

# Blog



## MARKETS

November 04, 2025

### Weekly Municipal Monitor—Munis Play Catch-Up In October

By Sam Weitzman

#### Macros, Markets and Munis

Munis posted negative returns last week, but outperformed Treasuries. The Treasury curve sold off during the week, moving 6-8 bps higher across the curve. The high-grade muni curve also moved higher, but outperformed amid improving technical factors, rising 2-5 bps higher across the curve. Meanwhile, muni technicals were supported by slowing supply and steady demand. Amid the ongoing federal government shutdown that continues to limit data releases, the primary focus of the markets last week was on the Federal Reserve (Fed), which cut the fed funds rate by 25 bps while also announcing an end to quantitative tightening. Notably, there were two dissents within the Federal Open Market Committee, with one member advocating for a 50-bp cut and another advocating that rates remain unchanged, and Fed Chair Jerome Powell made hawkish comments emphasizing that a December cut was not a “foregone conclusion.” This week we touch on strong October muni performance.

#### Supply Increased to Near Record Levels While Demand Remained Positive

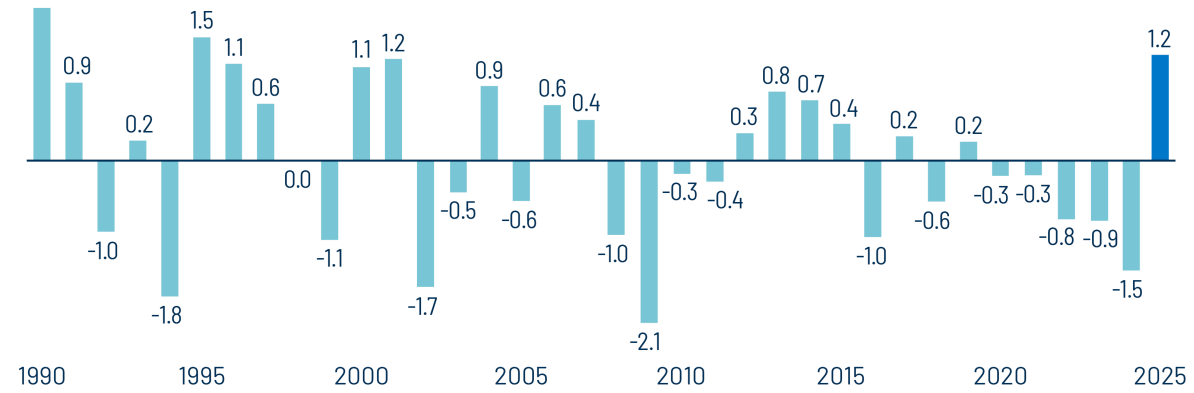
*Fund Flows (\$720 million of net inflows):* During the week ending October 29, weekly reporting municipal mutual funds recorded \$720 million of net inflows, according to Lipper. Long-term funds recorded \$567 million of inflows, intermediate funds recorded \$177 million of inflows and the short-term category recorded \$36 million of outflows. Last week’s inflows led year-to-date (YTD) inflows higher to \$37 billion.

*Supply (YTD supply of \$490 billion; up 15% YoY):* The muni market recorded \$8 billion of new-issue supply last week, down \$10 billion from the prior week’s level. YTD new-issue supply of \$490 billion is 15% higher than the prior year, with tax-exempt issuance up 16% year-over-year (YoY) and taxable issuance up 6% YoY. This week’s calendar is expected to pick back up to \$11 billion. The largest deals include \$2.6 billion Southeast Energy Gas Prepay (JP Morgan) and \$561 million Sullivan County Resort Facilities transactions.

#### This Week in Munis: Munis Play Catch-Up In October

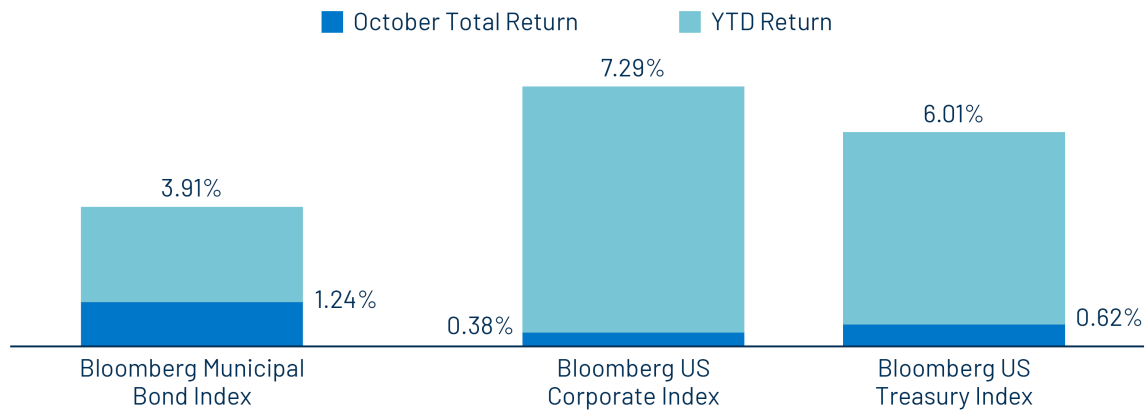
Heading into the month of October, municipals had significantly underperformed taxable fixed-income sectors in 2025. YTD through September 30, the Bloomberg Municipal Bond Index returned 2.64%, below half the return of the Bloomberg U.S. Treasury Index return of 5.36% and the Bloomberg US Corporate Index return of 6.88%. October’s Municipal Bond Index total return of 1.24% bucked the historically negative average October return since 1990, marked the highest October total return since 1990, and was nearly double the respective Treasury and Corporate Index returns of 0.62% and 0.38%, respectively. The strong monthly return brought the Muni Index YTD return to 3.91%, still lower than the 6.01% and 7.29% of the Treasury and Corporate Index returns, respectively (Exhibit 2).

**Exhibit 1: Historical October Returns—Bloomberg Municipal Bond Index**



Source: Western Asset, Bloomberg. As of 31 Oct 25.

**Exhibit 2: October 2025 and YTD 2025 Returns—Bloomberg Municipal Bond Index**

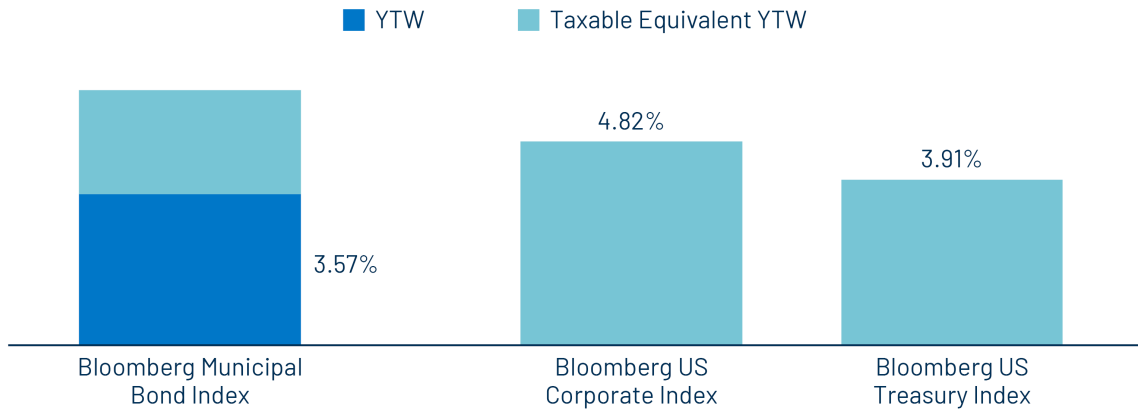


Source: Western Asset, Bloomberg. As of 31 Oct 25.

The favorable October performance this year reflects ongoing positive sentiment from individual investors seeking higher after-tax yields in the municipal market, particularly in longer-duration maturities, as the Fed continued its rate-cutting cycle. Lipper data shows municipal mutual funds recorded approximately \$8 billion in net inflows during October, with the majority (\$4.4 billion) directed to long-end category funds. This demand extended the [long-end outperformance observed in September](#), with maturities beyond 10 years generally leading returns as the curve continued to flatten.

Despite the muni market narrowing the performance gap during the month, tax-exempt income levels remain near generational highs, and the relative YTD underperformance continues to offer potential demand catalysts, especially as the Fed is expected to continue its rate-cutting cycle into 2026. Sustained inflows, combined with the likelihood of seasonally lower supply heading into the holidays, support a constructive outlook for munis to gain further ground versus taxable counterparts. Western Asset believes investors are well positioned to capitalize on this year’s elevated supply-driven valuations, which may not persist at the same level through 2026.

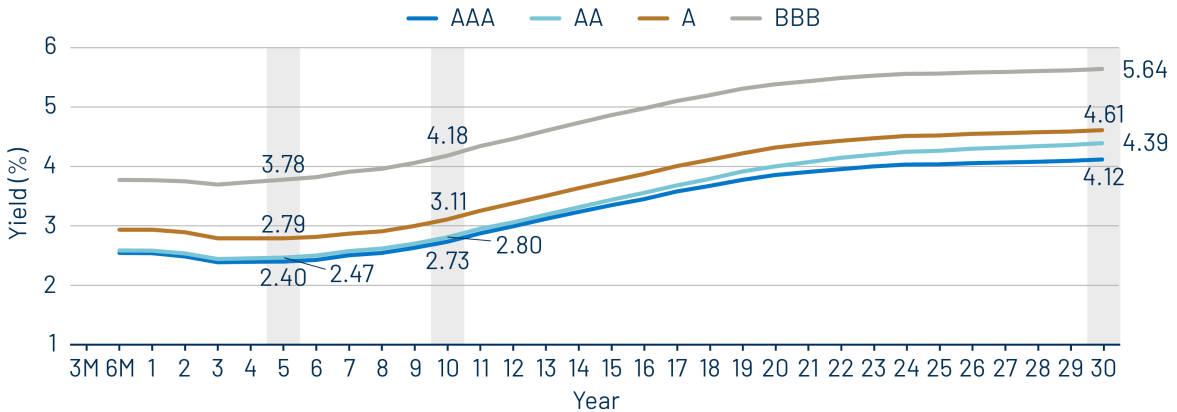
**Exhibit 3: Taxable-Equivalent Muni YTW vs. Corporate and Treasury Indices**



Source: Western Asset, Bloomberg. As of 31 Oct 25. Yield-to-worst (YTW) is the lowest potential yield that can be received on a bond without the issuer actually defaulting.

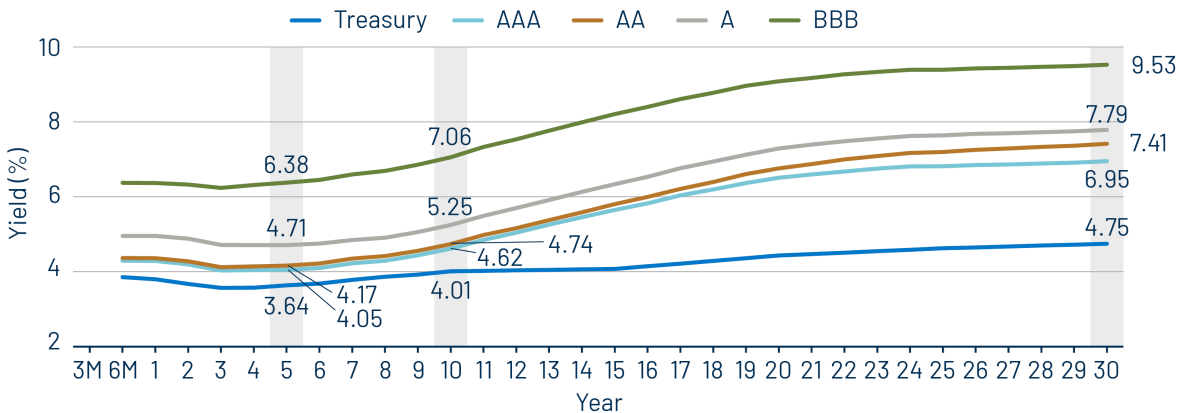
**Municipal Credit Curves and Relative Value**

**Exhibit 4: Muni Credit Curves**



Source: Bloomberg, Western Asset. As of 31 Oct 25. Bloomberg Valuation Service (BVAL) Municipal Credit Indices (AAA, AA, A, BBB, respectively) and US Sovereign Curves. Taxable-Equivalent Muni Credit Curves consider the top marginal effective tax rate of 40.8%. AA Muni is represented by the US General Obligation AA Muni BVAL Yield Curve. The BVAL curve is populated with pricing from uninsured AA General Obligation bonds. A Muni is represented by the US General Obligation A Muni BVAL Yield Curve. The BVAL curve is populated with pricing from uninsured A General Obligation bonds. BBB Muni is represented by the US General Obligation BBB Muni BVAL Yield Curve. The BVAL curve is populated with pricing from uninsured BBB General Obligation bonds. Indices are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator or a guarantee of future results.

**Exhibit 5: Taxable-Equivalent Muni Credit Curves**



Source: Bloomberg, Western Asset. As of 31 Oct 25. Bloomberg Valuation Service (BVAL) Municipal Credit Indices (AAA, AA, A, BBB, respectively) and US Sovereign Curves. Taxable-Equivalent Muni Credit Curves

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## Exhibit 6: AAA Munis vs. Treasuries

### (A) Municipal Yields

	31 Oct 25			24 Oct 25			Change			10-Year Average		
	AAA Muni	Treasury	M/T Ratio	AAA Muni	Treasury	Ratio	Muni $\Delta$ (bps)	Treasury $\Delta$ (bps)	Ratio $\Delta$ (%)	AAA Muni	Treasury	Ratio
2-Year	2.46%	3.58%	69%	2.43%	3.48%	70%	▲3	▲9	▼-1	1.53%	2.27%	68%
5-Year	2.38%	3.69%	65%	2.36%	3.61%	65%	▲2	▲8	▼-1	1.68%	2.41%	70%
10-Year	2.73%	4.08%	67%	2.70%	4.00%	67%	▲3	▲8	▼-1	2.07%	2.66%	78%
30-Year	4.15%	4.65%	89%	4.10%	4.59%	89%	▲5	▲6	▼-0.4	2.85%	3.09%	94%

### (B) Index Returns

	1-Week Total Return	YTD Total Return	Tax-Exempt YTW	Taxable Equivalent YTW
Bloomberg Municipal Bond Index	-0.07%	3.91%	3.57%	6.04%
Bloomberg High-Yield Municipal Bond Index	-0.11%	2.31%	5.63%	9.52%
Taxable Municipal Index	-0.58%	7.58%	4.78%	4.78%

Taxable Equivalent Yield assumes a top marginal tax rate of 40.8%.

Source: Muni Yields: Thomson Reuters MMD, Treasury Yields: Bloomberg. As of 31 Oct 25. Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

## Exhibit 7: Tax-Exempt and Taxable Muni Valuations

### (A) Tax-Exempt Municipal Valuations

Bloomberg Index	Yield-to-Worst	Spread to AAA Muni Index (bps)	5-Year Average (bps)	Same-Rated Corporate Index YTW	After Tax Corp. Yield-to-Worst	Muni-After Tax Corporate Spread (bps)
AAA Muni Index YTW	3.42%	—	—	4.64%	2.75%	67
AA Muni Index YTW	3.44%	2	8	4.56%	2.70%	74
A Muni Index YTW	3.81%	39	38	4.68%	2.77%	105
BBB Muni YTW	4.47%	105	99	5.00%	2.96%	151
High-Yield Muni YTW	5.63%	222	230	6.78%	4.01%	162

### (B) Taxable Municipal Valuations

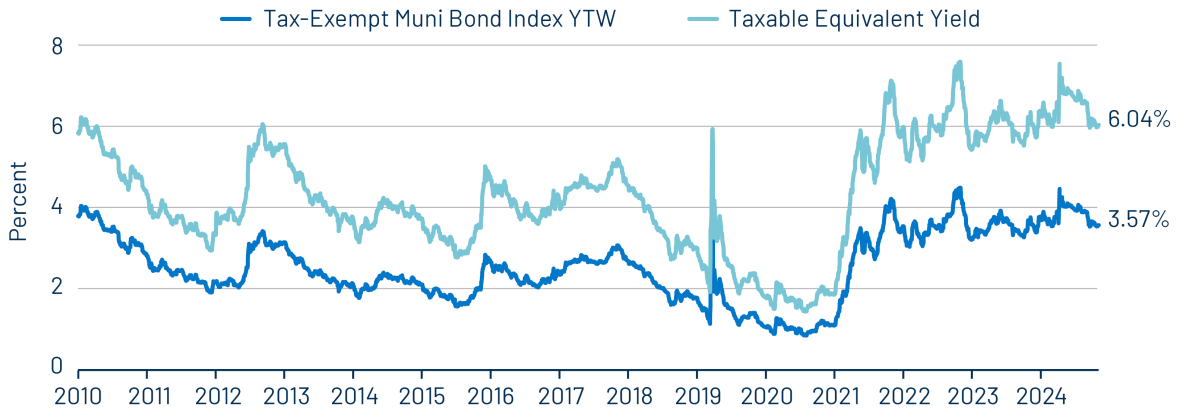
Bloomberg Index	Yield-to-Worst	Spread to Treasury (bps)	Spread to Corporate Index (bps)	Spread to Tax-Exempt Muni Index (bps)
5-Year AAA Taxable Muni	3.91%	22	-6	153
10-Year AAA Taxable Muni	4.39%	31	-15	166
30-Year AAA Taxable Muni	5.49%	84	15	134
Bloomberg Taxable Muni Index	4.78%	13	63	120

Source: Bloomberg, Western Asset. As of 31 Oct 25. Yield-to-worst (YTW) is the lowest potential yield that can be received on a bond without the issuer actually defaulting. AAA, AA, A, BBB Corporate Indices; After-Tax Yield assumes a top effective tax rate of 40.8%. Taxable Muni Index Corporate comparable used is the Global Corporate Aggregate (ex. BBB) to better align credit quality and duration.

## Western Asset Key Themes for Muni Investors

Theme ##1: Municipal taxable-equivalent yields and income opportunities remain near decade-high levels.

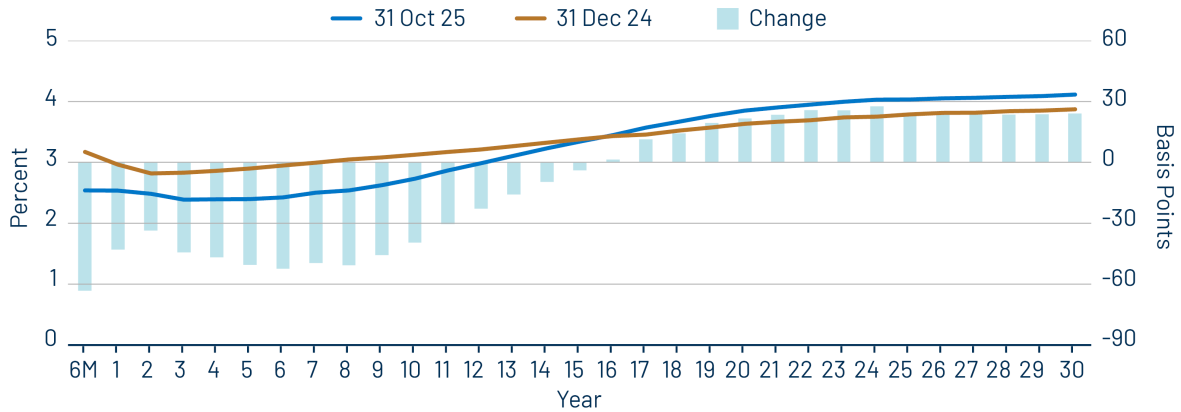
**Exhibit 8: Muni and Taxable-Equivalent Muni Yield-to-Worst**



Source: Bloomberg, Western Asset. As of 31 Oct 25. Bloomberg Municipal Bond Index yield considering highest marginal tax rate of 40.8%. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator or a guarantee of future results.

Theme ##2: The AAA muni curve has steepened this year, offering better value in intermediate and longer maturities.

**Exhibit 9: AAA Municipal vs. Treasury Yield Curves**



Source: Bloomberg, Western Asset. As of 31 Oct 25. Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator or a guarantee of future results.

Theme ##3: Munis offer attractive after-tax yield compared to taxable alternatives.

**Exhibit 10: Municipal vs. Taxable Fixed-Income Yields by Quality**

As of 31 Oct 25	Muni YTW	After-Tax Taxable YTW	Muni After-Tax Yield Pickup (bps)	5-Year Average (bps)
10-Year AAA Munis vs. Treasury	2.72%	2.41%	30	37
30-Year AAA Muni vs. Treasury	4.06%	2.75%	131	101
AA Munis vs. Corporates	3.44%	2.70%	74	45
A Munis vs. Corporates	3.81%	2.77%	104	70
BBB Munis vs. Corporates	4.47%	2.96%	151	96
HY Munis vs. Corporates	5.63%	4.01%	162	89

Source: Western Asset, Bloomberg. As of 31 Oct 25. 10- and 30-Year comparison reflects Bloomberg Valuation Service (BVAL) AAA Muni Curve and US On-/Off-the-Run Sovereign Curve. AA Muni reflects the Bloomberg AA Muni Bond Index. A Muni reflects the Bloomberg A Muni Bond Index. BBB Muni reflects the Bloomberg BBB Muni Bond Index. HY Muni reflects the Bloomberg High Yield Muni Bond Index. AA Corp reflects the Bloomberg AA Corporate Bond Index. A Corp reflects the Bloomberg A Corporate Bond Index. BBB Corp reflects the Bloomberg BBB Corporate Bond Index. After-tax yield considers the top marginal tax rate of 40.8%. Indexes are unmanaged and one cannot directly invest in them. They do not include fees,

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