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Market Commentary

Mid-Year 2026 Municipal Bond Market Review

Examining Performance at the Halfway Mark

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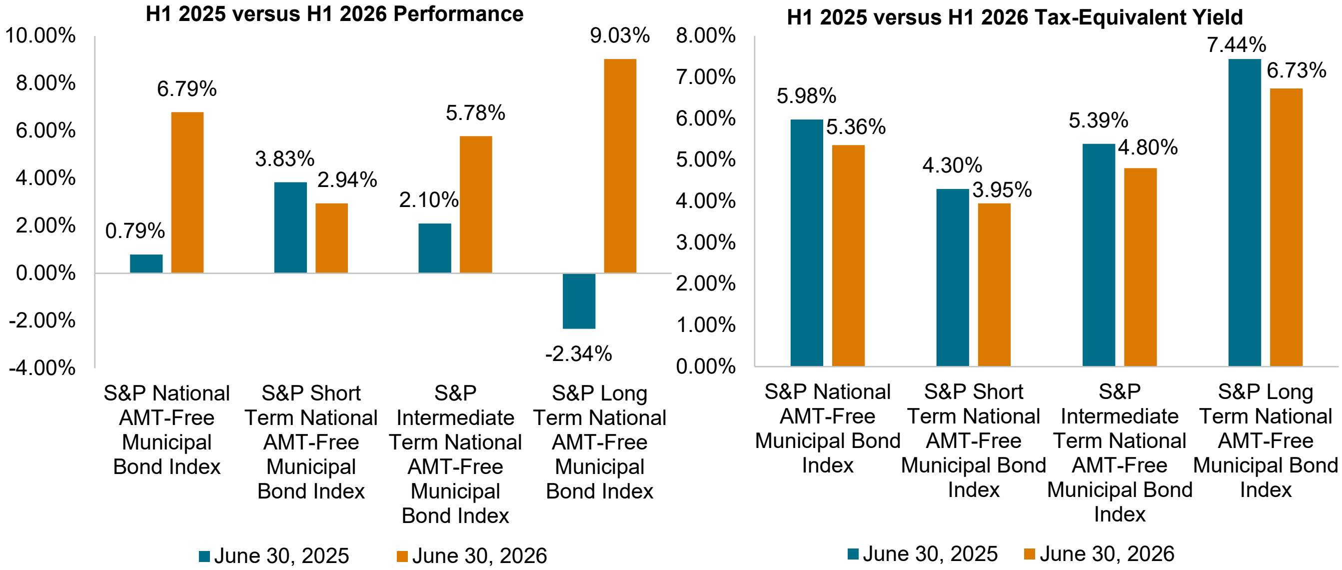
The municipal bond market was one of the brightest spots in fixed income during the first half of 2026. Record issuance was met with steady retail inflows and strong demand from ETFs and active managers, while credit fundamentals remained healthy. The municipal bond market experienced high issuance volumes over the past 18 months, with USD 587 billion issued in 2025 and USD 299 billion issued YTD through June 30, 2026, a 5% increase compared to the same period last year.[1]

A notable trend has been the growth of prepaid gas bond issuance, which has climbed sharply since 2016, reaching USD 31 billion in 2025. Momentum continued in 2026, with over USD 24 billion issued YTD through June 30, 2026, an increase of 132%. Alphabet, Google's parent company, was involved in a first-of-its-kind prepaid energy deal estimated at USD 1.2 billion.[2] Alphabet's entry into this market reflects the growing use of prepaid energy agreements by hyperscalers to secure power for the AI data center boom.

Exhibit 1: H1 2026 Performance and Tax-Equivalent Yield

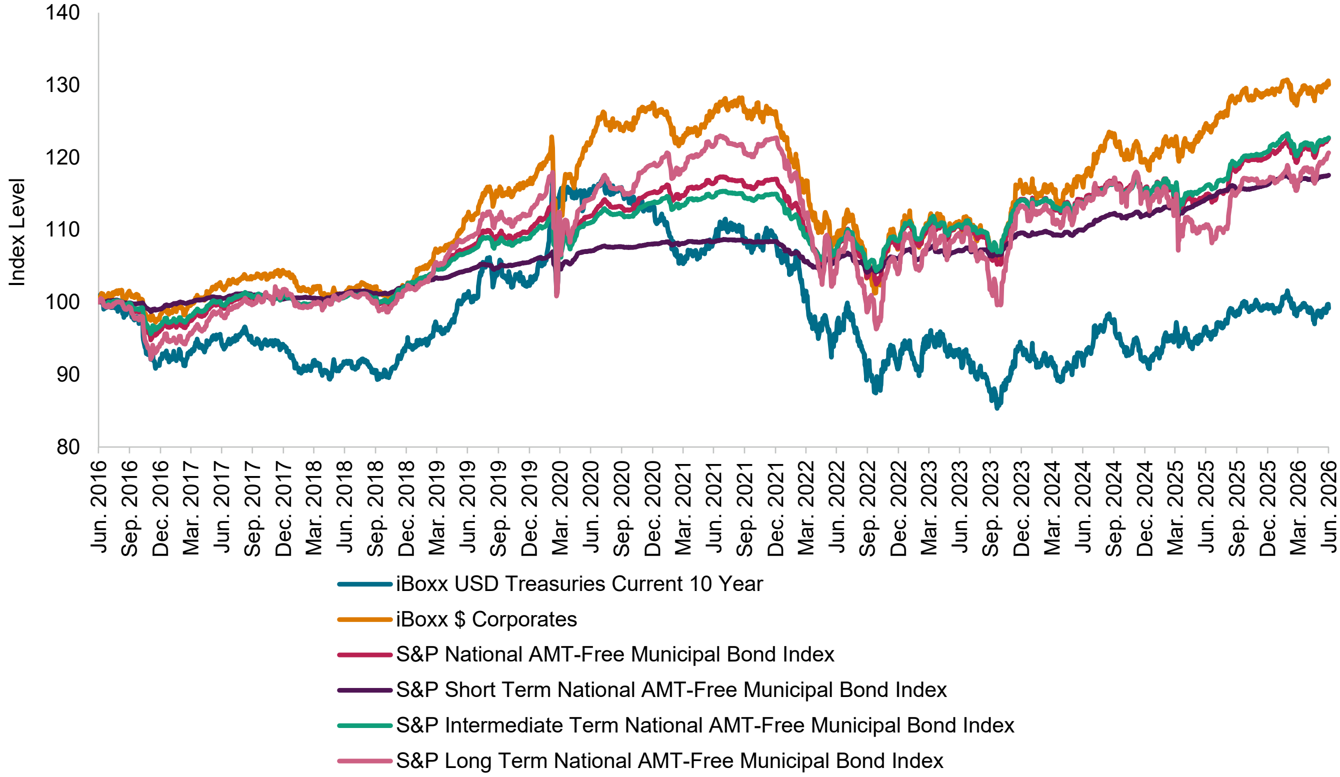


Source: S&P Dow Jones Indices LLC. Data from June 30, 2025, to June 30, 2026. Index performance based on total return in USD. Past performance is no guarantee of future results. Charts are provided for illustrative purposes.

The first half of 2026 marked a sharp improvement in municipal bond performance. The S&P National AMT-Free Municipal Bond Index gained 6.79% for the 12-month period ending June 30, 2026, compared with 0.79% for the one-year period ending June 30, 2025. Performance was strongest at the long end of the curve, with the S&P Long Term National AMT-Free Municipal Bond Index gaining 9.03% in the one-year period ending in June 2026, benefiting from declining yields and heightened demand for longer-duration assets. Tax-equivalent yields declined relative to June 2025, as municipal yields moved lower and the yield curve steepened. The S&P National AMT-Free Municipal Bond Index ended June with a tax-equivalent yield of 5.36%, down 62 bps year-over-year. Similar declines were observed across the maturity spectrum, with tax-equivalent yields falling 35 bps for the S&P Short Term National AMT-Free Municipal Bond Index, 59 bps for the S&P Intermediate Term National AMT-Free Municipal Bond Index and 71 bps for the S&P Long Term National AMT-Free Municipal Bond Index.

Comparing the S&P National AMT-Free Municipal Bond Indices with the iBoxx USD Treasuries Current 10 Year and iBoxx $ Corporates reveals that municipal bonds delivered the most stable performance (see Exhibit 2). Over the past decade, municipal bonds demonstrated competitive risk-adjusted performance across varying market environments. While investment-grade corporates generated the highest cumulative performance, municipal bond indices produced consistent performance with lower volatility and drawdowns. In contrast, 10-year Treasuries significantly underperformed during the period, underscoring the potential benefits of municipal bonds over the long term, while corporates had the highest performance but also the highest volatility.

Exhibit 2: Performance of S&P National AMT-Free Indices versus iBoxx USD Treasuries Current 10 Year and iBoxx $ Corporates



Source: S&P Dow Jones Indices LLC. Data from June 30, 2016, to June 30, 2026. Indices rebased to 100 on June 30, 2016. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

We also analyzed the yield per unit of duration for the S&P National AMT-Free Indices versus the iBoxx USD Treasuries Current 10 Year and the iBoxx $ Corporates (see Exhibit 3) over the past five years. Yield per unit of duration improved across fixed income markets from 2022 through mid-year 2026, with the most notable movement in municipal bonds. Short-term municipals continued to demonstrate the highest yield efficiency, while intermediate and long municipals saw meaningful gains. By June 2026, the broad municipal market exhibited a higher yield per unit of duration than both the 10-year Treasury and investment-grade corporate benchmarks, suggesting that municipal bond valuations were more favorable relative to interest rate risk than in prior years. In June 2026, the S&P National AMT-Free Municipal Bond Index had a yield-duration profile that was 3 bps higher than the iBoxx $ Corporates (0.90% versus 0.93%).

Exhibit 3: Yield per Unit of Duration

Effective Date	Yield per Unit of Duration (%)					
	iBoxx USD Treasuries Current 10 Year	iBoxx $ Corporates	S&P National AMT-Free Municipal Bond Index	S&P Short Term National AMT-Free Municipal Bond Index	S&P Intermediate Term National AMT-Free Municipal Bond Index	S&P Long Term National AMT-Free Municipal Bond Index
June 30, 2022	0.36	0.74	0.54	1.51	0.67	0.40
June 30, 2023	0.47	0.85	0.60	2.35	0.76	0.41
June 28, 2024	0.57	0.91	0.62	2.58	0.80	0.42
June 30, 2025	0.55	0.88	0.67	2.12	0.80	0.51
June 30, 2026	0.58	0.90	0.93	2.19	1.04	0.77

Source: S&P Dow Jones Indices LLC. Data from June 30, 2022, to June 30, 2026. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

The Muni-to-Treasury ratio remained an important measure of relative value during the first half of 2026. Ratios declined across the S&P National AMT-Free Municipal Bond Indices due to rising U.S. Treasury yields compared to December 2025. Notably, the S&P Intermediate Term National AMT-Free Municipal Bond Index and S&P Long Term National AMT-Free Municipal Bond Index maintained Muni-to-Treasury ratios above 100%, indicating that tax-exempt municipal yields exceeded comparable Treasury yields. Historically, ratios above 100% have been viewed as a signal of favorable valuations, suggesting that market pricing reflected both higher nominal yields and the tax advantages of municipal bonds.

Exhibit 4: Muni-to-Treasury Yield Ratio

Index	Weighted Average Index Maturity	Tax-Equivalent Yields (%)	Equivalent U.S. Treasury Bond Yield (%)	Equivalent U.S. Treasury Maturity	Muni-to-Treasury Ratio
S&P Short Term National AMT-Free Municipal Bond Index	2.26	3.95	4.14	2-Year U.S. Treasury	95
S&P Intermediate Term National AMT-Free Municipal Bond Index	9.14	4.80	4.44	10-Year U.S. Treasury	108
S&P Long Term National AMT-Free Municipal Bond Index	26.31	6.73	4.91	30-Year U.S. Treasury	137

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2026. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

The first half of 2026 was a strong period for municipal bonds. The S&P National AMT-Free Municipal Bond Indices reflected solid performance. Tax-equivalent yields remained elevated, while yield per unit of duration compared favorably with investment grade corporates, highlighting the sector's relative value. Healthy issuance, strong credit fundamentals and the tax exemptions of municipal bonds continued to boost their performance in the fixed income market.

References:

1. Bagley, John and Marcelo Viera, "Midyear 2026 Municipal Securities Market Summary," Municipal Securities Rulemaking Board, July 2026.
2. Porter, Jessica, "Prepay Bonds Provide Savings on Long-Term Energy Needs," American Public Power Association, April 6, 2026.

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