Bond Case Briefs

Municipal Finance Law Since 1971

MSRB: Fundamental Shifts in Muni Market are 'New Normal.'

Last year's record high trading activity, both by volume and par amount, marks a fundamental shift in the municipal bond market that's here to stay.

That's according to Municipal Securities Rulemaking Board officials, who made the comments Thursday during the group's first year-in-review webinar on the heels of what CEO Mark Kim called "an extraordinary year."

Last year notched a second straight record for primary market issuance, at $580 billion, as "more state and local governments issued more municipal bonds to finance more public infrastructure than at any other period in the history of this market," Kim said. Issuers' borrowing needs are unlikely to abate this year, the group said.

In the secondary market, trading volume hit all-time highs, both by the number of trades and by total par traded. Both represent "double-digit increases" over 2024, Kim said. Last year marked the fourth consecutive year of record trade count, the MSRB said.

"This is a very exciting time for us to be in the municipal securities market," Kim said. "We do not believe that 2025 is a one-off year and these historic levels of market activity will return to their historic averages," he said. "We believe 2026 will see a continuation of these multi-year trends … and represent a fundamental shift in the structure of the municipal securities market being driven primarily by the electronification of our market."

More money is pouring into separately managed accounts and investors are turning to exchange traded funds, especially during periods of volatility, as was seen last April during "Liberation Day" market turmoil. Alternative trading systems executed more than one in five customer trades, MSRB said.

ETFs saw record net inflows last year – reaching $46 billion in 2025 compared to $17.4 billion in 2024. Since 2022, tax-exempt ETFs have seen net inflows of about $106 billion, while tax-exempt mutual funds have seen net outflows of more than $122 billion, the MSRB said.

More than 50% of all interdealer trades last year were routed through electronic trading exchanges, the MSRB said, which Kim called "a tipping point." The volume of live quotes and bid-wanteds saw significant increases.

The market changes have been underway for the past five to seven years, said MSRB chief market structure officer John Bagley. "The electronification of the market is upon us, both the buy and sell side," Bagley said.

Institutional investors are increasingly adopting electronic and algorithmic trading, the MSRB said. When a firm adopts algorithmic trading, "their trade count goes up like a hockey stick," Bagley said.

There were 17.6 million trades in 2025, up 22% from 2024. Par amount traded in fixed-rate securities was up 14% compared to 2024 and 59% compared to 2021, and total par amount (including variable-rate securities) was the largest since 2008, the group said.

There’s also been a “dramatic increase” in odd-lot trading with the average trade size coming down over the last five or six years, Bagley said.

“This is not a bad thing,” he said. “It’s consistent with the market becoming electronic and more participants willing to buy odd-lots,” which are under $100,000. The trend accounts for why trade volume exceeded par amount, he added.

In a report released this week, the MSRB said it expects 2026 to mark another year of record or near-record bond issuance. But “we are far less confident about another trade-count record,” the group said. “After the amazing increase in the past five years, it seems that trade count could decline somewhat, depending on where interest rates go in 2026.”

By Caitlin Devitt

BY SourceMedia | MUNICIPAL | 01/09/26 01:46 PM EST