

Municipal Bond Market Insight | June 2026

Shift at Hand

Key takeaways

- » Municipal bonds strengthened their year-to-date (YTD) leadership position over Treasuries and corporate bonds in May.
- » June brings a seasonal shift to the tax-exempt marketplace that should be price-supportive.
- » Intermediate and long muni yields remain historically compelling despite the mild May rally.
- » The slope of the muni yield curve beyond 10 years remains twice as steep as Treasuries, potentially rewarding investors for extending duration where appropriate.

General market update

The muni bond market bolstered its YTD leadership position over Treasuries and corporate bonds in May. This impressive performance occurred despite a volatile interest rate backdrop, continued robust muni new issuance and the ongoing lack of a durable solution for the conflict in Iran. Meanwhile, the Federal Reserve appears close to removing its statement bias toward additional easing in favor of symmetrical monetary policy that's fully data dependent and equally weighs the possibility of a cut or a hike.

As we discussed last month, March, April and May was a period of seasonal weakness in munis. A reversal followed in June, July and August that would bring seasonal strength to tax exempts.

Muni bonds outperformed Treasuries but underperformed corporates in May. The Bloomberg Municipal Bond Index increased 0.37% for the month, bringing the YTD total return to 1.34%. The Bloomberg US Treasury Bond Index gained 0.11% in April, leaving that YTD total return flat, at 0%. The Bloomberg Corporate Bond Index gained 0.76% for the month, placing its YTD total return at 0.67%.

Supply

Powerful demand endured through May, capping off the last week of the month with the second-largest weekly muni mutual fund inflows on record, according to LSEG and JP Morgan. This mutual fund interest, in combination with separately managed account growth, offset the impact of robust primary market supply and enabled munis to outperform their fixed income peers. We expect this demand to continue and likely strengthen during the next few months.

May issuance reached approximately \$51 billion, mildly higher than last month but down approximately 4% from the same month last year. It was only the second time that May's primary supply topped \$50 billion, according to *The Bond Buyer* as of June 1, 2026. The outsized supply continued despite elevated interest rates and less favorable borrower conditions. YTD issuance now totals roughly \$235 billion, up 4.3% versus last year and still maintaining a record pace for the period. Expectations for full-year supply approaching \$600 billion appear feasible.

Figure 1: Fixed income returns as of May 29, 2026

	MTD return	YTD return
Bloomberg Muni Index	0.37%	1.34%
Bloomberg US Treasury Index	0.11%	0%
Bloomberg US Aggregate Index	0.31%	0.38%
Bloomberg US Corporate Index	0.76%	0.67%

Source: Bloomberg, 5/29/2026. 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 May 29, 2026

Year	Current	MTD change	YTD change
2-year	2.42%	-5	3
5-year	2.62%	3	21
10-year	2.98%	2	22
30-year	4.34%	1	10

Source: Thomson Reuters Municipal Market Data, 5/29/2026. For illustrative purposes only. Not a recommendation to buy or sell any security.

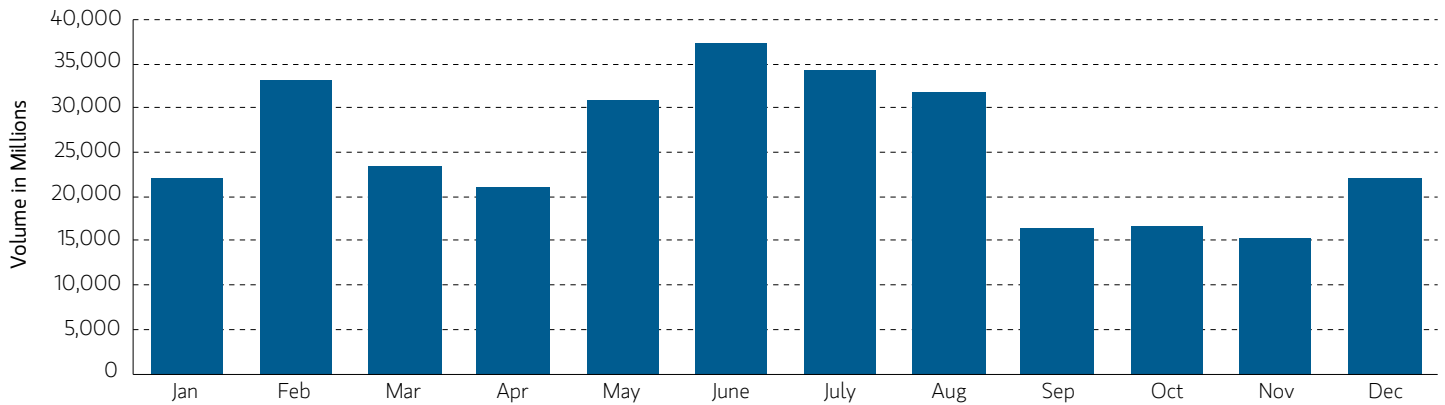
Past performance is no guarantee of future results.

Figure 3: US Treasury yields as of May 29, 2026

Year	Current	MTD change	YTD change
2-year	4.00%	12	54
5-year	4.14%	12	45
10-year	4.44%	5	30
30-year	4.99%	0	17

Source: Bloomberg, 5/29/2026. For illustrative purposes only. Not a recommendation to buy or sell any security.

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DISPLAY 1**2026 municipal bond redemptions, as of May 11, 2026**

Source: ICE Data, 5/11/2026. For illustrative purposes only. Not a recommendation to buy or sell any security. Figures represent anticipated payout by municipal issuers in millions of dollars. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

The largest issuing states YTD remain California, Texas and New York, consistent with historical patterns of infrastructure demand and population-driven financing needs. Rounding out the top 10 are Massachusetts, Pennsylvania, Florida, Illinois, Michigan, Alabama and Wisconsin. Importantly, the muni market is both seasonal and local. Despite the robust and even record overall supply, some states show double-digit YTD declines compared with 2025. These include New Jersey, which is down 35% from last year.

Market opportunity

The seasonal inflection we've been discussing is no longer theoretical. May's positive performance arrived even as primary supply remained robust and interest-rate volatility persisted, suggesting that demand for tax-exempt income has been strong enough to absorb issuer activity even before the full summer reinvestment calendar has arrived. That said, we'd frame the technical backdrop with some balance. Summer reinvestment demand should become more supportive in June, July and August, but elevated issuance and rate volatility remain important offsets. In our view, that combination points to a broader opportunity in today's muni market: Higher starting yields, a steep curve and periodic dislocations that may reward disciplined professional management.

Intermediate and long muni yields remain compelling despite the mild May rally. The back half of the muni curve continues to offer an attractive balance of income, taxable-equivalent value and desirable entry points, particularly for investors willing to extend duration where appropriate. What enables this value proposition? The slope of the muni yield curve beyond 10 years is roughly twice as steep as the comparable Treasury curve, which means investors are still being

compensated for moving out of cash and into longer high-quality tax-exempt maturities at historically attractive absolute yields. In a stronger-for-longer economic environment, higher yields shouldn't be viewed only as a headwind. They can improve the income profile of new allocations and create more attractive entry points for high-tax-bracket investors.

Execution matters in concert with valuation. When yields are elevated, supply is uneven and price dispersion is meaningful, the ability to source bonds efficiently, comparing opportunities across markets and deploying capital with discipline becomes a key part of the value proposition, in our opinion. In fixed income markets, the ability to source bonds efficiently, invest capital thoughtfully and trade at competitive prices can directly affect investor returns. Parametric's fixed income trading platform executed more than \$68 billion across muni and taxable markets in 2025, averaging more than \$220 million per trading day and more than 834,000 individual trades. That scale strengthens trading partner relationships, improves access to liquidity and can support pricing outcomes, particularly in smaller muni lot sizes where liquidity can be uneven.

The same trading scale also helps turn market inefficiency into opportunity. Parametric represented roughly 5% of all customer-to-dealer muni bond transactions in 2025, and 58% of our muni purchases occurred in the primary market, where attractive pricing opportunities were frequently available. In an environment of uneven weekly issuance, primary-market access and the ability to pivot between the new-issue and secondary markets is crucial, as some weeks bring limited supply while others exceed \$20 billion.

Technology, data and patience are also important. Proprietary internal systems help generate orders, allocate trades across thousands of accounts and enable traders to focus on market conditions and execution quality. For muni SMA clients in 2025, accounts were 50% invested in roughly five days and reached more than 95% investment within two weeks on average, reflecting disciplined portfolio construction, speed and a prudent approach. In the current market, this balance is critical. Summer technicals should become more supportive, but price discipline is always in style to help capitalize on ebbs and flows.

Where we see opportunity:

- Extending into the 15- to 30-year range, where curve steepness offers meaningful incremental yield
- Relying on professional management to navigate uneven supply, liquidity differences and market dislocations that may create attractive entry points
- Using flexible front-end strategies that compare tax-exempt munis, Treasurys and corporates, particularly where rich muni ratios make cross-market relative-value analysis important

Economic outlook

Macroeconomic conditions remain unsettled as June gets underway. Geopolitical conflict continues to influence commodity prices and impact investor sentiment, while the Fed transitions under new chair Kevin Warsh. We expect that the most notable policy adjustment won't yet be a rate change, but rather a communication change. One of the tasks at hand for chair Warsh will be to build consensus among the voting members. At the last Federal Open Markets Committee (FOMC) meeting, three voting members dissented in favor of symmetrical statement language that would remove any bias toward further rate cuts and more explicitly acknowledge that the next policy move could be a cut, a hold or a hike depending on incoming data.

A key driver of Fed-related market sentiment was the May Employment Situation Report released on June 5. The data revealed 172,000 new jobs created compared with consensus expectations of just 85,000. The above-expectations gain, along with a material upward revision to last month's data,

Key economic data

Change in nonfarm payrolls (May)	172K
Unemployment rate (May)	4.3%
Core CPI–YoY change (Apr.)	2.8%
Core PCE–YoY change (Apr.)	3.3%
Average hourly earnings–YoY change (May)	3.4%
Real GDP annualized (Q1 2026)	1.6%

Source: Bloomberg, 6/05/2026

resulted in a three-month moving average of 188,000 for nonfarm payrolls, while the unemployment rate remained unchanged at 4.3%. This strong payroll print supports the view that restrictive policy has not weighed on growth and reinforces the case for a fully data-dependent Fed adopting symmetrical monetary policy while inflation and commodity-price risks remain unresolved.

The next FOMC meeting will take place on June 16 through 17 and should be highly anticipated because it's scheduled to include the release of the Fed's latest dot plot and summary of economic projections. In our view, the meeting will be less about an immediate policy move and more about the Warsh Fed's reaction function, statement language and willingness to acknowledge a wider range of potential outcomes. For muni bond buyers, the key takeaway is that rates may remain volatile, but elevated starting yields and improving summer technicals continue to provide a constructive foundation.

The prevailing yields in tax-exempts continue to offer attractive after-tax income and a meaningful diversification benefit in an unsettled market environment. The value proposition discussed throughout this note remains centered on historically compelling intermediate and long muni yields, a curve that rewards selective extension and a seasonal shift that may become increasingly 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 that we believe are essential for high-quality portfolio construction. It has been an interesting year thus far, and summer may be consistent.

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