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Munis Fall Short Of Seasonal Expectations In August.

August update

- Municipals posted negative total returns amid rising interest rates.
- Issuance exceeded tempered expectations, while demand waned as performance struggled.
- Late-cycle macro dynamics and fading seasonal tailwinds could create opportunity in the autumn.

Market overview

Municipal bonds deviated from the seasonal trend and posted negative total returns in August. Interest rates rose on the back of resilient economic growth, elevated Treasury supply, and a hawkish tone from the Federal Reserve (Fed) at the Jackson Hole Economic Symposium. The yield on the benchmark 10-year Treasury note closed at a new cycle high of 4.34% late in the month. Rich valuations and less favorable supply-and-demand dynamics prompted municipals to underperform comparable Treasuries. The S&P Municipal Bond Index returned -1.10%, bringing the year-to-date total return to 1.65%. Shorter-duration (i.e., less sensitive to interest rate changes) and higher-rated bonds performed best.

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advisorperspectives.com

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