back to the period shaped by Obama-era threats to cap the value of the muni tax exemption, the fiscal cliff, a small number of municipal bankruptcies and the tail end of Meredith Whitney-era credit concerns. No such concerns exist today, making the current curve shape notable for valuation rather than perceived stresses.

The appeal of longer maturities isn't simply about reaching for yield; it's about locking in historically elevated income at a point when the forward rate environment appears more stable than the recent volatility suggests. A higher-for-longer backdrop, driven by a Fed in transition under chair Warsh and lingering geopolitical developments, extends the opportunity for bond buyers to add duration thoughtfully; it doesn't necessarily imply that yields will keep rising repeatedly, which is an important distinction. With the Bloomberg consensus on July 7 forecasting the 10-year Treasury drifting from 4.38% at year-end 2026 to 4.27% by year-end 2027, our view remains that long muni yields offer high-quality carry and potentially attractive compensation for patient investors.

Within the full one- to 30-year muni yield curve, longer and intermediate muni strategies have already participated meaningfully in this year's catch-up performance. According to the Bloomberg Managed Money muni indexes on July 2, the long index was up 3.1% YTD, and the intermediate index was up 1.02%, while the short/intermediate index and the short indexes were up 0.58% and 0.94%, respectively. Despite the mid-year outperformance, we believe the opportunity endures. Intermediate and long yields remain near the upper end of the past decade. Our base case remains on for mildly lower yields over the next 12 to 18 months, with elevated income as the primary source of return and potential price appreciation if rates stabilize or decline.

Execution remains central to seizing the opportunity. Elevated yields and uneven issuance create dispersion across sectors, credits, structures and states. In that environment, professional management can add value through disciplined security selection, primary- and secondary-market sourcing and careful attention to lot size and liquidity. Active, tax-aware implementation can help turn episodic dislocations into better portfolio entry points.

While we've spent considerable time in recent months discussing the steep curve opportunity on the intermediate and long end, it's also worth noting that the front end of the muni yield curve is a different story, with a trajectory similar to that of US Treasurys and corporates. A different, more customized approach may be beneficial in this tighter yield environment. Accordingly, our Tax-Optimized Ladder strategy remains relevant for investors evaluating the front end of the curve on a bespoke tax-efficient basis, where munis, Treasurys and corporates compete on an after-tax basis in the one- to 10-year range. The strategy also considers state-specific scarcity premiums and offers year-round tax-loss harvesting.

Where we see opportunity:

- Extending into the 15- to 30-year range, as the 20- to 30-year curve slope is the steepest in 14 years and offers meaningful incremental yield.
- Using professional management to navigate uneven supply, liquidity differences and market dislocations that may create attractive entry points.
- Maintaining patience in a higher-for-longer environment while seeking to lock in long decade-high yields before summer technicals fully assert themselves.
- Using flexible front-end strategies such as tax-optimized ladders to efficiently allocate tax-exempt munis, Treasurys and corporates across one- to 10-year maturities.

Key economic data

Change in nonfarm payrolls (Jun.)	57K
Unemployment rate (Jun.)	4.2%
Core CPI–YoY change (May)	2.9%
Core PCE–YoY change (May)	3.4%
Average hourly earnings–YoY change (May)	3.5%
Real GDP annualized (Q1 2026)	1.6%

Source: Bloomberg, 6/30/2026

Economic outlook

Macroeconomic conditions remain uncertain as July begins, but the tone has shifted. Easing geopolitical tensions and lower oil prices have reduced some pressure, while inflation data still suggests that price pressures are constant but seemingly manageable. New Fed chair Kevin Warsh signaled during his first Federal Open Markets Committee (FOMC) press conference that he's likely to lead a less communicative Fed, with fewer explicit hints about the future path of rates and more emphasis on incoming data. The result could feel somewhat reminiscent of the Greenspan era, when markets were left to interpret limited signals and data releases carried greater weight.

As widely expected, the June FOMC meeting ended with no change in policy, leaving the fed funds target range at 3.5% to 3.75% with a unanimous vote. The meeting was less about the rate decision than about the communication regime. The policy statement was shorter and removed the prior easing bias, while the Summary of Economic Projections suggested that most policymakers now expect rates to remain where they are or move higher by year-end.

Warsh's subsequent public comments reinforced the new focus. At the ECB Sintra forum, he suggested inflation expectations have declined but avoided giving direct signals on the next policy move. This approach may increase data-driven volatility, because markets will have fewer guideposts from the Fed between meetings. It also makes each inflation, employment and commodity-price report more important for rates while the committee tries to balance a resilient labor market with inflation still above the 2% objective.

On the jobs front, June's Employment Situation Report revealed nonfarm payrolls growth of just 57,000 jobs, considerably fewer than the 113,000 consensus expectation. The prior month's readings were revised downward by 74,000, bringing the three-month moving average down to 111,000 from 188,000. The unemployment rate unexpectedly dipped to 4.2% from 4.3%, but that decline was largely attributed to a lower labor force participation rate, and average hourly earnings month over month and year over year both came in line with expectations, at 0.3% and 3.5%, respectively. All in, the report suggests that the Fed has the time to wait and assess more incoming data, perhaps even through year-end. Less than a week after the employment report, news of fresh attacks on tankers in the Strait of Hormuz mildly reversed recent oil price declines and drove the 10-year US Treasury yield above 4.5%, suggesting a continuation of unsettled markets.

For muni investors, this isn't necessarily a negative backdrop. Rate volatility can create entry points, while elevated starting yields provide more income cushion than investors had for much of the past decade. If the base case of mildly lower yields over the next 12 to 18 months proves correct, longer high-quality muni portfolios could benefit from both income and price appreciation. If rates remain range-bound instead, the income profile still looks compelling on a taxable-equivalent basis.

The prevailing yields in tax-exempts continue to offer attractive after-tax income and meaningful diversification benefits in an unsettled market environment. The value proposition we've discussed here remains centered on historically compelling intermediate and long muni yields, a curve that rewards selective extension and a seasonal shift that may remain price supportive as reinvestment cash increases during the summer months. We continue to favor disciplined yield-curve positioning, prudent relative-value analysis and an active tax-conscious approach we believe are essential for high-quality portfolio construction. It's been an interesting year thus far, and summer appears to be heading in a consistent direction.

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