

Municipal Bond Market Insight | April 2026

## Why 5% is Noteworthy for Muni Investors

### Key takeaways

- » Municipal yields reached historically elevated levels, with 20-year yields higher than today's levels just 5% of the time over the past decade.
- » Heavy issuance and declining reinvestment flows created a meaningful near-term supply-demand imbalance that collided with the conflict in Iran.
- » Steep yield curves and improved relative value favor extending duration into intermediate and long maturities.
- » Despite volatility and delayed Fed easing expectations, a low-to-mid-single-digit return is our base case for 2026.

## General market update

5% isn't a percentage that's often associated with something positive. You never hear "I agree with you 5%." It's not a passing scholastic grade like 65% or 70%, and it's certainly not desirable like 90% or higher. But 5% is noteworthy today for municipal bond investors, since it signals uncommon value resulting from a coming together of otherwise unremarkable factors. While we prepare this text, 20-year municipal bonds yields have been higher than today's levels just 5% of the time over the last decade according to Bloomberg.

Today's headwinds include record-setting March municipal bond issuance, a seasonal decline in available muni reinvestment flows, military conflict in Iran and related market reactions, and Fed policy that has been sidelined until further notice. The muni result is outsized tax-exempt yields in the intermediate and long-end of a steep tax-exempt yield curve.

Muni bonds unsurprisingly underperformed both Treasuries and corporate bonds in March, abruptly ending two months of leadership. The Bloomberg Municipal Bond Index declined 2.32% for the month, bringing the year-to-date (YTD) total return to -0.18%. The Bloomberg US Treasury Bond Index lost 1.74% in March, placing that YTD total return at -0.04%, and the Bloomberg Corporate Bond Index surrendered 1.98% for the month, taking its YTD total return down to -0.54%.

## Supply and demand

March issuance reached approximately \$50 billion, representing a 17% increase year over year and marking the largest March monthly issuance on record, according to The Bond Buyer (April 1, 2026). The surge occurred despite rising interest rates, underscoring persistent issuer needs and a willingness to access markets even under less favorable conditions.

YTD issuance now totals roughly \$127 billion, up 6% versus the same period last year, with expectations for full-year supply approaching \$600 billion. The largest issuing states remain California, Texas and New York, consistent with historical patterns of infrastructure demand and population-driven financing needs.

Figure 1: Fixed income returns as of March 31, 2026

	MTD return	YTD return
Bloomberg Muni Index	-2.32%	-0.18%
Bloomberg US Treasury Index	-1.74%	-0.04%
Bloomberg US Aggregate Index	-1.76%	-0.05%
Bloomberg US Corporate Index	-1.98%	-0.54%

Source: Bloomberg, 3/31/2026. 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 March 31, 2026

Year	Current	MTD change	YTD change
2-year	2.42%	39 bps	3 bps
5-year	2.67%	57 bps	26 bps
10-year	3.12%	60 bps	36 bps
30-year	4.47%	30 bps	23 bps

Source: Thomson Reuters Municipal Market Data, 3/31/2026. 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 March 31, 2026

Year	Current	MTD change	YTD change
2-year	3.80%	42 bps	34 bps
5-year	3.94%	43 bps	25 bps
10-year	4.31%	35 bps	17 bps
30-year	4.89%	26 bps	7 bps

Source: Bloomberg, 3/31/2026. Not a recommendation to buy or sell any security. **Past performance is no guarantee of future results.**

**FIGURE 4****“Steep and cheap” a decade of 20-year AAA muni tax-exempt yield-to-worst (YTW)**

Source: MMD/LSEG 04/02/2026. 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.**

ETF and mutual fund flows on the demand side have remained a stabilizing force. According to JPMorgan and LSEG/Lipper (April 1, 2026), year-to-date inflows total approximately \$26 billion, with only a single week of outflows recorded during March. This reflects continued investor appetite for tax-exempt income, particularly among high-income households.

However, an equally important technical dynamic is the seasonal decline in reinvestment flows—cash generated from maturities, calls and coupon payments. These flows declined materially in March and are expected to reach their lowest levels of 2026 in April. This creates a period of net positive supply, where more bonds are available than reinvestment cash. This is a condition that historically leads to weaker price performance and higher yields. As noted in prior commentaries, these seasonal imbalances often occur in the spring months before reversing into the summer.

In our view, the current environment reflects a classic seasonal muni dislocation: elevated issuance coinciding with temporarily diminished demand, rather than a structural deterioration in investor appetite. That seasonal dislocation collided perfectly with sharp volatility, resulting from the conflict in Iran, driving both general bond market and muni bond market yields sharply higher.

### Market opportunity

Periods of market discomfort often create the most compelling opportunities, and current municipal valuations reflect that dynamic. The spikes in oil prices renewed inflation concerns. It also pushed Treasury yields higher, with municipal bonds along for the ride, while the muni asset class experienced its weakest monthly performance since 2023. The combination of higher absolute yields, a steep yield curve and improved relative value has materially enhanced forward return potential.

Benchmark 10-year municipal yields increased approximately 60 basis points (bps) during March, compared with a 36-bps increase in US Treasury yields. This repricing has pushed tax-exempt yields into the 3.5% to 4.5% range, which translates to roughly 6% to 8% on a taxable-equivalent (TE) basis for many investors. TE yield adjusts municipal yields to reflect the higher pre-tax income required from taxable bonds to match after-tax muni income.

At the same time, the municipal yield curve remains historically steep, particularly beyond 10 years. The incremental yield available between 10- and 30-year maturities is more than twice that of Treasuries, meaning investors are being compensated meaningfully to extend duration. This steepness provides a structural tailwind for long-term investors willing to move out along the curve.

Relative value has also improved. The 10-year municipal-to-Treasury ratio, a measure comparing tax-exempt yields to taxable Treasury yields, has risen to approximately 72%, up from 62% earlier in the year. Higher ratios indicate more attractive muni valuations relative to Treasuries, particularly for investors in higher tax brackets.

These valuation improvements are importantly occurring ahead of an anticipated seasonal shift. With reinvestment flows expected to increase in June, July and August, technical conditions will likely become more supportive, typically compressing yields and benefiting total returns.

In our view, today's environment offers a valuable window to lock in elevated yields before that seasonal summer shift occurs.

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 as seasonal reinvestment demand wanes.
- Using tax-optimized ladder strategies to blend munis, Treasuries and corporates efficiently across one to ten-year maturities.

## Economic outlook

Macroeconomic conditions remain unsettled as geopolitical tensions and commodity price volatility continue to drive market sentiment. As of early April, the 10-year US Treasury yield stands near 4.33%, oil prices have moved above \$100 per barrel and gold remains elevated at \$4600 per ounce, but well off its mid-March peak. These factors have contributed to heightened volatility across both equity and fixed income markets.

Despite these crosscurrents, the underlying economic data remains relatively resilient. The March payroll report showed job creation of 178,000, significantly above consensus expectations of 65,000, while the unemployment rate dipped to 4.3% versus expectations for an unchanged 4.4% reading.

## Key economic data

Change in nonfarm payrolls (Mar.)	178,000
Unemployment rate (Mar.)	4.3%
Core CPI–YoY change (Feb.)	2.4%
Core PCE–YoY change (Jan.)	3.1%
Average hourly earnings–YoY change (Mar.)	3.5%
Real GDP annualized (Q4s 2025)	0.7%

Source: Bloomberg, 3/31/2026.

The new stronger-than-expected labor data takes the three-month moving nonfarm payrolls average to 68,000 from the prior 6,000 and reinforces the view that the Fed may remain on hold for longer than previously anticipated.

Federal funds futures have largely priced no rate cuts through 2026 and into mid-2027 accordingly, diverging from the Federal Reserve's own projections, which still indicate one cut this year and another in 2027. Meanwhile, Bloomberg consensus forecasts the 10-year Treasury yield at approximately 4.13% by year-end 2026 and 4.09% by the end of 2027, suggesting modest directional movement but could mask continued interim volatility. Our outlook for munis remains constructive, but requires patience, since additional Fed rate cuts may not arrive until later in the year. A low-to-mid-single-digit total return for 2026 is our base case despite the 2% return through the end of February being erased in March.

Tax exempts continue to offer attractive after-tax income and meaningful diversification benefits in this unsettled market environment. Last month, we expected a seasonal shift in technical conditions to bring better buying opportunities. Be careful what you wish for, since it has arrived and then some. We believe disciplined curve positioning, careful relative-value analysis and a tax-aware approach are vital for both performance and long-term portfolio construction. Historically attractive yields and a unique yield curve structure support an opportunistic stance toward munis leading into a surely interesting spring.

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