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## **2025 Municipal Bond Sector Outlook: Stability and Resiliency.**

### **Municipal Credit Remains Strong as Focus Turns to Policy Risks**

Municipal credit remains strong as we enter 2025. We see a soft landing as the most likely economic scenario given the resilience of economic activity and easing of inflation. In this scenario, growth will continue to slow, reaching below trend, and unemployment will continue to modestly rise, but not to recession levels.

This scenario should portend a modest increase in state and local tax revenues, keeping our sector outlooks largely anchored near stable. As a result, we have made only slight adjustments compared to last year's outlook. We believe resiliency has improved across municipal credit, as reserves remain strong, providing a cushion if the economy pulls back more than we expect.

This confident economic view belies an unsettled federal policy picture, as the election resulted in a Republican sweep, albeit by an exceptionally tight margin in the U.S. House of Representatives. Key vulnerabilities to municipal credit include threats to the Affordable Care Act (ACA), federal budget cuts that could push costs down to state and local governments, and changes to higher education policies.

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