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Municipal Bond Performance on Track for Worst May Since 1986.

- **Elevated rates, debt ceiling and SVB bonds dampened returns**
- **Investors optimistic about seasonal summer upswing ahead**

This month is on track to be the worst May in recent history for municipal bonds amid the elevated interest-rate environment and Treasury volatility caused by fear of a US default.

Municipal bonds lost 1.38% so far in May, according to data compiled by Bloomberg. Barring a major rally, that puts this month on track for the worst May performance since 1986, when bonds lost 1.63%. On average, munis gained 0.9% in May over the last decade, the strongest month of returns, buoyed by expectations of summer rallies.

Investors say the unusual weakness reflects a range of factors — chief among them an uptick of issuance after weeks of low supply that kept demand high, as well as renewed fears of additional rate hikes that dampened the performance of all types of fixed income. And even more alarming are concerns over US default as investors in state and local government debt tend to be risk averse. Fitch Ratings warned Wednesday that the US's AAA rating is under threat as the White House and Congressional Republicans try to reach an agreement.

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