Invesco

Investment Insights

Thoughts From The Municipal Bond Desk



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Overview

- The Bloomberg Municipal Bond Index bounced back from September losses with their strongest month in three years and best October since the index was incepted.
- Falling Treasury yields helped fuel the rebound as investors sought safe haven amid technology stock declines and unexpectedly high inflation. Favorable market technicals provided additional support.
- Demand for municipal bonds remained robust, although flows shifted toward ETFs and away from mutual funds, contrary to historical patterns. The shift may partly reflect tax-loss harvesting following September's selloff.

Tim: Municipal investors have seen sharp swings over the past two months, with September's selloff giving way to a significant October rebound.

Mark: Yes, it's been a wild ride. After bruising declines in September, the Bloomberg Municipal Bond Index staged a strong recovery during October, recording its strongest performance in three years and its best October performance since the Bloomberg Municipal Bond Index began tracking returns in 1980![1] Investment grade tax-exempt bonds returned 3.85% in October, retracing much of their September's losses.[1] The rally was driven by declining US Treasury yields, as investors sought perceived safe havens amid a drawdown in technology stocks and higher-than-expected inflation data. Supply-and-demand conditions reinforced the market's momentum. New issuance moderated in October, with roughly $48 billion brought to market compared to the $55 billion issued in September.[1] At the same time, investor demand remained strong, allowing the market to digest the lighter supply. I think we are going to see a similar technical picture in November, with about $33 billion in new issuance due to a slowdown in refunding activity, the effects of the election cycle, and the holiday calendar.[2] Demand should be well supported by historically high tax-exempt yields.

Tim: Speaking of demand, while flows have stayed positive, they have been focused on municipal ETFs.

Mark: Instead of on mutual funds, yes. It's a notable divergence. Historically, mutual funds have received the lion's share of investment inflows. However, looking at the week ended October 28, the municipal market saw a total of $1.7 billion of inflows, with $3.5 billion going into ETFs and $1.8 billion coming out of open-end mutual funds.[2] It was the eighth consecutive week with this kind of divergence.[2] The plausible explanation for this is that investors used their mutual fund holdings to engage in tax-loss harvesting following the September selloff. Then, in my view, they put their money back to work in municipals, choosing to reposition their portfolios using ETFs. If history is any guide, we may see that divergence reverse in January and February. In the tax-loss-harvesting seasons in 2022 and 2023, mutual funds saw outflows and ETFs saw inflows. The following January and February flow picture then reversed, with ETFs seeing outflows and mutual funds receiving inflows.[2] Regardless, this year's overall inflows have helped to absorb record new issuance of $517 billion year to date October 28, which is 5% higher than the same period last year.[3]

Tim: What are your thoughts on how the midterm election results will affect munis?

Mark: Time will tell, Tim, but markets usually focus on fundamentals, not political parties. And one party's control of congress does not indicate where markets will go. So, in my opinion, economic growth, inflation, Federal Reserve policy, and interest rates will have more of an impact on munis than this election outcome.

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Munis by the numbers

A quick look at some commonly used municipal market data points.

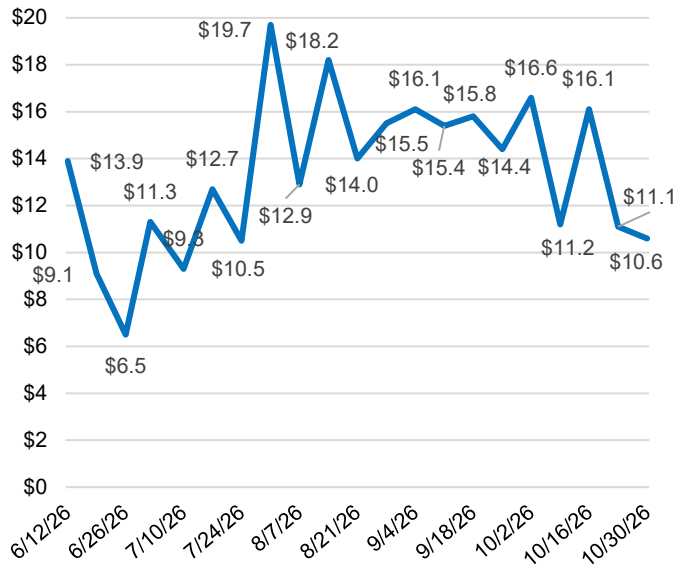
2026 Fund Flows - Weekly and Monthly Reporters ($millions)

Week ended October 28, 2026

	Combined	Open End Mutual Funds	ETFs
All term muni funds	79,038	12,982	66,146
Investment Grade	72,779	11,444	61,101
High Yield	6,259	1,448	5,045
Long Term (10yr +)	46,219	949	45,370
Intermediate (5-10yr)	18,250	6,175	12,758
Short / Intermediate (3-5yr)	6,663	2,694	3,169
Short (1-3yr)	7,906	3,074	4,849
National funds	69,654	11,801	57,070
New York	1,016	(121)	810
California	8,028	1,175	5,658

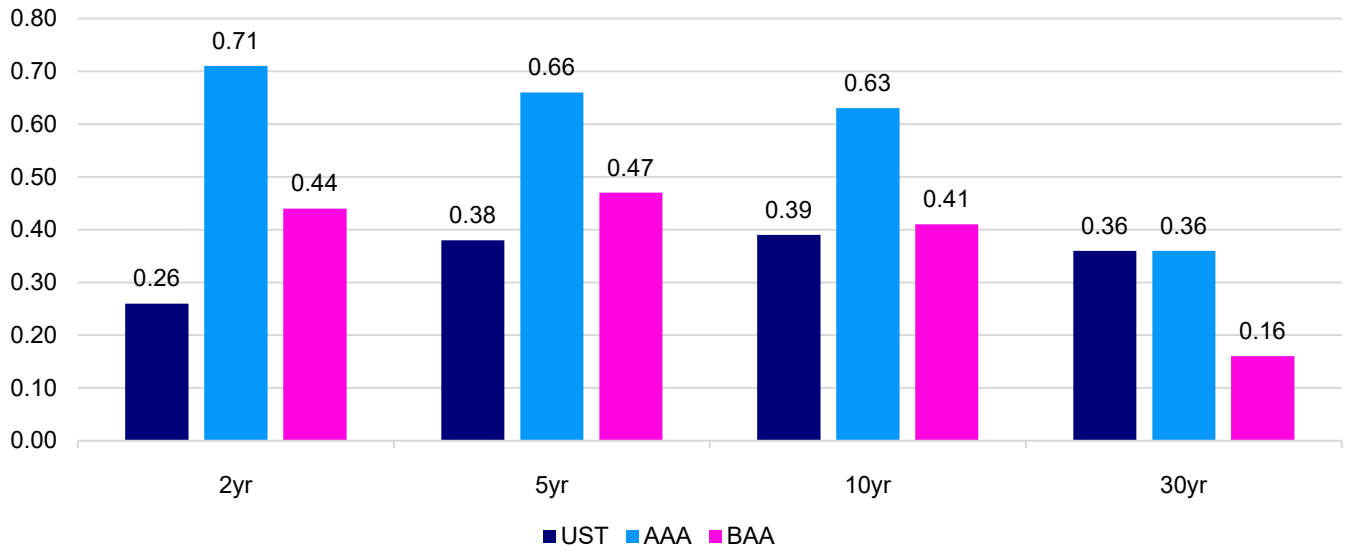
Source: Year to date LSEG Lipper Global Fund Flows, J.P. Morgan. Data refreshed on October 29, 2026. Note: Figures shown on this table are combination of weekly and monthly reporters.

30-day Visible Supply ($billions)



Source: Bond Buyer Weekly 30-Day Visible Supply - Total dollar volume of bonds to be offered over the next thirty days. It does not include 'Sealed Bids Invited' or 'Proposed Bond Issues'. Only includes Municipal Bonds. From June 12, 2026 – October 30, 2026.

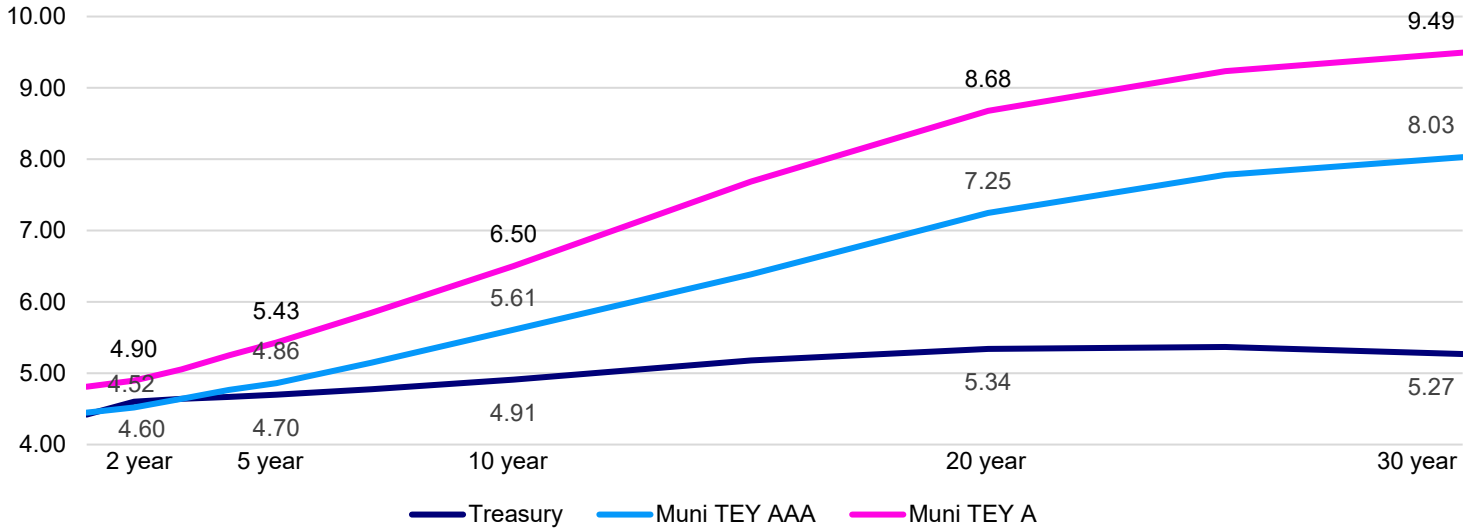
1-Month Yield Change 10/2/2026 – 11/4/2026 (% Change)



Source: Bloomberg, US Department of Treasury, from October 2, 2026 – November 4, 2026. UST = United States Treasury. A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. NR indicates the debtor was not rated and should not be interpreted as indicating low quality. For more information on rating methodologies, please visit the following NRSRO websites: www.standardandpoors.com and select 'Understanding Credit Ratings' under Rating Resources 'About Ratings' on the homepage.; https://ratings.moodys.io/ratings and select 'Rating Methodologies' on the homepage.; www.fitchratings.com and select 'Ratings Definitions Criteria' under 'Resources' on the homepage. Then select 'Rating Definitions' under 'Resources' on the 'Contents' menu.

Munis by the numbers

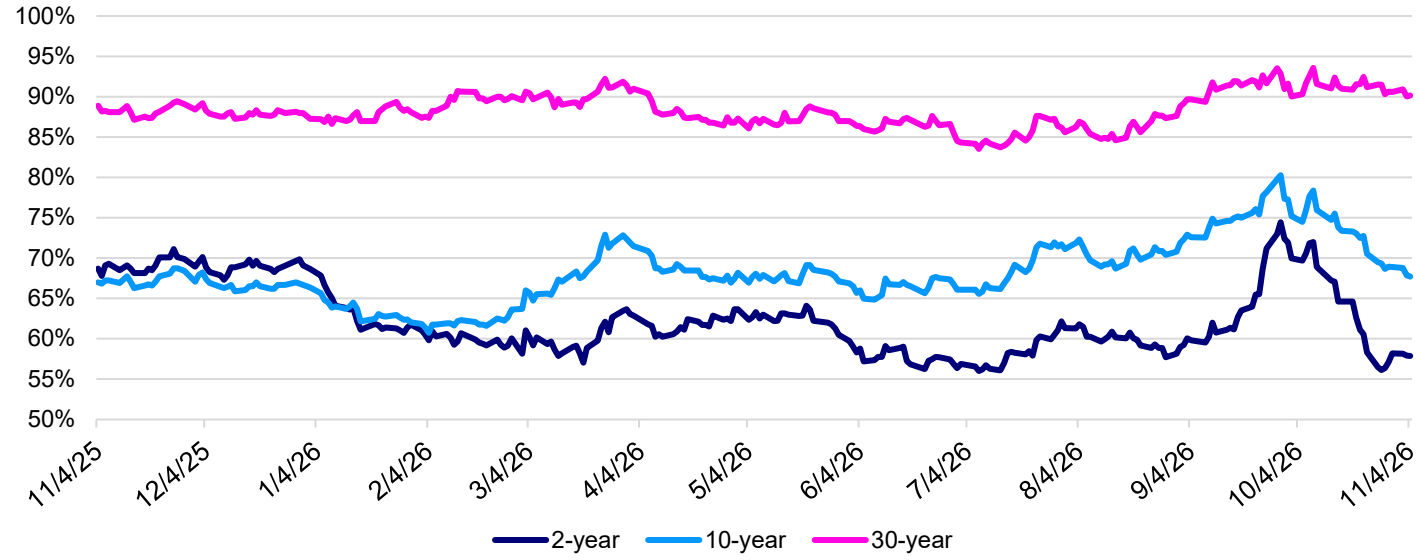
Current Muni Treasury Ratio and Tax-Equivalent Yields (%)



Term	US Treasury (UST)	Muni AAA	Muni A	Muni TEY AAA	Muni TEY A	Muni UST Ratio	Muni TEY UST Ratio
2 year	4.60	2.68	2.90	4.52	4.90	58.2%	98.3%
5 year	4.70	2.88	3.21	4.86	5.43	61.3%	103.5%
10 year	4.91	3.32	3.85	5.61	6.50	67.6%	114.3%
20 year	5.34	4.29	5.14	7.25	8.68	80.3%	135.6%
30 year	5.27	4.75	5.62	8.03	9.49	90.2%	152.3%

Source: Bloomberg, as of November 4, 2026. TEY = Tax-Equivalent Yield. UST = United States Treasury. US Treasury is represented by the public obligations of the US Treasury. Treasurys are backed by the full faith and credit of the US government as to the timely payment of principal and interest, while legislative or economic conditions could affect a municipal securities issuer's ability to make payments of principal or interest. Muni AAA is represented by the Municipal AAA GO bond yield, a Municipal Market Data proprietary yield curve of AAA-rated state general obligation bonds, based on the institutional block size of $2million-plus market activity in both the primary and secondary bond market. The Muni TEY AAA is the Tax-Equivalent Yield assuming a top tax rate of 40.8% of the Muni AAA yield. Muni A is the Bloomberg Municipal Bond A Index, an unmanaged index of the A-rated municipal bond market. The Muni TEY A is the Tax-Equivalent Yield assuming a top tax rate of 40.8% of the Muni A yield. The Muni UST Ratio is the comparison of the Muni AAA vs. the yield on the US Treasury. The Muni TEY UST Ratio is the Tax-Equivalent Yield assuming a top tax rate of 40.8% of the Muni UST Ratio. An investment cannot be made directly into an index.
Tax-equivalent yield assuming a top tax rate of 40.8%, 37% federal tax rate and 3.8% net investment income tax (NIIT), effective Jan. 1, 2026. IRS.gov, as of October 9, 2025. Top marginal tax rate for single taxpayers with more than $640,600 in taxable income or couples with more than $768,700. NIIT is the net investment income tax for single taxpayers with more than $200,000 in taxable income or couples with more than $250,000.

Municipal/Treasury Ratio



Source: Thomson Reuters TM3, as of November 4, 2026. US Treasury is represented by the public obligations of the US Treasury. Treasurys are backed by the full faith and credit of the US government as to the timely payment of principal and interest, while legislative or economic conditions could affect a municipal securities issuer's ability to make payments of principal or interest. The Municipal AAA GO bond yield is represented by the Municipal Market Data proprietary yield curve of AAA-rated state general obligation bonds, based on the institutional block size of $2million-plus market activity in both the primary and secondary bond market. Past performance does not predict future returns. An investment cannot be made directly into an index.

Sources:

1. Bloomberg, L.P., as of October 31, 2026. The Bloomberg Municipal Bond Index is an unmanaged index considered representative of the investment grade tax-exempt bond market.
2. JPMorgan Global Markets Strategy, as of October 30, 2026. There is no guarantee forecasts will come to pass.
3. BofA Global Research, as of October 30, 2026.

About risk

Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer's ability to make payments of principal and/or interest.

Junk bonds involve greater risk of default or price changes due to changes in the issuer's credit quality.

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. The values of junk bonds fluctuate more than those of high-quality bonds and can decline significantly over short time periods.

All fixed income securities are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/ or repay the principal on its debt. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

Municipal bonds are issued by state and local government agencies to finance public projects and services. They typically pay interest that is tax-free in their state of issuance. Because of their tax benefits, municipal bonds usually offer lower pre-tax yields than similar taxable bonds.

All data as of November 4, 2026, unless otherwise stated.

All data provided by Invesco unless otherwise noted.

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