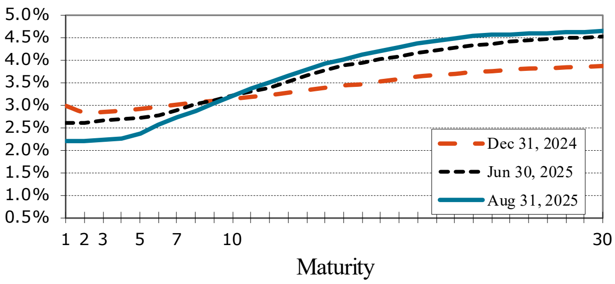
Baird Advisors
Municipal Fixed Income Market Commentary
August 2025

Municipal Curve Steepens as Yields Fall, Record Level of New Supply Continues

Macro-economic data provided a favorable backdrop for municipals in August as a revision to prior monthly payroll data pointed to a weaker jobs market than previously believed. This increased the likelihood of an easing at the Fed's September meeting, helping to lower tax-exempt yields and steepen the curve. Short-term rates fell more than long-term rates as the 2yr yield fell 19 bps and the 30yr maturity fell 5 bps (see more on the curve below). The pace of municipal issuance remained at record levels as new supply of $49B was the highest ever for the month of August, pushing the YTD total to $390B, 18% above last year's record pace. While some expect more moderate issuance for the balance of the year, after the passage of the One Big Beautiful Bill Act, a new record level of annual issuance this year is almost certain. Demand was also strong in August with heavy summer reinvestment needs (from maturing bonds, early calls and coupon payments) and $8.3B of net fund inflows, which brings the YTD total to $24B – ahead of the $19B at this point last year. Although reinvestment needs will slow for the balance of the year, we expect solid investor demand to continue. In addition to offering appealing income levels, particularly when viewed on a tax-adjusted basis, the lagging returns of municipals relative to taxables makes for an attractive entry point for investors. As evidence, the Bloomberg Municipal Index YTD return of 0.32% lags the 4.99% return of the taxable Bloomberg U.S. Aggregate Index by a significant 467 bps, with expectations that the return gap should narrow in time.

AAA Municipal Yields



Maturity	12/31/24	6/30/25	7/31/25	8/31/25	1Mo Chg	YTD Chg
1	2.97%	2.59%	2.38%	2.19%	-0.19%	-0.78%
2	2.82%	2.61%	2.40%	2.21%	-0.19%	-0.61%
3	2.83%	2.65%	2.41%	2.22%	-0.19%	-0.61%
5	2.90%	2.72%	2.53%	2.37%	-0.16%	-0.53%
7	3.00%	2.88%	2.85%	2.72%	-0.13%	-0.28%
10	3.13%	3.21%	3.27%	3.20%	-0.07%	0.07%
30	3.87%	4.52%	4.69%	4.64%	-0.05%	0.77%

Curve Steepness Offers Appealing Extension Opportunities

Record supply and stable demand has driven the slope of the municipal yield curve to levels not seen since at least 2015. At the end of August, the yield pickup between the 2yr and 30yr segment of the municipal curve was +243 bps, up 138 bps from the start of the year and nearly 40 bps steeper than the long-term average (+205 bps). There are several reasons for the unusual curve steepness, but key among them are: the record municipal supply YTD, with an emphasis on longer maturity borrowing, strong investor demand for short-term issues which has pushed short-term yields lower and, more recently, rising expectations of the Fed easing. For investors willing to extend, the steep curve offers the dual benefit of additional yield and enhanced roll-down return. For example, extending from a 2yr maturity (2.21%) to a 10yr bond (3.20%) provides investors with nearly 100 bps of additional yield along with approximately 160 bps of rolldown return over the next twelve months (assuming a static yield curve). For those willing to extend even further, total return is currently optimized in the 20yr maturity segment where return projections approach 5.0% when both yield and roll-benefit are considered.

Positive Returns in August

Falling yields across the curve led to positive monthly returns for the municipal market. Intermediate and long-term maturities outperformed shorter maturities for the month. From a credit quality perspective, BBB-rated issues lagged higher-quality issues both for the month and YTD as credit spreads widened. Investment Grade issues continue to outperform HY for the month and YTD. Finally, GO and Revenue bonds outperformed Prerefunded issues for the month, although they continue to lag YTD.

Total Returns of Selected Barclays Municipal Indices and Subsectors

Bloomberg Index/Sector	August	YTD	*Duration*	Bloomberg Quality	August	YTD	*Duration*
Municipal Bond Index	0.87%	0.32%	*7.13*	AAA	0.91%	0.20%	*7.30*
General Obligation bonds	0.90%	0.45%	*6.80*	AA	0.85%	0.37%	*7.01*
Revenue bonds	0.87%	0.21%	*7.32*	A	0.91%	0.45%	*7.05*
Prerefunded bonds	0.45%	3.14%	*2.50*	BBB	0.73%	-0.48%	*8.10*
Long maturities (22+ yrs.)	0.87%	-3.59%	*11.64*	High Yield	0.53%	-1.31%	*8.14*
Intermediate maturities (1 - 17 yrs.)	0.84%	2.20%	*5.21*	HY, ex-Puerto Rico	0.57%	-1.05%	*8.04*
Short maturities (1 - 5 yrs.)	0.61%	3.45%	*2.35*				

Disclosures

Fixed income is generally considered to be a more conservative investment than stocks, but bonds and other fixed income investments still carry a variety of risks such as interest rate risk, credit risk, inflation risk, and liquidity risk. In a rising interest rate environment, the value of fixed-income securities generally decline and conversely, in a falling interest rate environment, the value of fixed-income securities generally increase. High yield securities may be subject to heightened market, interest rate or credit risk and should not be purchased solely because of the stated yield.

The Bloomberg Municipal Bond Index is a broad-based, total-return index. The bonds are all investment-grade, tax-exempt, and fixed-rate securities with long-term maturities (greater than 2 years). They are selected from issues larger than $50 million. The components listed below the Municipal Bond Index (long maturities, intermediate maturities, short maturities, prefunded bonds, general obligation bonds and revenue bonds) are subsectors of the Bloomberg Municipal Bond Index and do not represent separate indices.

The Bloomberg High Yield Municipal Index includes bonds with a par value of at least $3 million and must be issued as part of a transaction of at least $20 million. The maximum rating for inclusion is Ba1/BB+/BB+ using the middle rating.

For more information about the Bloomberg Municipal Bond Index or Bloomberg High Yield Municipal Index, please visit https://index.barcap.com/Home/Guides_and_Factsheets.

Municipal securities investments are not appropriate for all investors, especially those taxed at lower rates. The alternative minimum tax (AMT) may be applicable, even for securities identified as tax exempt. Past performance is not a guarantee of future results.

Ratings are measured on a scale that ranges from AAA or Aaa (highest) to D or C (lowest). Investment grade investments are those rated from highest down to BBB- or Baa3.

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