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Municipal Bonds in a Stressed Fixed Income Environment: Strategic Allocation Amid Fiscal Uncertainty and Policy Divergence

Summary

- The 2025 municipal bond market faces fiscal stress amid surging tax-exempt issuance and a steepening yield curve, mirroring historical dislocations like the 2008 crisis.
- Policy uncertainty from U.S. trade volatility and potential tax reforms disproportionately impacts healthcare, education, and infrastructure sectors with exposed credit fundamentals.
- Investors balance long-dated bond opportunities (3.37%-5.81% yields) with active management, prioritizing strong liquidity buffers and diversified revenue streams to hedge policy-driven risks.
- Despite record-low 2025 defaults (26 year-to-date), credit divergence widens, requiring disciplined selection of high-quality bonds with 15+ year maturities and stable toll-backed infrastructure projects.

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