

BondWave Trade Insights - Volume 26

The Muni/Treasury Ratio and Recent Shifts in the Yield Curve

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The Federal Reserve steadily slashed interest rates towards the end of 2024 and 2025, but at its latest meeting, the Fed decided to increase interest rates for the first time in three years. This, along with the recent upward trend in Treasury rates, is a good reason for us to take a closer look at the relative movement in municipal yields.

In this piece, we will explore how municipal yields, as measured by the BondWave Municipal AA QCurve, have moved in tandem with the U.S. Treasury yield curve and how the Federal Reserve's rate policy has impacted its term structure.

In July 2022, the U.S. Treasury curve inverted between the 1- to 5-year range. Municipal yields experienced the same inversion a little later that year, starting in December 2022. Simultaneously, both yield curves remained relatively flat between the 5- to 10-year range.

The first signs of the inversion reversing its course emerged in Q4 of 2024, along with the Federal Reserve reducing rates by 50 bps in September 2024, 25 bps in November 2024, and by another 25 bps in December 2024. Both yield curves flattened in the 1- to 5-year range during this time and began steepening in the 5- to 10-year range. It is worth noting that while the U.S. Treasury term structure returned close to its typical upward sloping shape in Q4 2024, municipal yields took almost another year to follow suit.



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BondWave Trade Insights - Volume 26

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Chart 1: BondWave Municipal AA QCurve 1-, 5- and 10-Year Yields Time Series (July 2023 – Present)



Source: BondWave

Chart 2: US Treasury Yields 1-, 5- and 10-Year Yields Time Series (July 2023 – Present)



Source: BondWave

BondWave Trade Insights - Volume 26

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The 1–5-year section of the BondWave Municipal AA QCurve remained inverted until June 4, 2025, when it became upward sloping for the first time since 2023 (Table 1). This change was short-lived, and on the day of the Fed's third consecutive rate cut, the 1- to 5-year range of the municipal yield curve inverted again (at -7 bps). The whole municipal term structure has remained upward sloping since May 14, 2026.

Table 1: Fed Funds Rate Changes and BondWave Municipal AA QCurve Yield Slope (July 2023 – Present)

Date	Fed Rate Changes (bps)	Fed Funds Rate Range		BondWave Municipal AA QCurve Yield Slope (bps)	
		Min (%)	Max (%)	1–5-Year	5–10-Year
26-Jul-23	Change of +25 bps	5.25	5.50	-49	10
19-Sep-24	Change of -50 (first decrease in rates since 2022)	4.75	5.00	-25	30
19-Dec-24	Change of -25 (second consecutive reduction)	4.25	4.50	-10	20
4-Jun-25	An upward sloping 1–5-year municipal curve for the first time since 2022	N/A	N/A	5	58
18-Sep-25	Change of -25 (1–5-year municipal curve back to being inverted on the day of this rate decrease)	4.00	4.25	-7	78
30-Oct-25	Change of -25 (third consecutive reduction of 25 bps)	3.75	4.00	-15	35
11-Dec-25	Change of -25 (fourth consecutive reduction of 25 bps)	3.50	3.75	-9	39
14-May-26	Once again, an upward sloping 1–5-year municipal curve	N/A	N/A	5	38
17-Sep-26	Change of +25 bps (first rate increase since 2023)	3.75	4.00	32	57

Table 1: Fed Funds rate changes and BondWave Municipal AA QCurve Yield Slope (Jul'23 - Present)

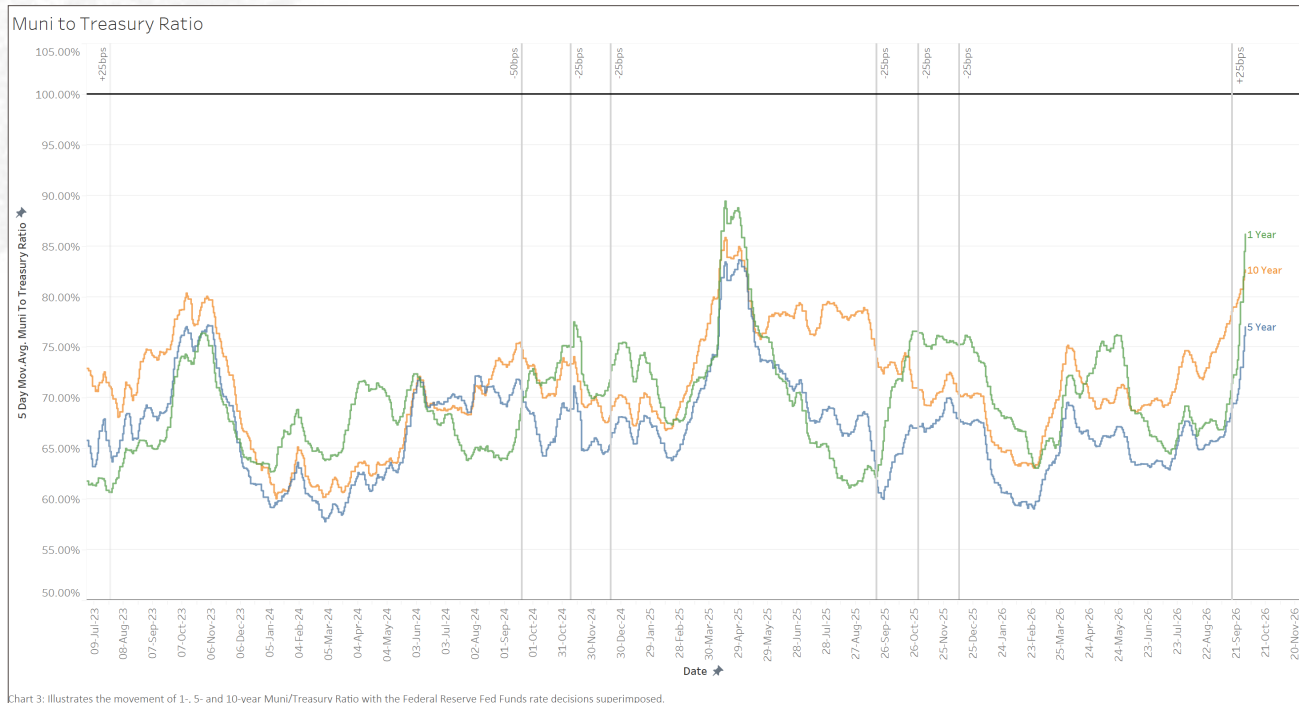
Source: BondWave and the Federal Reserve

Traditionally, munis are more expensive relative to Treasuries, with a typical Muni/Treasury ratio of 70%-80%. In recent years, that ratio has stayed near or below those values. Interestingly, since Q4 2025, 1-year munis have consistently been more attractive than the 5-year munis (and even the 10-year munis at times) compared to their respective U.S. Treasury counterparts. This is indicated by the higher 1-year Muni/Treasury ratio (Chart 3).

BondWave Trade Insights - Volume 26

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Chart 3: Muni/Treasury Ratio at 1-, 5- and 10-Years Time Series (July 2023 – Present)



Source: BondWave

The data points to a shift in relative value toward the front end of the muni curve – the short end of the muni curve currently offers more value than intermediate maturities. This divergence across maturities is worth monitoring, and whether this trend persists will highly depend on the future path of U.S. Treasury rates as well as the underlying fiscal health of municipal issuers.

BondWave Trade Insights - Volume 26

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