
Active Management Will Drive Muni Returns in 2024

BlackRock's muni bond experts share their market outlook

After initial optimism at the start of 2023 spurred strong performance, munis subsequently struggled as the Fed continued its tightening policy, raising fed fund rates to 5.25%−5.50%, before pausing in September. The 10-year U.S. Treasury yield sold off, peaking at 5% in mid-October, and the Bloomberg Muni Bond Index was down by 2.30% on a year-to-date basis by late October.

However, falling inflation, weakening economic growth, and the prolonged Fed pause led to more dovish expectations for monetary policy — causing a strong interest rate rally into year-end (i.e., rates decline and prices increase). As a result, munis rallied sharply, with the Bloomberg Muni Bond Index posting a total return of 8.67% in November and December, bringing the full-year total return to 6.40%. Favorable technicals, backed by strong fundamentals, were key drivers of muni outperformance and pushed relative valuations to extremely rich levels by year-end.

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