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Federal Policies Help Spur Municipal Bond Market, but Headwinds Remain.

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Municipal bond analysts are generally optimistic about the stability of state and local government finances in 2022, largely thanks to the influx of federal funding over the past two years. But lingering issues including the rapid spread of the omicron variant, accelerating inflation and supply chain bottlenecks still pose economic and fiscal risks to governments in the short term.

Bond issuance last year totaled $476 billion, a slight decrease over 2020, which saw unusually heightened refinancing activity as governments tapped the market for cash to weather the onslaught of the pandemic. Ratings analysts expect government issuance this year to be comparable to 2021's total and predict that any year-over-year increase in activity is likely to be driven by new debt.

The $350 billion in fiscal recovery funds to governments from the American Rescue Plan has played a big role in stabilizing the revenue picture by providing money to offset decreases in revenue. More recently, the passage of the Infrastructure Investment and Jobs Act represents $550 billion in new, one-time funding that can either supplement state and local infrastructure project costs or pay for them outright.

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Route Fifty

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