

### Market Review

- The municipal bond market, as measured by the Bloomberg Municipal Bonds Index, posted a return of -0.18% for the first quarter of 2026 (Q1). Meanwhile, new issuance of municipal (muni) bonds exceeded the average seen in the past few years. By quarter-end, the yield on the benchmark 10-year US Treasury (UST) moved 15 basis points (bps) higher to 4.32%. The war in the Middle East, dominated much of the news flow and financial market sentiment over the remainder of the quarter. The March US Federal Reserve (Fed) Federal Open Market Committee meeting left rates unchanged, and the statement and press conference emphasized uncertainty related to the Iran war. The Fed indicated that it would look through any initial oil supply shock effect on inflation to focus on core developments, while also noting a likely dragging effect on the economy; ultimately the Committee retained an easing bias.

### Outlook

- The robust demand witnessed at the start of 2026 has begun to soften amid rising market uncertainty, while supply has persisted at a record-setting pace. Looking ahead to 2026, demand will play a crucial role as supply is projected to reach historical highs, primarily driven by infrastructure capital requirements that can no longer depend on previous government stimulus programs alone. The muni-bond yield curve shifted higher during the quarter.
- Fundamentals remain stable but slower economic growth will constrain revenue expansion across many sectors, particularly with respect to tax revenues. Rainy-day funds remain healthy at the state and local government levels, which should bolster fiscal resilience despite ongoing expense growth.
- Following the market pullback in March, municipal bond valuations have strengthened and continue to appear attractive, particularly on a tax-adjusted basis. Yields remain above five-year averages, allowing investors to lock in compelling income. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.



# Municipal Bond Market

Q1 2026

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