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VanEck Municipal Bond Outlook for 2025

We believe munis are expected to shine in 2025 due to low real interest rates, potential tax policy changes, and their attractive taxable-equivalent yields relative to other asset classes.

The Federal Reserve's (Fed) measured actions throughout the year are expected to sustain a trend of lower real interest rates. Headlines like "Blockbuster Good News for Inflation" suggest a favorable capital market environment for bond issuers. With issuers eager to secure funding for long-overdue public infrastructure projects, 2025 may well rival the record levels of bond issuance observed in the departing year 2024.

However, the federal tax exemption for municipal bonds remains an uncertain factor. If the incoming administration seeks to curtail or eliminate this exemption, we could witness a dual effect: a surge in new issuances aiming to lock in the current low cost of capital and a significant rise in valuations for the $4 trillion in outstanding bonds that would likely be grandfathered under such legislation. These developments are poised to drive strong performance in the municipal bond market.

Potential changes to individual or corporate tax rates will be a focal point of early policy debates under the new administration. Any reductions in tax rates could exert downward pressure on municipal bond prices and upward pressure on yields for outstanding issues. Nevertheless, such adjustments would further amplify the comparative advantage of municipals, particularly their high taxable-equivalent yields.

Continue reading.

by James Colby – Senior Municipal Strategist

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