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MUNI MINUTE WEEKLY COMMENTARY | 05 OCTOBER 2026

After the worst quarter since 1981, what comes next?

Market recap

September delivered the worst monthly return for municipal bonds since 2008, with the Bloomberg Municipal Index down 4.36%. That brought third quarter performance to -6.35%, the worst quarterly return since 1981. A recalibration of rate expectations drove the unprecedented underperformance, not deteriorating credit conditions. The rate selloff drove taxable equivalent yields for munis to 8.07%–a nearly a two-decade high. Softer economic data and slower supply to start October brought some easing and pushed rates lower last week across short- and intermediate-maturities. Encouragingly, credit fundamentals remain solid. Recently reported state and local tax revenue collections rose 5.75% through the first half of this year, reinforcing credit stability. The combination of historically high yields and strong fundamentals could mark an attractive entry point for investors on the sidelines, in our view.

How is supply trending?

September supply was the highest [1] on record, yet issuers pulled deals last week amid the volatility. Issuance could rebound in October if rates can stabilize, in our view.

Market impact: Slower supply found solid demand but yields on new deals could trend higher as a backlog of supply remains on the sidelines seeking more stable rates.

KEY TAKEAWAYS

- Municipal bonds posted their worst quarter since 1981 amid rapid rate repricing.
- October data suggests rates may be stabilizing after September's historic sell-off, while state and local tax revenue growth signal continued credit strength.
- Taxable-equivalent yields hit 8.07%, the highest level in nearly 20 years, presenting a compelling entry point for allocators.

Municipal market returns (%)

Index returns by maturity	WTD	MTD	YTD
Muni Agg	-0.01%	0.55%	-3.65%
Muni bond 5-year	0.25%	0.46%	-2.07%
Muni bond 10-year	0.19%	0.65%	-4.42%
Muni bond 15-year	0.08%	0.70%	-5.49%
Muni long bond (22+)	-0.48%	0.54%	-4.51%
Muni bond 3–15-year blend	0.17%	0.56%	-3.54%

Source: Bloomberg L.P., 01 Oct 2026. **Performance data shown represents past performance and does not predict or guarantee future results.** All index returns are Bloomberg; shown in U.S. dollars.

What do yields look like?

Front end yields fell while longer dated maturities continued to rise. The steepening of the curve pushed long muni rates to the highest level since 2011.

Municipal market yields (%)

	Current (%)	Change (bps)	Ratio (%)
5Y	3.62	-4	72%
10Y	4.04	-1	77%
30Y	5.13	+8	91%

Source: MMD, Bloomberg, L.P.; data from 25 Sep 2026 – 01 Oct 2026.

What are flows doing?

Net negative flows last week pointed to tax loss harvesting rotation as ETFs netted inflows while open-end funds continued to see outflows. Larger losses in long maturities continued to drive outflows from long-term funds.

OEFs	-$2.7B
ETFs	$2.1B
Long-term funds	-$870M
High yield funds	-$380M

Source: LSEG Lipper, J.P. Morgan data from 24 Sep 2026 – 01 Oct 2026. The summation of OEFs + ETFs represents the total flows.

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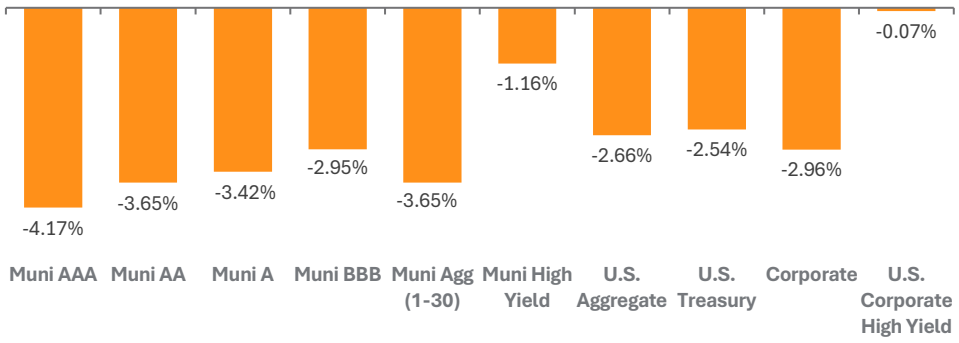
FIGURE 1: YTD INDEX RETURNS BY CREDIT QUALITY (%)

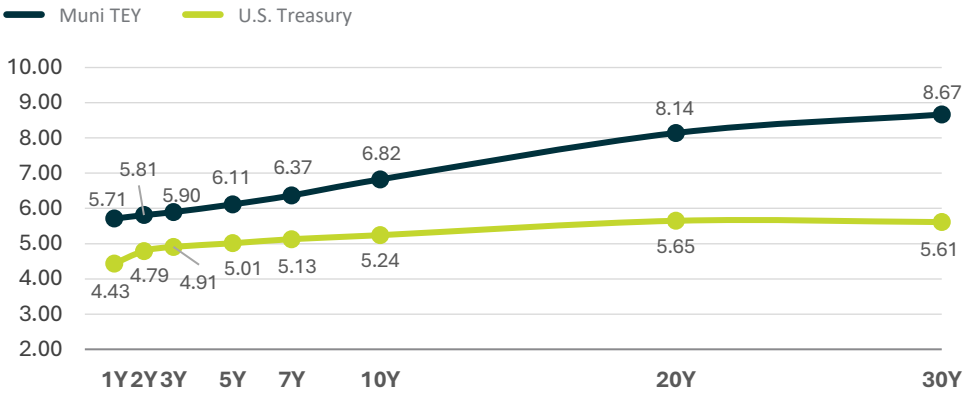


Supply and demand mismatch has been the recent driver of municipal underperformance.

Data source: Bloomberg L.P., 01 Oct 2026. **Performance data shown represents past performance and does not predict or guarantee future results.** All index returns are Bloomberg; shown in U.S. dollars.

FIGURE 2: U.S. TREASURIES VS. AAA MUNICIPAL YIELD CURVE

Taxable equivalent yield (%)

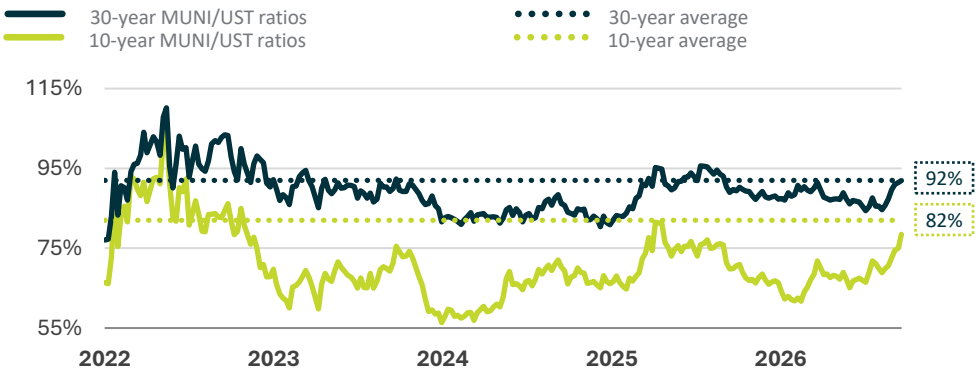


Taxable equivalent yields are more attractive in longer-maturity municipals.

Data source: Bloomberg; Nuveen Portfolio Strategy & Solutions, as of 01 Oct 2026. Taxable-equivalent yield (TEY) is the yield a taxable investment needs to possess (before taxes) for its yield to be equal to that of a tax-free municipal investment. The yields shown are based on the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income. Individual tax rates may vary. They do not take into account the effects of the federal alternative minimum tax (AMT) or capital gains taxes.

FIGURE 3: MUNICIPAL-TO-TREASURY RATIOS

AAA municipal bonds value relative to Treasuries



Ratios are growing more attractive as they move toward historical averages.

Data source: Refinitiv MMD for fair value Municipal 10- and 30-Year Index 01 Oct 2026, averages shown from 01 Jan 1984 – 01 Oct 2026. **Performance data shown represents past performance and does not predict or guarantee future results.** Municipal-to-Treasury ratio represents the value of AAA municipal yields relative to U.S. Treasury yields.

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For more information, please visit nuveen.com.

1 Source: J.P. Morgan, Municipal Monthly Index and Data Chartbook, 01 Oct 2026.

Endnotes

Sources

Performance: Bloomberg, L.P. **Issuance:** S&P Ipreo and J.P. Morgan, Municipal Morning Intelligence. **Fund flows:** Lipper and J.P. Morgan. The sum of OEFs and ETFs represent the total municipal flows.

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Representative indexes: Muni bond 5-year: Bloomberg Municipal Bond 5 Year (4–6) Index; **Muni bond 10-year:** Bloomberg Municipal Bond 10 Year (8–12) Index; **Muni bond 15-year:** Bloomberg Municipal Bond 15 Year (12–17) Index; **Muni long bond:** Bloomberg Municipal Long Bond (22+) Index; **Muni bond 3–15 year blend:** Bloomberg Municipal 3–15 year blend (2–17) Index; **Muni AAA:** Bloomberg Municipal AAA Index; **Muni AA:** Bloomberg Municipal AA Index; **Muni A:** Bloomberg Municipal A Index; **Muni BBB:** Bloomberg Municipal BBB Index; **Muni Agg (1-30) bond:** Bloomberg Municipal Bond Index; **Muni high yield:** Bloomberg High Yield Municipal Index; **U.S. aggregate bond:** Bloomberg U.S. Aggregate Bond Index; **U.S. Treasury:** Bloomberg U.S. Treasury Index; **U.S. government related:** Bloomberg U.S. Government-Related Index; **U.S. corporate investment grade:** Bloomberg U.S. Corporate Index; **U.S. high yield corporate:** Bloomberg U.S. Corporate High Yield Index; **Taxable municipals**: Bloomberg Taxable Municipal Index.

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For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

Important information on risk

Past performance is no guarantee of future results. All investments carry a certain degree of risk, including the possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. Certain products and services may not be available to all entities or persons. There is no guarantee that investment objectives will be achieved.

Investing in fixed income investments involves risks such as market risk, credit risk, interest rate/duration risk, call risk, tax risk, political and economic risk, derivatives risk, and income risk. Credit risk refers to an issuers ability to make interest and principal payments when due. Typically, the value of, and income generated by, fixed income investments will decrease, or increase based on changes in market interest rates. As interest rates rise, bond prices fall and as interest rates fall, bond prices rise. Income is only one component of performance and investors should consider all of the risk factors for an asset class before investing.

Investing in municipal bonds involves risks such as market risk, credit risk, interest rate/duration risk, call risk, tax risk, political and economic risk, derivatives risk, and income risk. Credit risk refers to an ability to make interest and principal payments when due. Typically, the value of, and income generated by, muni bonds will decrease, or increase based on changes in market interest rates. As interest rates rise, bond prices fall and as interest rates fall, bond prices rise. Income is only one component of performance and investors should consider all of the risk factors for an asset class before investing. Income is generally exempt from regular federal income tax and may be subject to state and local taxes, based on the investor's state of residence, as well as to the federal alternative minimum tax (AMT). Capital gains, if any, are subject to tax. Income from municipal bonds could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. Please contact a tax professional regarding the suitability of tax-exempt investments as this information should not replace a client's consultation with a financial/tax professional regarding their tax situation. Nuveen and its investment specialists do not provide tax advice.

Taxable-equivalent yields are based on the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income. Individual tax rates may vary.

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