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Munis Are Thankful for November

November update

- Municipal bonds posted historic total returns of 5.90% in November.
- Rallying interest rates led the way, while strong demand aided outperformance versus Treasuries.
- Although valuations are tight, favorable seasonal dynamics still warrant optimism into the new year.

Market overview

Municipal bonds posted their strongest month in over 40 years in November. Falling interest rates provided leadership as slowing economic growth, moderating inflation, and a second-consecutive pause from the Federal Reserve prompted more dovish forward monetary policy expectations and pushed 10-year Treasury yields lower by 61bps. The asset class further outperformed comparable Treasuries, as investors positioned for improved demand and a dearth of supply into the new year. The S&P Municipal Bond Index returned a whopping 5.90%, bringing the yearto-date total return to 3.58%. Longer-duration bonds (i.e., more sensitive to interest rate changes), lower-rated credits, and the tobacco, Puerto Rico, hospital, and housing sectors performed best.

Issuance remained elevated in November at $36 billion, 11% above the five-year average, bringing the year-to-date total to $337 billion. However, supply was easily absorbed as investors raced to lock in high absolute yields as opportunities dwindle. As a result, deals were oversubscribed 6.3 times on average, above the year-todate average of 4.2 times. At the same time, mutual fund outflows slowed as performance rebounded. Late in the month, the asset class posted its first weekly inflow since August — notable given that November typically contends with sizable tax-loss harvesting.

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