

Municipal Bond Market Insight | March 2026

Seasonal Shift Follows Outperformance

Key takeaways

- » Municipals outperformed Treasuries and corporates again in February, building on January's strength.
- » A seasonal shift in supply and reinvestment flows may create more attractive entry points in coming months.
- » The steep back half of the muni yield curve continues to reward maturity extensions.
- » Despite geopolitical turbulence, our outlook for mid-single-digit returns in 2026 remains intact.

General market update

Muni bonds outperformed both Treasuries and corporate bonds in February, marking a second consecutive month of leadership. The Bloomberg Municipal Bond Index ended the month with a year-to-date (YTD) total return of 2.2%, ahead of the Bloomberg US Treasury Bond Index at 1.72% and the Bloomberg Corporate Bond Index at 1.47%. For holders of tax-exempt bonds, the year has begun with constructive momentum.

The broader bond market found support in data-driven strength. A mid-month release of the January payroll report was outsized, but revisions to prior data revealed a material slowing in job growth during 2025. Markets ultimately focused on that deceleration rather than the headline print, reinforcing the view that policy may not need to remain restrictive for an extended period.

After two months of solid performance, munis have demonstrated resilience amid crosscurrents in rates and risk assets. Strong early-year returns are encouraging, but investors should prepare for a potential shift in technical conditions as the calendar turns.

Supply

New issuance in February was essentially flat compared with the same month last year, with more than \$40 billion entering the primary market. YTD, issuance totals approximately \$75 billion, running about 11% below 2025 levels. Even so, February ranked as the third strongest on record for the month, according to *The Bond Buyer*.

The continued abundance of issuance reflects deferred projects, ongoing infrastructure needs and the reality that deal sizes have grown alongside inflation in recent years. Despite this robust supply, pockets of scarcity remain—particularly among differentiated credits in certain higher-tax states. For select state-specific portfolios, patience remains a virtue.

While headline supply remains elevated, the muni market's local nature continues to create both challenges and selective opportunities beneath the surface.

Figure 1: Fixed income returns as of February 27, 2026

	MTD return	YTD return
Bloomberg Muni Index	1.25%	2.2%
Bloomberg US Treasury Index	1.82%	1.72%
Bloomberg US Aggregate Index	-0.52%	1.22%
Bloomberg US Corporate Index	1.29%	1.47%

Source: Bloomberg, 2/27/2026. 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 February 27, 2026

Year	Current	MTD change	YTD change
2-year	2.03%	-15 bps	-36 bps
5-year	2.1%	-14 bps	-31 bps
10-year	2.52%	-11 bps	-24 bps
30-year	4.17%	-12 bp	-7 bps

Source: Thomson Reuters Municipal Market Data, 2/27/2026. 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.

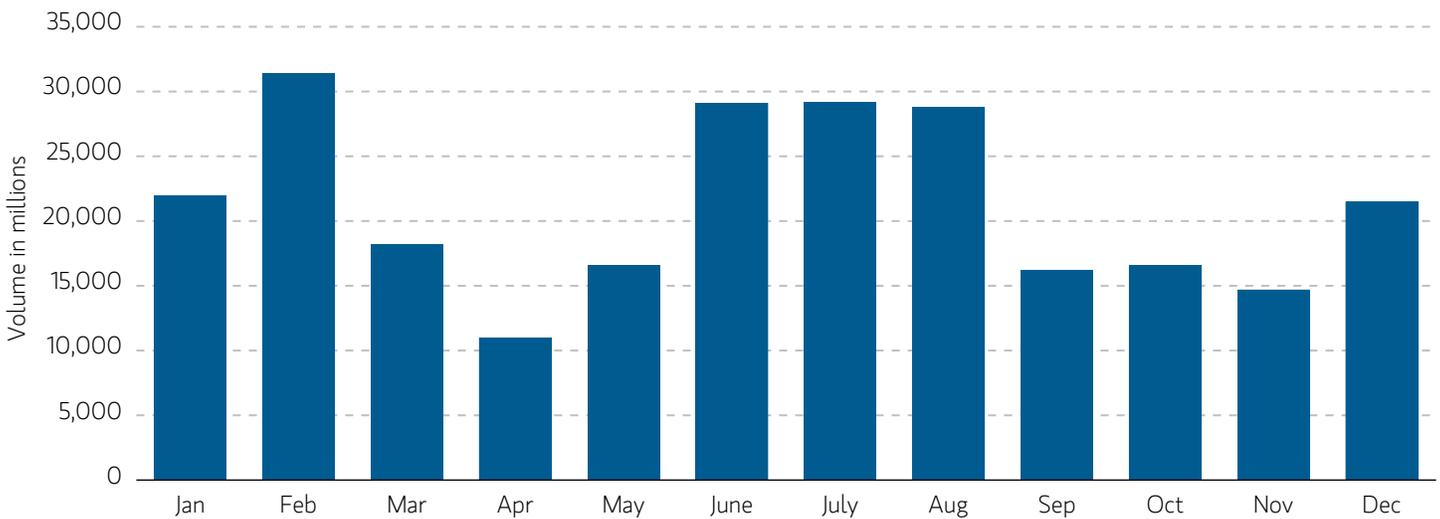
Past performance is no guarantee of future results.

Figure 3: US Treasury yields as of February 27, 2026

Year	Current	MTD change	YTD change
2-year	3.38%	-15 bps	-8 bps
5-year	3.51%	-29 bps	-18 bps
10-year	3.96%	-28 bps	-18 bps
30-year	4.63%	-24 bps	-19 bps

Source: Bloomberg, 2/27/2026. Not a recommendation to buy or sell any security. **Past performance is no guarantee of future results.**

FIGURE 4
2026 municipal bond redemptions, as of March 9, 2026



Source: ICE Data, 3/9/2026. For illustrative purposes only. Not a recommendation to buy or sell any security. Figures represent anticipated payout by municipal issuers in millions of dollars. Advance Refundings is the actual volume of bonds to be called as a result of funds Maturing Bonds is the actual volume of all bonds that will be held to maturity.

On the demand front, investor interest has been impressive, and we expect it to continue. According to JP Morgan and Lipper on February 26th, muni mutual funds have experienced 14 consecutive weeks of net inflows, with the majority of those weekly inflows eclipsing \$1 billion and favoring intermediate and long-term funds. YTD inflows total more than \$17 billion, which ranks among the highest on record.

Market opportunity

The muni bond market is both seasonal and local. The ebbs and flows of supply and demand rarely align for extended periods, and that balance appears to be shifting. After two months of outperformance supported by robust reinvestment demand and manageable issuance, we're entering an opposite phase that may bring heavier supply and lower reinvestment flows. Muni market participants closely monitor these changes with an eye toward resulting imbalances referred to as *net positive supply* (too many bonds) or *net negative supply* (not enough bonds). According to a March 2 CreditSights report, net positive supply this year is expected to peak in March, April and May, and then again in September, October and November. These windows could create more attractive entry points for prospective buyers.

As we've noted for several months, the most compelling value in tax-exempt bonds resides in the back half of the one- to 30-year yield curve. The slope of the muni yield curve—meaning the incremental yield investors earn for extending maturities—is well over twice as steep as that

of Treasuries and corporate bonds beyond 10 years. In practical terms, investors are being compensated materially more for extending duration in munis than in taxable markets.

At the same time, the slope inside 10 years is quite similar to Treasuries. This means that in the front third of the curve, traditional muni buyers may, depending on their individual tax status, find better after-tax value in Treasuries or corporate bonds. Evaluating taxable-equivalent yields across markets—as well as comparing in-state with out-of-state—has become increasingly important, particularly in higher-tax states where bond shortages can distort pricing.

Where we see opportunity:

- Extending into the 10- to 30-year range, where curve steepness offers meaningful incremental yield.
- Actively-managed intermediate and long-duration strategies positioned to capitalize on supply-driven volatility.
- [Tax-optimized ladders](#) blending munis, Treasuries and corporates in the one- to 10-year range.
- Selecting out-of-state muni bonds when in-state scarcity compresses relative value.
- Opportunistic buying during heavier supply windows as seasonal reinvestment demand wanes.

Investors who remain flexible across maturities, sectors and tax structures may be better positioned to capture value as technical conditions evolve.

Economic outlook

As we write this in the opening days of March, geopolitical tensions and related military actions are dominating headlines and, at times, overshadowing economic fundamentals. The 10-year US Treasury yield stands at 4.05%, equity markets are weaker, oil is above \$74 per barrel and gold is above \$5,100 per ounce. Volatility has returned to the narrative.

Despite this turbulence, our outlook for munis remains constructive. A mid-single-digit total return for 2026 remains our base case, and the +2% return through the end of February already represents roughly half of last year's full-year gain. Bloomberg consensus forecasts the 10-year US Treasury yield at 4.11% by year-end and 4.12% by the close of 2027, which implies limited directional change but also masks the potential for interim volatility.

Fed funds futures suggest a 44% probability of a rate cut at the September Federal Open Markets Committee meeting and a 37% probability of a second cut by December. By contrast, the Fed's current dot plot calls for just one rate cut this year and one in 2027. In the near term, markets await the February payroll report, with consensus expectations for a 59,000-job gain and an unchanged 4.3% unemployment rate, according to Bloomberg on March 3.

Key economic data

Change in nonfarm payrolls (Jan.)	130,000
Unemployment rate (Jan.)	4.3%
Core CPI–YoY change (Jan.)	2.5%
Core PCE–YoY change (Nov.)	2.8%
Average hourly earnings–YoY change (Jan.)	3.7%
Real GDP annualized (Q4 2025)	1.4%

Source: Bloomberg, 1/31/2026.

In an environment defined by shifting headlines and steady issuance, munis continue to offer attractive after-tax income and meaningful diversification benefits.* After a strong start to the year, a seasonal shift in technical conditions could present selective buying opportunities. We think disciplined curve positioning, careful relative-value analysis and a tax-aware approach remain essential as supply patterns evolve. Starting yields and a unique curve structure continue to support a constructive stance toward munis. Last month we suggested it could be an interesting spring, and we're now doubling down on that sentiment.

* Diversification does not eliminate the risk of loss. Need to add footnote right after the word diversification.

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