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The Rieger Report: Munis Face an Unholy Trio.

Three storms are converging on the municipal bond market: supply, interest rates and bad news headlines – a powerful trio of bad news for the municipal bond market.

- The S&P Municipal Bond Illinois Index is down 1.55% for month-to-date and is the worst performing state index for the month so far. The index is down 1.16% year-to-date.
- The S&P Municipal Bond Illinois General Obligation Index is down 2.63% month-to-date and is the worst performing G.O. index. The index is down 3.06% year-to-date. Chicago General Obligation bonds make up 35% of this index by market value.
- The S&P Municipal Bond New Jersey Index is down 1.07% month-to-date and is the second worst performing state index for the month. The index is down 1.1% year-to-date.
- Puerto Rico is having a dead cat bounce in May as the S&P Municipal Bond Puerto Rico General Obligation Index is up 2.37% month-to-date. The index remains in the red for the year so far down 0.97% year-to-date.

The combination has put a heavy weight on the investment grade tax-free bond market which has seen negative returns in 2015. The S&P National AMT-Free Municipal Bond Index is down 0.73% month-to-date and 0.36% year-to-date.

One bright light is the municipal high yield bond market as the S&P Municipal Bond High Yield Index is up 0.82% year-to-date helped by positive performance in May by Puerto Rico bonds and a recovery over 3.2% of the Tobacco Settlement bond sector.

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This article was written by J.R. Rieger, global head of fixed income, S&P Dow Jones Indices.

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