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Munis Will Continue To Rebound In 2025, Nuveen Says.

With the highest yield curve in almost two decades, municipal offerings are expected to have a positive year and could be an integral income option for advisors coming into 2025, according to Nuveen.

The Chicago-based firm released its annual municipal bond outlook report, which highlighted that that the muni market is enjoying the highest yields it has seen in 15 years. Yields are 155 basis points higher than the trailing 19-year average, according to Dan Close, head of municipals at Nuveen.

The municipal market is showing signs of improvement after suffering outflows of around $149 billion in 2022 and about $25 billion in 2023, according to Morningstar.

While the industry has not returned to pre-2022 levels, last year there was about $42 billion in inflows into ETF municipal strategies, Close said.

"It's certainly a positive metric that we had this record amount of supply in the municipal space with more than $500 billion issued and the municipal market was still able to outperform Treasurys and corporates," he said.

Close said that municipal bonds can become a reliable source of income.

"Clipping your coupons we think is going to be an excellent strategy for the municipal market just given the backup in rates that we saw in 2024," he said. "I think a Fed that's pivoted to likely only cutting twice, we think that you can get a good total return just from the income component alone in 2025."

Nuveen believes the Fed will make two additional cuts this year before reaching a terminal Fed funds rate of somewhere between 3.75% and 4%.

"We think that the Fed certainly cutting less aggressively has more to do with a strong economy rather than inflation not rolling over," he said. "We certainly see most every component of inflation roll over in the most recent CPI (consumer price index) report."

Municipal funds will feel a positive impact from those numbers as 40 Act funds that use leverage tend to benefit from a steeper yield curve, Close said.

The report also highlighted the potential for duration, with an upward slowing municipal yield curve of around two to 30 years. The steepness could attract more long-duration municipal bond demand from individuals with cash on the sidelines, the report said.

"Given the steepness of the muni yield curve, especially in the intermediate part and longer out, we do think that it's beneficial to push a touch on duration," Close said.

Nuveen believes the supply in municipal bonds will continue to increase this year, with many public projects moving forward. There were limited supplies while projects were put on hold during the high inflationary period of 2022 and 2023 because of the elevated cost of construction and materials.

Tax-exempt municipal bond supply rebounded in 2024, as issuance through October 2024 was 43% higher than the year before at $436 billion. About $406 billion of that being tax-exempt and the remaining $30 billion being taxable. The firm expects to see at least a half a billion this year.

Many of the pending projects involve airports, with renovations expected to take place this year at airports in Denver, Austin, Texas, and New York City, Close said.

“We’re seeing a lot more issuance in the airport sector as a lot of these projects were put on hold,” Close said.

Now is an ideal time for advisors to take advantage of them and include them in their portfolios, he said.

“Any financial advisor that needs a stable income component from essential service monopolies should look to municipals because they’re producing a good deal of income on a tax equivalent basis,” Close said. “Munis are ultimately a yield vehicle and starting at a high point yield, we think hopefully does translate to very good returns for 2025.”

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by Edward Hayes

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