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Untouched Muni Tax Perk Eases Urge to Flood the Market.

Municipal bond investors likely felt relief this week when a draft tax bill didn't erase the all-important tax exemption, but that respite may cool this year's market for state and local governments seeking cash.

Most muni bonds pay interest that's exempt from federal taxes, a perk that entices investors without raising an issuer's borrowing costs. Public finance groups had feared the removal of the exemption would be looked at as a way to help fund President Donald Trump's tax cuts, but with the pressure off for now, Barclays municipal strategist Mikhail Foux said municipalities may push back plans for bond sales.

"They're not under the gun to come to the market and issue deals," Foux said in an interview. "Now they have time to wait for lower interest rates and bet that the Fed will be cutting later this year and into the next year."

Tom Kozlik, head of public policy and municipal strategy at Hilltop Securities, had estimated that muni issuance in 2025 would jump 50% from the prior year to $745 billion, largely driven by sellers rushing to close deals before the exemption was culled by lawmakers.

Reaching that number would have required about $62 billion in average monthly sales. If the tax exemption continues to avoid Congressional scrutiny, Kozlik sees muni issuance coming down to around $40 billion per month. In April, muni sales jumped above $51 billion.

But he warned that Monday's tax proposal was the start of a long process, and that pressure on the tax exemption could arise in future conversations about how to reduce the nation's deficit.

"From a big picture, municipals aren't safe," Kozlik said. "This is a very dynamic environment."

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