Parametric

Municipal Bond Market Insight | November 2025

Taking Stock of your Bond Portfolio

Key takeaways

- Despite the recent rally, intermediate and long-term yields remain compelling.
- Munis built on last month's gains to outperform again.
- Year-to-date (YTD) market volatility facilitated significant tax-loss harvesting.
- Our outlook remains constructive on fixed income as the Fed continues to move toward a less restrictive stance at a moderate pace.

General market update

It's been an interesting year for bond markets, specifically for munis. The government shutdown continues and now rivals the prior 35-day record. The October Federal Open Markets Committee (FOMC) meeting brought a highly anticipated quarter-point rate cut and surprised the market with the revelation that another cut in December isn't definite. Munis outperformed both Treasurys and corporate bonds this month but still lag materially YTD.

The asset class built on October's gains. Enjoying a continued uneven pattern of new-issue supply weeks, the Bloomberg Municipal Bond Index posted a 1.24% increase for the month, double the 0.62% performance of the Bloomberg US Treasury Index and more than triple the 0.38% gain in the Bloomberg US Corporate Index. With a YTD total return of 3.91%, there's still much ground to cover if munis are to catch up to Treasurys at 6.01% and corporates at 7.29%.

Supply

Supply continues to be the big story in munis, both figuratively and literally. Although October issuance was 17% lighter than last year, remember that last year was a record year. The month wasn't light by any measure and included a $16 billion week that was the fifth largest on record, according to JP Morgan.

According to *The Bond Buyer*, YTD issuance is $493 billion, up 9% compared with the same point last year. Last year's record issuance was $514 billion, so the$14 billion primary calendar in first week of November puts us on track to easily post a new record.

Although these numbers are still quite robust, the muni market has responded favorably to even a slight deceleration in supply. September, October and the first half of November are typically supply-heavy months, whereas the holiday-laden window of late-November through December often brings a sharp slowdown in issuance as cash from December redemptions—a major source of reinvestment demand—hits bondholder accounts.

Figure 1: Fixed income returns as of October 31, 2025

	MTD return	YTD return
Bloomberg Muni Index	1.24%	3.91%
Bloomberg US Treasury Index	0.62%	6.01%
Bloomberg US Aggregate Index	0.62%	6.8%
Bloomberg US Corporate Index	0.38%	7.29%

Source: Bloomberg, 10/31/2025. 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 31, 2025

Year	Current	MTD change	YTD change
2-year	2.46%	16 bps	-36 bps
5-year	2.38%	6 bps	-49 bps
10-year	2.73%	-19 bps	-33 bps
30-year	4.15%	-9 bps	25 bps

Source: Thomson Reuters Municipal Market Data, 10/31/2025. 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.

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Figure 3: US Treasury yields as of October 31, 2025

Year	Current	MTD change	YTD change
2-year	3.61%	+1 bps	-64 bps
5-year	3.71%	-2 bps	-69 bps
10-year	4.1%	-4 bps	-48 bps
30-year	4.67%	-6 bps	-12 bps

Source: Bloomberg, 10/31/2025. 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.

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This seasonal information is instructive on two fronts: First, it suggests extending duration while supply is still abundant to capture value along a muni yield curve more than twice as steep as Treasurys in 10- to 30-year maturities; second, it suggests any remaining tax loss harvesting be done now ahead of a "crowded trade," which dwindling supply could exacerbate.

We also want to give a nod to demand. Muni investors have digested an immense amount of bonds this year. One key demand metric we follow is weekly mutual fund flows. According to JP Morgan and LSEG on October 29, YTD inflows amount to more than $37 billion, with ETFs accounting for more than 70% of that total. Long-term and investment-grade funds have attracted approximately three times as many assets as short-term and high-yield funds. Our latest Fixed Income Insights highlight the latest fund flows.

Market opportunity

With less than two months left on the 2025 shot clock, now may be a good time for investors to take stock of bond portfolios. Pause, reflect and act, if appropriate. After chair Powell stressed during the FOMC press conference that another rate cut in December wasn't a forgone conclusion, expectations for a December cut declined sharply and the benchmark 10-year Treasury yield finished the week approximately 10 bps higher than where it opened.

Faced with the reality that long government shutdowns slow GDP growth and that non-farm payroll growth had already been materially slowing beforehand and without the benefit of hard economic data, we view the Fed's caution as more of a delay of game, rather than a material pivot. Its recent hawkish tone doesn't change our outlook or our core recommendations. Specifically, the Fed will continue to move toward less restrictive policy, cautiously taking the Fed funds rate lower in December and in 2026. This should create a tailwind for well-positioned fixed income investors. The recent mild backup in yields could provide investors who have yet to extend the opportunity to lock in yields before rate cuts resume, presumably after the government reopens and releases delayed economic data.

Muni price performance had been lackluster for much of the year, and there's still ground to cover while prevailing long-end yields remain compelling on a historical basis. The steep slope of the yield curve—with a 140-bp pickup from two to 20 years—potentially rewards investors for extended duration more in munis than in Treasurys or corporates.

Longer maturities continue to offer a compelling entry point, and AAA-rated 20-year muni yields are higher than they've been 90% of the time over the past decade. Muni/Treasury ratios remain above 80% on the long end, and tax-equivalent yields remain attractive, ranging from approximately 4.75% to 8.5% across intermediate and long maturities, including in California and New York portfolios. The muni market isn't hampered by credit concerns or a lack of demand but simply by an overabundance of supply. When and if muni supply ebbs, muni outperformance should follow.

In a steeper yield curve environment, a municipal ladder allows investors to capture higher yields in longer maturities while maintaining flexibility as bonds mature and reinvest at future rates. This structure helps balance income generation with reinvestment opportunity, seeking to provide steady cash flow and reducing the risk of locking in at a single point on the curve. Over time, ladders can help smooth returns and enhance after-tax income predictability for investors.

In a market where rate volatility persists, ongoing tax-loss harvesting remains one of the most effective ways to enhance after-tax returns in fixed income portfolios. Market fluctuations create opportunities to realize losses that can offset gains elsewhere, turning short-term volatility into long-term value. Unlike traditional year-end approaches, a systematic, year-round process helps investors capture these opportunities as they arise. Year-round harvesting not only helps capture value during volatile periods but also positions portfolios for stronger, more consistent after-tax outcomes over time.

The fixed income volatility of recent years has proved the value of year-round tax-loss harvesting. As of the close of the third quarter, Parametric has harvested $84 million in YTD tax losses across 101,000 trades, delivering $27 million in potential tax benefits for our fixed income clients. (Note: This assumes maximum federal tax rates for short- and long-term capital gains, which are currently 40.8% and 23.8%, respectively.) For more about year-round tax-loss harvesting, please see this recent blog post.

For muni investors who have yet to harvest tax losses this year, time may be of the essence. Circling back to the seasonality of muni supply, it may be advisable to complete all harvesting activity by Thanksgiving. After that the trade could be crowded, supply limited and the bid-side weaker. While tax-loss harvesting has traditionally been a year-end event, we believe it's often better to be done before then.

Economic outlook

Approximately a month into the shutdown, the marketplace has gone without at least 28 government data releases, as reflected in the previous table. Fed chair Powell noted during the October FOMC meeting press conference that “The shutdown of the federal government will weigh on economic activity while it persists, but these effects should reverse after the shutdown ends.”

In addition to the highly anticipated 25-bp rate cut, the Fed decided to cease the reduction of its aggregate securities holdings—*quantitative tightening*—beginning in December. Powell also noted “strongly differing views about how to proceed in December. A further reduction in the policy rate at the December meeting is not a forgone conclusion; far from it. Policy is not on a preset course.” The outliers of that 19-member committee were one voting for no cut and another voting for a 50-bp reduction.

Bloomberg shows the Fed funds futures market pricing in a 66% chance of another 25-bp cut in December, with those odds then declining to 34% and 33% for January and March, respectively. Bloomberg consensus forecasts for the 10-year Treasury reveal only a slightly lower yield of 4.07% by fourth quarter 2026, compared with the current 4.11% reading.

There’s quite a bit to be considered, including the ongoing data vacuum, inflation still above the Fed’s target and a labor market that appears to be weakening, with recent layoffs at high-profile companies. All in all, that’s a “challenging situation”, as chair Powell described it. Meanwhile, the market expects the Supreme Court to determine the legality of President Trump’s tariffs under the 1977 International Emergency Economic Powers Act (IEEPA), which could impact bond markets.

Key economic data

Change in nonfarm payrolls (Sep.)	n/a
Unemployment rate (Sep.)	n/a
Core CPI–YoY change (Sep.)	3%
Core PCE–YoY change (Sep.)	n/a
Average hourly earnings–YoY change (Sepg.)	n/a
Real GDP annualized (Q3 2025)	n/a

Source: Bloomberg, 10/31/2025.

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