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Municipal Bonds: Finding Silver Linings in the Slump

The first half of 2025 has been a test of resilience for municipal bond investors. After a period of relative calm, the market faced its worst H1 performance in five years, with rising yields, elevated supply, and fiscal policy uncertainty creating headwinds. Yet, beneath the turbulence lies an opportunity for strategic investors to capitalize on historically attractive yields, robust credit fundamentals, and the enduring tax advantages that define this asset class.

The Slump: What Happened in H1 2025?

Municipal bonds entered 2025 with a steep uphill climb. A broad-based investment-grade municipal bond index fell approximately 1% year-to-date through May, while taxable bonds like the Bloomberg US Aggregate Bond Index surged 3%, widening the performance gap to a staggering 400 basis points. The pain was concentrated in the long end of the yield curve: 20-30 year maturities saw yields rise 50-70 basis points—far outpacing the 10-basis-point increase in Treasuries.

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