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S&P 2025 Municipal Bond Market Review: Trends, Wins and Turning Points

The municipal bond market demonstrated robust performance in 2025, with record issuance of USD 580. 4 billion, a 13% increase from 2024. The market experienced heightened volatility due to geopolitical tensions, tariffs, the fed rate cut cycle and the passage of the U.S. tax and spending bill, also known as the One Big Beautiful Bill Act.

The bill had both positive and negative impacts on the municipal bond market. It preserved and expanded the federal tax exemption to additional sectors, notably private activity bonds (PABs) for new issuance in infrastructure and energy-related projects. The act blunted higher education bonds by creating additional tiered taxation on university endowments over USD 750,000 per student. Practically, this limits a university's ability to offer need-based scholarships and pushes students to apply for private loans. In terms of healthcare sector impact, the 2025 budget bill reduced Medicaid spending by USD 1 trillion over the next 10 years, with implications of increasing unpaid care for hospitals and health institutions.

The U.S. Federal Reserve continued the loosening of monetary policy in 2025, with a series of three rate cuts of 25 bps each, bringing the official federal funds rate to 3.50%-3.75% at the end of December. This set the stage for further rate reductions in 2026 and brought renewed interest to the USD 4.4 trillion municipal bond market.

Higher yields and credit quality along with strong issuer fundamentals set the stage for a strong 2025 finish. The S&P National AMT-Free Municipal Bond Index was up 3.77% for the year, with a tax equivalent yield (TEY) of 5.36%. In 2025, all indices within the National, Short, Intermediate and Long curve beat their 2024 performance.

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