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Muni Sales Set to Jump Past $500 Billion in 2025, Analysts Say.

- **Infrastructure needs, refinancing deals to spur more sales**
- **State and local borrowers sold a record sum of debt in 2024**

Municipal bond bankers should prepare for a bigger onslaught of sales in 2025, even after a blockbuster year of supply.

States, cities, school districts, colleges, hospitals and other borrowers in the $4 trillion muni-bond market are poised to issue a record sum next year, according to annual supply forecasts collected by Bloomberg.

“We see even more supply on the table – refunding candidates are up and spending for capital projects will have to stay at a brisk pace to ensure infrastructure keeps up with first-world standards,” Abigail Urtz and Ryan Henry, strategists at FHN Financial, said in a research note on Wednesday.

The volume will be fueled by lingering infrastructure needs, a surge in refinancing deals as interest rates drop as well as less federal aid — which had reduced the need to take on more debt in the years following the pandemic.

“Certain local governments will get less federal help because of the cost cutting initiatives that is suppose to be planned next year,” said Vikram Rai, head of municipal strategy at Wells Fargo & Co., in an interview. The cuts “will mean that the state and local governments will have to issue more debt to make up their financial needs.” Rai has called for $500 billion of muni issuance next year.

Muni Analysts Expect Supply Increase in 2025

Projections for the volume of municipal bond sales by firm

That forecast is in line with most expectations for 2025 sales, according to ten projections collected by Bloomberg. The majority of analysts expect issuance to total between $460 billion and $540 billion — with Hilltop Securities as the sole outlier, calling for a whopping $745 billion. On average, the analysts expect about $524 billion of new bond sales, the data shows.

Alice Cheng, a municipal credit analyst at Janney Montgomery Scott LLC who foresees $520 billion in supply, is anticipating growth across the housing, health care, and education sectors.

“Issuers still have a lot of needs that need to be addressed,” she said.

Excerpts from the analysts’ forecasts are included below:

- Nathan Will, head of municipal credit at The Vanguard Group Inc. expects issuance to total $460 billion. That is the smallest of the projections collected by Bloomberg and less than this year’s

volume. “Once we get past the uncertainty of tax policy changes, the issuers will come back to the market,” Will said.

- Mikhail Foux, head of municipal research and strategy at Barclays Plc. sees supply between $475 billion and $485 billion in 2025. “Reasons for robust supply next year include concerns about the future of tax exemption in some sectors, refunding activity, and issuers’ realization that rates might remain elevated, coupled with their increased funding needs,” the group said in a research note.
- JPMorgan Chase & Co., in a note led by Peter DeGroot, expects issuance to be $490 billion. “If the market begins to factor in limitations to tax-exempt financing early in the year, there could be a pull forward of supply — particularly in vulnerable sectors such as higher ed, hospital, and private activity (PAB) issuance, to front-run potential legislation,” DeGroot wrote in a research note.
- Strategists at Ramirez & Co. are expecting historic new money supply growth due to inflation, infrastructure demands and the lack of American Rescue Plan Act funding that supported local budgets after the pandemic. “Refunding supply should increase materially as interest rates likely grind lower throughout the course of the year, producing greater targeted debt service savings,” Peter Block, managing director at Ramirez, said in a research report.
- Analysts at Bank of America Corp — the market’s largest underwriter — anticipate state and local governments will sell $520 billion of debt in 2025, a record sum. The group led by Yingchen Li and Ian Rogow said that “available cash in 2025 will exceed record new issuance” which means the surge in sales should be well absorbed.
- Tom Kozlik at Hilltop had the largest forecast in the group, estimating $745 billion worth of sales. He said that Congress may propose legislation to curtail the muni-bond tax exemption which would lead borrowers to accelerate their sales before the changes take effect.

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