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Muni Bonds Are Looking Better.

After a slow start to 2025, long municipal bonds are rebounding.

Despite offering historically attractive aftertax yields, municipal bonds were one of the worst-performing sectors in the fixed-income market through the first nine months of 2025.

It's been a risk-off year for munis: While the median total return for a strategy in the intermediate core bond and high-yield bond Morningstar Categories was 6.0% and 6.7%, respectively, through September 2025, the same measure for the muni-national long and the high-yield muni categories reflected modest gains of 1.7% and 1.3%. Those gains for munis came mostly in September, after recording losses through August 2025.

Significant amounts of new municipal-bond issuance (on pace for the largest annual total since 2017), lukewarm investor demand, and underperformance versus Treasuries all pressured prices. Additionally, narrowing credit spreads in the already crowded high-yield muni sector as we entered the year, and some deterioration in credit quality for a few larger issuers left less upside as investors ventured lower down the credit spectrum.

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