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Why Taxable Local-Government Bonds Are Outperforming the Muni Market in 2025: Capitalizing on Supply-Driven Dislocations and Relative Value

Summary

– Taxable local-government bonds outperformed 2025 muni market amid supply-driven dislocations and compressed tax-exempt spreads.

– Record $271B issuance and inflation-driven infrastructure costs fueled taxable bond demand with 4.74% yields vs. 3.30% for tax-exempt counterparts.

– Steepened yield curves and attractive tax-equivalent yields (up to 8.01%) positioned taxable bonds as strategic alternatives to corporate debt.

– Strong credit fundamentals in healthcare/education sectors and inverted credit spreads reinforced taxable bonds' appeal for rate-sensitive investors.

– Fed rate cut expectations and short-duration advantages suggest continued outperformance as investors rotate from cash to munis.

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