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Muni Market Update: Easing Ahead? Municipals Benefit from Stabilizing Conditions.

As we shared on 2/24, BlackRock recently noted that municipal bonds appear poised for a solid year after trailing U.S. Treasuries in 2025. Their outlook calls for investment-grade municipals to potentially deliver mid- to upper-single-digit returns in 2026 as market conditions stabilize. We continue to believe the asset class has a favorable tailwind: rates appear steady to modestly lower, supply remains manageable, and capital is rotating away from more volatile sectors such as private equity. Our base case remains approximately 75 basis points of rate cuts over the course of this year.

On the policy front, Lisa D. Cook cautioned that the Federal Reserve may face limitations in addressing rising unemployment if labor displacement from AI adoption accelerates. While AI is clearly enhancing productivity and supporting economic growth, it may also place pressure on the labor market over time. Some Fed members view this as a longer-term catalyst for easier monetary policy should job growth weaken into 2026–2027.

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by David Loesch

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