

DREYFUS STRATEGIC MUNICIPAL BOND FUND INC
Form N-CSR
February 01, 2011

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number 811- 5877

Dreyfus Strategic Municipal Bond Fund, Inc.
(Exact name of Registrant as specified in charter)

c/o The Dreyfus Corporation

200 Park Avenue

New York, New York 10166

(Address of principal executive offices) (Zip code)

Michael A. Rosenberg, Esq.

200 Park Avenue

New York, New York 10166

(Name and address of agent for service)

Registrant's telephone number, including area code: (212) 922-6000

Date of fiscal year end: 11/30

Date of reporting period: 11/30/10

FORM N-CSR

Item 1. Reports to Stockholders.

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Dreyfus
Strategic Municipal
Bond Fund, Inc.

ANNUAL REPORT November 30, 2010

Dreyfus Strategic Municipal Bond Fund, Inc.

Protecting Your Privacy

Our Pledge to You

THE FUND IS COMMITTED TO YOUR PRIVACY. On this page, you will find the Fund's policies and practices for collecting, disclosing, and safeguarding nonpublic personal information, which may include financial or other customer information. These policies apply to individuals who purchase Fund shares for personal, family, or household purposes, or have done so in the past. This notification replaces all previous statements of the Fund's consumer privacy policy, and may be amended at any time. We'll keep you informed of changes as required by law.

YOUR ACCOUNT IS PROVIDED IN A SECURE ENVIRONMENT. The Fund maintains physical, electronic and procedural safeguards that comply with federal regulations to guard nonpublic personal information. The Fund's agents and service providers have limited access to customer information based on their role in servicing your account.

THE FUND COLLECTS INFORMATION IN ORDER TO SERVICE AND ADMINISTER YOUR ACCOUNT.

The Fund collects a variety of nonpublic personal information, which may include:

- Information we receive from you, such as your name, address, and social security number.
- Information about your transactions with us, such as the purchase or sale of Fund shares.
- Information we receive from agents and service providers, such as proxy voting information.

THE FUND DOES NOT SHARE NONPUBLIC PERSONAL INFORMATION WITH ANYONE, EXCEPT AS PERMITTED BY LAW.

Thank you for this opportunity to serve you.

The views expressed in this report reflect those of the portfolio manager only through the end of the period covered and do not necessarily represent the views of Dreyfus or any other person in the Dreyfus organization. Any such views are subject to change at any time based upon market or other conditions and Dreyfus disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Dreyfus fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Dreyfus fund.

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Dreyfus
Strategic Municipal Bond Fund, Inc.

The Fund

A LETTER FROM THE CHAIRMAN AND CEO

Dear Shareholder:

We are pleased to present this annual report for Dreyfus Strategic Municipal Bond Fund, Inc., covering the 12-month period from December 1, 2009, through November 30, 2010.

Municipal bonds delivered respectable returns during the reporting period, despite periodic bouts of volatility – most notably as we write this Letter – stemming from economic uncertainty and year-end technical factors which affect the municipal bond markets. Although U.S. GDP growth was positive throughout the reporting period, the economic recovery has been milder than historical averages. Stubbornly high levels of unemployment, lower revenue streams and persistent weakness in housing markets continue to weigh on domestic economic activity, putting pressure on the fiscal conditions of many state and local governments. Yet, municipal bond prices were supported by positive supply-and-demand dynamics and robust demand from investors seeking alternatives to low-yielding money market funds.

We are cautiously optimistic regarding economic and market prospects in 2011. A weaker U.S. dollar is likely to support exports and limit imports and residential construction appears set to begin recovering from depressed levels. However, some state and local municipalities continue to face budget shortfalls as a result of the current subpar economic recovery. So is your portfolio positioned accordingly? Talk with your financial advisor, who can help you evaluate your portfolio investments given these recent market events to help meet, and possibly adjust, your individual tax-exempt investment needs and future capital goals.

For information about how the fund performed during the reporting period, as well as general market perspectives, we provide a Discussion of Fund Performance on the pages that follow.

Thank you for your continued confidence and support.

Jonathan R. Baum
Chairman and Chief Executive Officer
The Dreyfus Corporation
December 15, 2010

DISCUSSION OF FUND PERFORMANCE

For the period of December 1, 2009, through November 30, 2010, as provided by James Welch, Senior Portfolio Manager

Fund and Market Performance Overview

For the 12-month period ended November 30, 2010, Dreyfus Strategic Municipal Bond Fund achieved a total return of 6.06% on a net-asset-value basis.¹ Over the same period, the fund provided aggregate income dividends of \$0.54 per share, which reflects a distribution rate of 6.80%.² Municipal bonds encountered heightened volatility over the reporting period's second half in anticipation of changing supply-and-demand dynamics. However, bouts of market weakness were not enough to fully offset the benefits of an earlier rally.

The Fund's Investment Approach

The fund seeks to maximize current income exempt from federal income tax to the extent believed by Dreyfus to be consistent with the preservation of capital. In pursuing this goal, the fund invests at least 80% of its assets in municipal bonds. Under normal market conditions, the weighted average maturity of the fund's portfolio is expected to exceed 10 years. Under normal market conditions, the fund invests at least 80% of its net assets in municipal bonds considered investment grade or the unrated equivalent as determined by Dreyfus.

The fund also has issued auction-rate preferred stock (ARPS), a percentage of which remains outstanding from its initial public offering, and has invested the proceeds in a manner consistent with its investment objective. This has the effect of leveraging the portfolio, which can increase the fund's performance potential as well as, depending on market conditions, enhance net-asset-value losses during times of higher market risk.

Over time, many of the fund's older, higher-yielding bonds have matured or were redeemed by their issuers. We have attempted to replace those bonds with investments consistent with the fund's investment policies. We have also sought to upgrade the fund with newly issued bonds that, in our opinion, have better structural or income characteristics than existing holdings. When such opportunities arise, we usually look to sell bonds that are close to their optimal redemption date or maturity.

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DISCUSSION OF FUND PERFORMANCE *(continued)*

Supply-and-Demand Factors Fueled Market Volatility

The U.S. economy continued to rebound over the reporting period despite new developments that occasionally revived investors' economic concerns. For example, investors responded cautiously during the spring and summer of 2010 to a sovereign debt crisis in Europe. The U.S. economy continued to struggle, but some states have begun to see evidence of economic improvement, including higher tax revenues. Still, in light of high national unemployment and other headwinds, the Federal Reserve Board (the Fed) left short-term interest rates unchanged in a historically low range between 0% and 0.25%. In addition, late in the reporting period, the Fed announced its intention to stimulate credit markets with a new round of quantitative easing.

Municipal bonds proved relatively insensitive to economic concerns over the reporting period's first half, advancing amid falling interest rates and favorable supply-and-demand dynamics as the Build America Bonds program continued to shift a substantial portion of new issuance to the taxable bond market. However, it became clear later in the reporting period that Congress was unlikely to renew the program beyond year-end, and investors began to anticipate a larger supply of tax-exempt securities in 2011. As a result, the market gave back a portion of its previous gains.

Revenue Bonds Supported Fund Returns

The fund received especially positive contributions to relative performance from bonds backed by dedicated revenues, including those from hospitals and industrial development projects. Conversely, the fund held relatively light exposure to bonds backed by general tax receipts.

Although lower-rated bonds generally produced attractive results as investors reached for higher yields in a low interest-rate environment, credit concerns prompted us to gradually reduce the fund's exposure to lower-rated bonds in favor of investment-grade securities. We trimmed the fund's holdings of higher-yielding bonds backed by airlines and industrial projects, and we increased its positions in higher-quality bonds backed by essential municipal services, such as water and sewer facilities.

Finally, the fund continued to benefit from a change in its leveraging strategy, as we replaced a portion of the fund's issuance of auction-rate

securities with tender option bonds that, in our judgment, have better liquidity characteristics.

Disappointments during the reporting period included the fund's relatively long duration posture, which exacerbated the effects of market volatility in the fall of 2010.

Weathering a Period of Transition

While we expect the U.S. economic recovery to persist, recent market behavior suggests that we may see heightened volatility as the municipal bond market transitions to a more robust supply in 2011. In addition, we believe that many states and municipalities will continue to struggle with budget pressures. Therefore, we have continued to focus on investment-grade revenue bonds.

We remain optimistic over the longer term. Demand for municipal bonds seems likely to stay robust as investors respond to higher state taxes and possible federal income tax increases down the road.

December 15, 2010

Bond funds are subject generally to interest rate, credit, liquidity and market risks, to varying degrees, all of which are more fully described in the fund's prospectus. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes, and rate increases can cause price declines.

High yield bonds are subject to increased credit risk and are considered speculative in terms of the issuer's perceived ability to continue making interest payments on a timely basis and to repay principal upon maturity.

The use of leverage may magnify the fund's gains or losses. For derivatives with a leveraging component, adverse changes in the value or level of the underlying asset can result in a loss that is much greater than the original investment in the derivative.

1 Total return includes reinvestment of dividends and any capital gains paid, based upon net asset value per share. Past performance is no guarantee of future results. Income may be subject to state and local taxes, and some income may be subject to the federal alternative minimum tax (AMT) for certain investors. Capital gains, if any, are fully taxable. Return figure provided reflects the absorption of certain expenses by The Dreyfus Corporation pursuant to an undertaking in effect through May 31, 2011. Had these expenses not been absorbed, the fund's return would have been lower.

2 Distribution rate per share is based upon dividends per share paid from net investment income during the period, divided by the market price per share at the end of the period, adjusted for any capital gain distributions.

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SELECTED INFORMATION

November 30, 2010 (Unaudited)

Market Price per share November 30, 2010	\$7.94
Shares Outstanding November 30, 2010	48,566,042
New York Stock Exchange Ticker Symbol	DSM

MARKET PRICE (NEW YORK STOCK EXCHANGE)

	Fiscal Year Ended November 30, 2010			
	Quarter	Quarter	Quarter	Quarter
	Ended	Ended	Ended	Ended
	February 28, 2010	May 31, 2010	August 31, 2010	November 30, 2010
High	\$8.10	\$8.25	\$8.54	\$8.79
Low	7.52	7.82	7.95	7.42
Close	8.08	8.05	8.45	7.94

PERCENTAGE GAIN (LOSS) based on change in Market Price*

November 22, 1989 (commencement of operations)	
through November 30, 2010	227.05 %
December 1, 2000 through November 30, 2010	87.41
December 1, 2005 through November 30, 2010	33.22
December 1, 2009 through November 30, 2010	11.95
March 1, 2010 through November 30, 2010	3.24
June 1, 2010 through November 30, 2010	1.92
September 1, 2010 through November 30, 2010	(4.48)

NET ASSET VALUE PER SHARE

November 22, 1989 (commencement of operations)	\$9.32
November 30, 2009	7.93
February 28, 2010	8.06
May 31, 2010	8.19
August 31, 2010	8.41
November 30, 2010	7.87

PERCENTAGE GAIN based on change in Net Asset Value*

November 22, 1989 (commencement of operations)

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through November 30, 2010	247.83 %
December 1, 2000 through November 30, 2010	75.50
December 1, 2005 through November 30, 2010	21.34
December 1, 2009 through November 30, 2010	6.06
March 1, 2010 through November 30, 2010	2.58
June 1, 2010 through November 30, 2010	(0.71)
September 1, 2010 through November 30, 2010	(4.87)

* *With dividends reinvested.*

STATEMENT OF INVESTMENTS

November 30, 2010

Long-Term Municipal Investments 149.0%	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Alaska 1.0%				
Alaska Housing Finance Corporation, Single-Family Residential Mortgage Revenue (Veterans Mortgage Program)	6.25	6/1/35	3,975,000	3,978,856
Arizona 7.5%				
Barclays Capital Municipal Trust Receipts (Salt River Project Agricultural Improvement and Power District, Salt River Project Electric System Revenue)	5.00	1/1/38	13,200,000 a,b	13,495,614
Glendale Western Loop 101 Public Facilities Corporation, Third Lien Excise Tax Revenue	7.00	7/1/33	6,010,000	6,396,263
Pima County Industrial Development Authority, Education Revenue (American Charter Schools Foundation Project)	5.50	7/1/26	4,000,000	3,666,400
Pima County Industrial Development Authority, IDR (Tucson Electric Power Company Project)	5.75	9/1/29	5,000,000	5,050,650
California 16.3%				
Barclays Capital Municipal Trust Receipts (California Infrastructure and Economic Development Bank, Revenue (Sanford Consortium Project))	5.00	5/15/40	5,070,000 a,b	5,094,539
Beverly Hills Unified School District, GO California,	0.00	8/1/30	8,000,000 c	2,549,040
GO (Various Purpose) California,	5.75	4/1/31	7,800,000	8,078,616
GO (Various Purpose)	5.00	11/1/32	2,600,000	2,520,778

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California, GO (Various Purpose)	6.50	4/1/33	5,000,000	5,525,500
California, GO (Various Purpose)	6.00	11/1/35	5,000,000	5,262,300
California Enterprise Development Authority, Sewage Facilities Revenue (Anheuser-Busch Project)	5.30	9/1/47	1,000,000	944,480

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
California (continued)				
California Housing Finance Agency, Home Mortgage Revenue	5.05	8/1/27	2,500,000	2,222,700
California Pollution Control Financing Authority, SWDR (Waste Management, Inc. Project)	5.13	11/1/23	1,500,000	1,515,165
Golden State Tobacco Securitization Corporation, Tobacco Settlement Asset-Backed Bonds	5.00	6/1/33	10,535,000	7,821,079
Los Angeles Department of Water and Power, Power System Revenue	5.00	7/1/34	2,885,000	2,949,364
Sacramento City Unified School District, GO (Insured; Assured Guaranty Municipal Corp.)	0.00	7/1/24	5,220,000 c	2,581,655
Sacramento County, Airport System Subordinate and Passenger Facility Charges Grant Revenue	6.00	7/1/35	4,000,000	4,226,480
San Diego Public Facilities Financing Authority, Senior Sewer Revenue	5.25	5/15/34	2,500,000	2,609,200
Santa Margarita/Dana Point Authority, Revenue (Santa Margarita Water District Improvement Districts Numbers 2,3 and 4)	5.13	8/1/38	5,000,000	5,082,050
Silicon Valley Tobacco Securitization Authority, Tobacco Settlement Asset-Backed Bonds (Santa Clara County Tobacco Securitization Corporation)	0.00	6/1/36	15,290,000 c	1,281,913
Tuolumne Wind Project Authority, Revenue (Tuolumne				

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Company Project)	5.88	1/1/29	2,000,000	2,169,780
Colorado 1.7%				
Arkansas River Power Authority, Power Improvement Revenue	6.13	10/1/40	5,000,000	5,146,450

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Colorado (continued)				
Colorado Housing and Finance Authority, Single Family Program Senior and Subordinate Bonds (Collateralized; FHA)	6.60	8/1/32	1,110,000	1,188,066
Connecticut 3.7%				
Connecticut Development Authority, PCR (Connecticut Light and Power Company Project)	5.95	9/1/28	9,000,000	9,093,780
Connecticut Resources Recovery Authority, Special Obligation Revenue (American REF-FUEL Company of Southeastern Connecticut Project)	6.45	11/15/22	4,985,000	4,986,645
Delaware .6%				
Delaware Economic Development Authority, Exempt Facility Revenue (Indian River Power LLC Project)	5.38	10/1/45	2,500,000	2,320,550
District of Columbia 1.1%				
District of Columbia Tobacco				