

## Investment Insights

# Thoughts From The Municipal Bond Desk



**Mark Paris**  
Head of Municipals



**Tim Spitz**  
Senior Client Portfolio Manager,  
Municipals

### Overview

- The Fed held interest rates steady this week, and half of the Federal Open Market Committee members see at least one rate increase by the end of the year.
- New municipal supply has shifted toward shorter maturities, as issuers take advantage of lower borrowing costs on the front end of the curve.
- Recent softening in high-yield muni demand seems driven by investor selectivity and the attractive yields available among investment grade municipals, not by weakening credit fundamentals.

**Tim: The Federal Reserve (Fed) kept rates steady this week and released its updated dot plot projections. May's employment report was already surprisingly strong, suggesting the labor market may be firmer than we thought. What's your read on what the Fed delivered today and what it means for future policy?**

**Mark:** This just confirms what the data has been telling us, and the Fed is in no rush to cut. The decision to hold rates steady was unanimous, and Chair Warsh's debut statement was noticeably leaner, having stripped out the easing-bias language from earlier communications.<sup>1</sup> Payrolls came in well above expectations, with upward revisions to prior months, while hiring was pretty broad-based and unemployment claims have generally held steady.<sup>2</sup> So the data simply hasn't softened enough to justify rate cuts. In my mind, the bigger signal was in the updated dot plot, where the median dot for year-end 2026 moved up to 3.8%, from 3.4% in March. This is a hawkish flip from a projected cut to a hike. Nine of the 18 committee members submitted dots that now pencil in at least one hike this year, eight see no change, and only one is still calling for a cut. So, the median went well past what we were watching for, and March's projection of one cut in 2026 is gone entirely.<sup>1</sup> In this kind of environment, the yields we're seeing in the municipal market—especially on a tax-exempt basis—potentially look very compelling, particularly for investors in higher-tax states and brackets.

**Tim: Issuance patterns have shifted a bit this year. What are you seeing there?**

**Mark:** Yes, we've noticed that trend, too. Issuance has been skewed toward longer maturities overall, but more issuers have been starting to come into the shorter part of the curve—especially in the 6- to 10-year range. Year to date through May, supply in that part of the market is up by close to 40% versus last year.<sup>2</sup> Conversely, longer-dated issuance has actually come down a bit, with new supply in maturities over 20 years declining by roughly 17%.<sup>2</sup> Some of that may reflect demand from investment vehicles like separately managed accounts and exchange traded funds (ETFs), but I think the bigger driver is cost. Issuers are taking advantage of relatively lower borrowing costs on the front end of the curve. We've also seen that shift led by sectors like multifamily housing, health care, and energy prepaids.<sup>2</sup>

**Tim: Demand for high yield munis has remained high and has continued to exceed supply, but it has dipped recently. Do you think that reflects concern about credit fundamentals?**

**Mark:** I don't think it's a fundamentals story. To me, it looks more like a shift in behavior, with investors becoming a bit more selective. Flows into municipal funds have remained strong overall, but a larger share has gone into investment grade strategies this year compared to last year.<sup>3</sup> High yield has seen inflows, just not at the same pace. There are a few factors at play—higher yields in investment grade municipals, ongoing geopolitical uncertainty, and some lingering concerns around inflation and private credit. We're also seeing more dispersion across deals. Some transactions have been heavily oversubscribed, while others have struggled or needed to be restructured. To me, that really reinforces how important credit selection is right now—being able to identify the structures and opportunities that offer appropriate compensation for the risk.

## Munis by the numbers

A quick look at some commonly used municipal market datapoints.

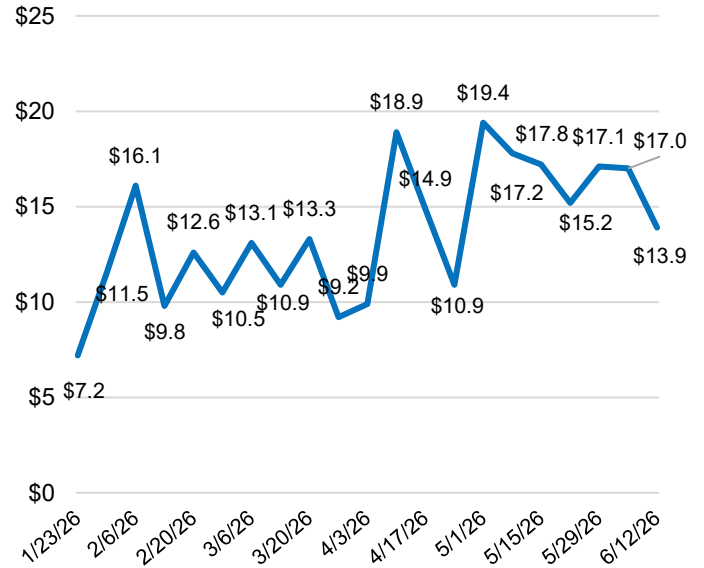
### 2026 Fund Flows - Weekly and Monthly Reporters (\$millions)

Week ended June 10, 2026

	Combined	Open End Mutual Funds	ETFs
All term muni funds	48,162	25,710	22,452
Investment Grade	41,552	20,450	21,102
High Yield	6,610	5,260	1,350
Long Term (10yr +)	29,607	14,044	15,563
Intermediate (5-10yr)	13,120	8,827	4,293
Short / Intermediate (3-5yr)	3,480	1,893	1,587
Short (1-3yr)	1,954	946	1,009
National funds	41,794	21,889	19,904
New York	750	268	482
California	4,291	2,366	1,924

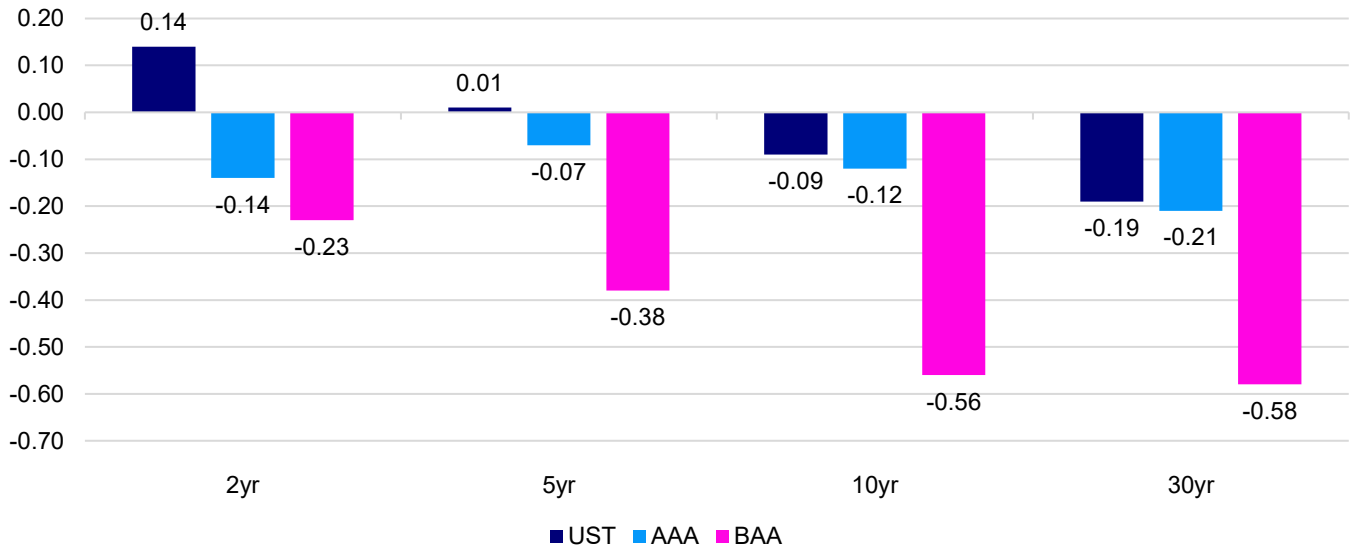
Source: Year to date LSEG Lipper Global Fund Flows, J.P. Morgan. Data refreshed on June 11, 2026. Note: Figures shown on this table are combination of weekly and monthly reporters.

### 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 January 23, 2026 – June 12, 2026.

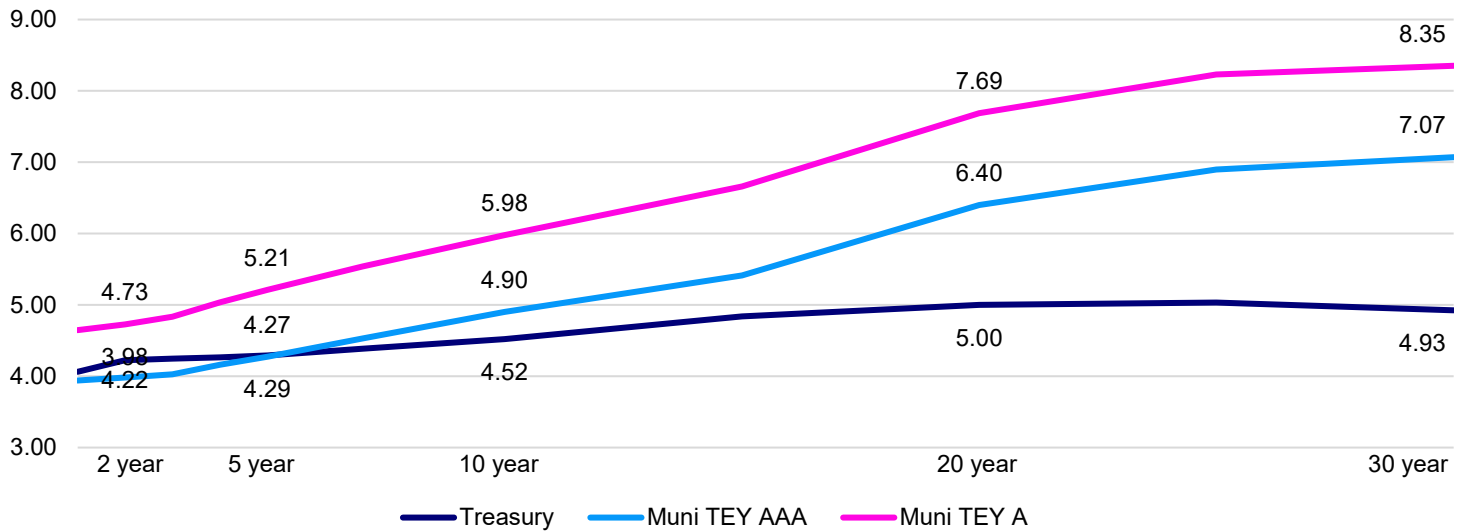
### 1-Month Yield Change 5/15/2026 – 6/17/2026 (% Change)



Source: Refinitiv MMD Curve, US Department of Treasury, from May 15, 2026 – June 17, 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](http://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](http://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 (%)

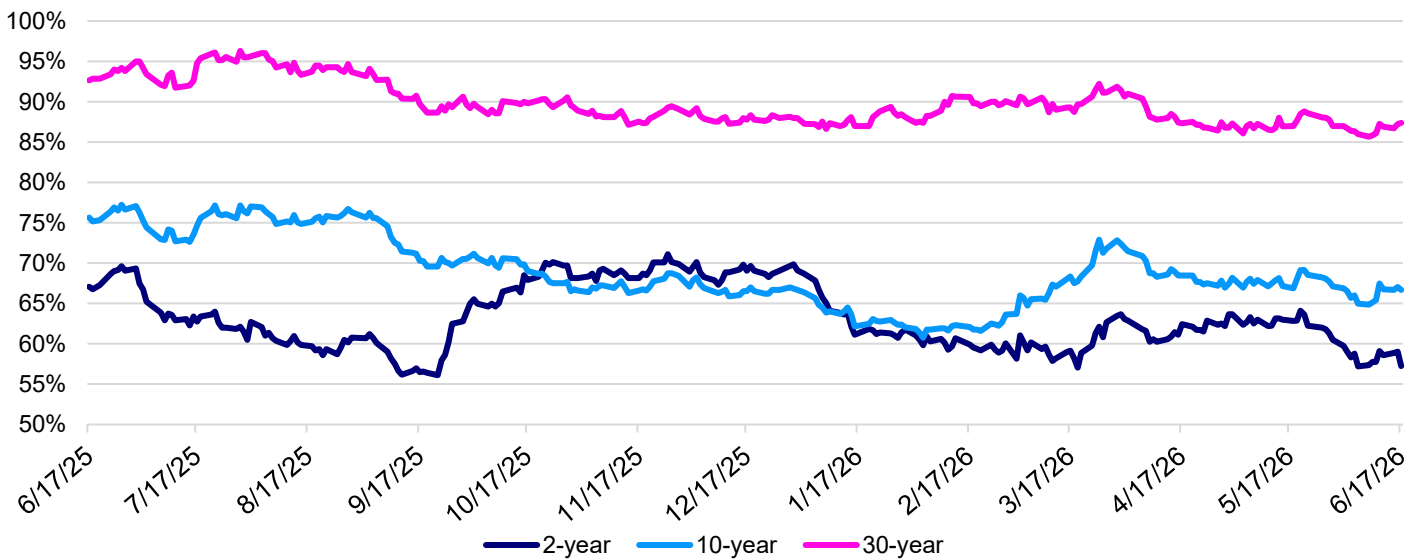


Term	US Treasury (UST)	Muni AAA	Muni A	Muni TEY AAA	Muni TEY A	Muni UST Ratio	Muni TEY UST Ratio
2 year	4.22	2.36	2.80	3.98	4.73	55.8%	94.2%
5 year	4.29	2.53	3.09	4.27	5.21	58.9%	99.6%
10 year	4.52	2.90	3.54	4.90	5.98	64.2%	108.5%
20 year	5.00	3.79	4.55	6.40	7.69	75.8%	128.1%
30 year	4.93	4.19	4.94	7.07	8.35	85.0%	143.5%

Source: Bloomberg, as of June 17, 2026. TEY = Tax-Equivalent Yield. UST = United States Treasury. US Treasury is represented by the public obligations of the US Treasury. Treasuries 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 is assuming a top tax rate of 40.8% of the Muni AAA yield. Muni A is the Bloomberg Municipal Bond A Index is an unmanaged index of the A-rated municipal bond market. The Muni TEY A is the Tax-Equivalent Yield is 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 is 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 investment income 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 June 17, 2026. US Treasury is represented by the public obligations of the US Treasury. Treasuries 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.

Dot plot is a chart that shows how the Fed's top policymakers think the Fed will change short-term interest rates over the next few years.

A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity.

**Sources:**

1. Federal Reserve Board Summary of Economic Projections, dated June 17, 2026.
2. J.P. Morgan, as of June 5, 2026.
3. *The Bond Buyer*, as of June 5, 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.

Any reference to a rating, ranking or an award is not a guarantee of investment performance and is not constant over time.

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 June 17, 2026, unless otherwise stated.

All data provided by Invesco unless otherwise noted.

The opinions expressed are those of the author, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

Invesco does not provide tax advice. The tax information contained herein is general and is not exhaustive by nature. It is not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding tax penalties that may be imposed on the taxpayer under US federal tax laws. Federal and state tax laws are complex and constantly changing. Investors should always consult their own legal or tax professional for information concerning their individual situation.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Past performance does not guarantee future results. An investment cannot be made into an index.

Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions, there can be no assurance that actual results will not differ materially from expectations.

There is no guarantee the outlooks mentioned will come to pass.

Diversification does not guarantee a profit or eliminate the risk of loss.