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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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