

Municipal Bond Market Insight | May 2026

The Comeback and the Clock

Key takeaways

- » Munis rebounded sharply in April to lead fixed income performance over Treasurys and corporate bonds.
- » Strong inflows to muni mutual funds and growth in separately managed accounts helped offset robust issuance.
- » Yields are still attractive, especially in intermediate and longer maturities, but summer reinvestment flows could potentially push yields down, so timing matters.
- » The better buying opportunities we highlighted last month endure at the intermediate and long ends of the muni yield curve.

General market update

After the municipal bond market registered its worst performance for any March on record, alongside sharp losses in US Treasuries and corporate bonds, munis powered back in April to regain a substantial leadership position among the three markets. What made the rebound even more noteworthy is that it took place during outsized new-issue supply, in the absence of a durable solution for the conflict in Iran and with the Fed relegated to the sidelines.

Despite the comeback, we believe prospective muni buyers of the intermediate and long-end maturity ranges haven't missed the opportunity—but the clock is likely ticking.

Muni bonds outperformed both Treasuries and corporate bonds in April. The Bloomberg Municipal Bond Index increased 1.15% for the month, bringing the year-to-date (YTD) total return to 0.97%. The Bloomberg US Treasury Bond Index lost 0.07% in April, leaving that YTD total return at -0.12%. The Bloomberg Corporate Bond Index gained 0.45% for the month, placing its YTD total return at -0.09%.

Supply and demand

A near relentless demand for municipal mutual funds and separately managed accounts drove forward momentum and blunted the impact of robust primary market supply. There was a lower level of potential reinvestment funds from maturing bonds, called bonds and coupon payments, into bondholder accounts in March, April and May. Despite this, muni funds experienced just one week of outflows during April, which appeared to be tax-filing related.

April issuance reached approximately \$48 billion, mildly lower than last month and down approximately 8% from the same month last year. Though, it was strong enough to rank among the top three Aprils on record, according to The Bond Buyer as of May 4, 2026. Like last month, the robust supply continued despite elevated interest rates and highlights ongoing issuer needs and a willingness to access markets under less favorable conditions. YTD issuance now totals roughly \$179 billion, up 3.9% versus last year, and still maintaining a record pace for the period. Expectations for full-year supply approaching \$600 billion appear feasible.

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 ten are Pennsylvania, Florida, Alabama, Massachusetts, Tennessee, Illinois and Minnesota.

FIGURE 1
Fixed income returns as of April 30, 2026

	MTD return	YTD return
Bloomberg Muni Index	1.15%	0.97%
Bloomberg US Treasury Index	-0.07%	-0.12%
Bloomberg US Aggregate Index	0.11%	0.07%
Bloomberg US Corporate Index	0.45%	-0.09%

Source: Bloomberg, 4/30/2026. 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 April 30, 2026

Year	Current	MTD change	YTD change
2-year	2.47%	5 bps	8 bps
5-year	2.59%	-8 bps	18 bps
10-year	2.96%	-16 bps	20 bps
30-year	4.33%	14 bps	9 bps

Source: Thomson Reuters Municipal Market Data, 4/30/2026. 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.

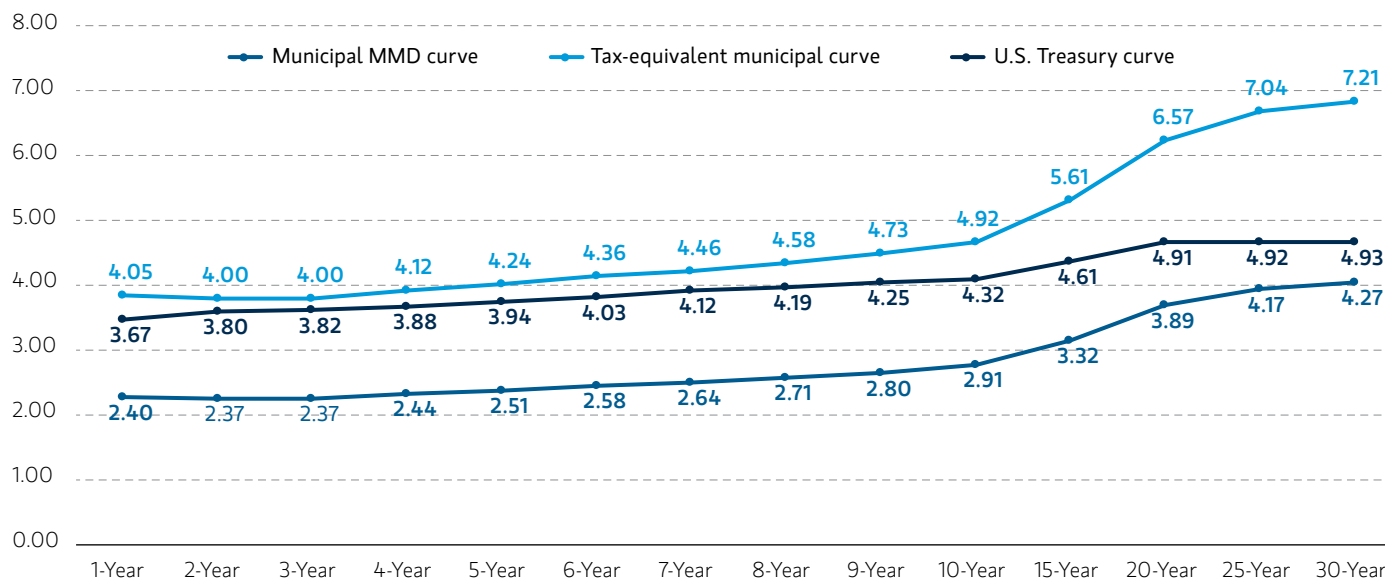
FIGURE 3
US Treasury yields as of April 30, 2026

Year	Current	MTD change	YTD change
2-year	3.88%	8 bps	42 bps
5-year	4.02%	8 bps	33 bps
10-year	4.39%	8 bps	25 bps
30-year	4.99%	10 bps	17 bps

Source: Bloomberg, 4/30/2026. Not a recommendation to buy or sell any security.

Past performance is no guarantee of future results.

FIGURE 4
Municipal yield curve vs. U.S. Treasury
 AAA MMD municipal curve compared to U.S. Treasury curve



Source: Bloomberg & Refinity as of 4/15/2026. Data provided is for informational use only. Past performance is not a reliable indicator of future results. Tax-equivalent yields is calculated assuming a federal tax rate of 40.80%. Not a recommendation to buy or sell a security.

Market opportunity

The municipal bond market has already started its comeback. We believe there is still time, now measured in weeks, to seek to take advantage of compelling yields in the intermediate and long end of the muni yield curve before potential reinvestment demand rises sharply in June, July and August. In our view, today's environment offers a valuable window to lock in elevated yields before that seasonal summer technical shift occurs.

The municipal market's April rebound did little to diminish what remains an unusually attractive entry point for long-term investors. While benchmark performance has recovered alongside strong inflows, the underlying setup of elevated absolute yields, a historically steep curve and still-favorable relative value remain intact. This recovery has occurred before the full seasonal reversal in technicals, suggesting that the window to lock in higher yields has narrowed but not closed.

Absolute yields continue to anchor the opportunity set. Even after the April rally, municipal yields remain at the upper end of the last decade, with key parts of the curve, specifically 20-year maturity yields, having been higher less than 10% of the time over the past decade. These elevated starting points are historically associated with stronger forward return potential, particularly in high-quality municipals. For tax-sensitive investors, taxable-equivalent yields remain compelling relative to both Treasuries and corporates, reinforcing municipals' role as a core fixed income allocation.

At the same time, yield curve structure continues to favor extending duration. The municipal yield curve remains notably steeper than its Treasury counterpart, with incremental yield between 10- and 30-year maturities more than double that of taxable markets. This creates a meaningful incentive for investors to move out along the curve, particularly given that many portfolios remain underweight duration following the past several years of rate volatility. In our view, selectively adding duration at these levels offers both income enhancement and potential price appreciation should yields stabilize or decline.

Technical conditions further support a constructive outlook, though timing remains important. The market is transitioning from a period of heavy issuance and constrained reinvestment flows toward the more supportive summer months, when coupon, maturity and called bond cash hitting bondholder accounts are scheduled to accelerate. April's strong inflows helped absorb supply, but the anticipated seasonal demand tailwind in June through August could place downward pressure on yields. This dynamic reinforces our "comeback and the clock" theme: valuations remain attractive today, but the opportunity to capture them may diminish when technicals improve.

When geopolitical uncertainty and divergent monetary policy expectations characterize an environment, it increases dispersion across sectors, credits and structures. This backdrop tends to reward active management, where disciplined duration positioning, security selection and tax-aware strategies can add incremental value. With multiple macro paths still plausible, flexibility and selectivity remain essential.

Where we see opportunity:

- Extending into the 10- to 30-year range, where curve steepness offers meaningful incremental yield.
- Using managed intermediate and long-duration strategies positioned to capitalize on supply-driven volatility.
- Selecting out-of-state municipal bonds when in-state scarcity compresses relative value.
- Buying opportunistically during heavier supply windows before seasonally strong reinvestment returns in June, July and August.
- Using tax-optimized ladder strategies to efficiently blend munis, Treasuries and corporates at the front-end of the yield curve across one to ten-year maturities.

Economic outlook

Macroeconomic conditions continue to be unsettled, with geopolitical conflict and sharply elevated commodity prices impacting market sentiment. As of May's open, the 10-year U.S. Treasury yield stood near 4.40%, oil prices remained well above \$100 per barrel, and gold hovered above \$4,500 per ounce, but well below its Q1 peak.

Key economic data

Change in nonfarm payrolls (Mar.)	178,000
Unemployment rate (Mar.)	4.3%
Core CPI–YoY change (Mar.)	2.6%
Core PCE–YoY change (Feb.)	3.0%
Average hourly earnings–YoY change (Mar.)	3.5%
Real GDP annualized (Q4t 2025)	0.5%

Source: Bloomberg, 4/30/2026.

The market awaits the April payroll situation report set for release on May 8, with pundits again expecting only a mild level of job creation. According to Bloomberg, the street consensus is looking for just 63,000 new jobs. An increase of 178,000 jobs upended a similarly mild 65,000 expectation in March. Consensus expectations also indicate no change for the 4.3% unemployment rate and a slight uptick in average hourly earnings of 0.3% versus the prior 0.2%.

The federal funds futures market has no additional cuts priced in for this year as of writing this. That said the April 29 Federal Open Market Committee (FOMC) meeting concluded with no change in monetary policy, leaving the key federal funds rate in a target range of 3.50% to 3.75%. The statement continued to imply that the next move, if appropriate, would be another rate cut. Importantly, there were four dissents among the voting members. While only one dissented regarding the unchanged monetary policy (in favor of a cut), three other voting members dissented in favor of adjusting the statement language to indicate that the next move wouldn't necessarily be a rate cut, thus removing any bias toward additional ease and adopting symmetrical data-dependent guidance. According to Bloomberg, the last time there were four dissenters was in 1992.

In a related development on the same day as the FOMC meeting, Fed chair nominee Kevin Warsh won approval from the Senate Banking Committee, making the April convocation Jerome Powell's last as Fed chair. Incoming chair Warsh will be tasked with rebuilding consensus among the voting members ahead of the next FOMC meeting scheduled for June 16 and 17, which is scheduled to feature an updated Summary of economic projections (aka the dot plot). Our base expectation for the new Warsh Fed is one of incremental change rather than a jarring break from the prior Powell leadership. Further, Powell announced that he will remain on the board, which should facilitate institutional continuity. While no policy change is expected at the Warsh-led May meeting, the market's focus will likely center on any changes to the language of the statement and any movements in the dot plot. Meanwhile, Bloomberg consensus forecasts the 10-year U.S. Treasury yield at approximately 4.18% by year-end 2026 and 4.12% by the end of calendar 2027. As we have seen, such mild directional moves can mask significant interim volatility.

The elevated yields in tax exempts continue to offer attractive after-tax income, and it emphasizes the benefits of diversification during this ongoing unsettled market environment. The better buying opportunities we highlighted last month endure at the intermediate and long ends of the muni yield curve. We continue to implement disciplined yield curve positioning, prudent relative value

analysis and an active tax-conscious approach that we believe are the keys to outperformance and high-quality portfolio construction. Despite the year-to-date price volatility, we remain constructive on munis and continue to hold a low-to-mid-single-digit total return outlook for 2026. What has clearly been an interesting spring could easily lead to an exciting summer.

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