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How Rating Agencies are Viewing the Public Finance Outlook for the Remainder of 2025.

While many sectors within U.S. public finance are expected to maintain stable credit quality heading into 2025, emerging credit pressures could begin to impact performance and key rating metrics in the near term. Much of this uncertainty stems from potential shifts in federal policy under the new administration, which will play a critical role in shaping the fiscal sustainability of state and local governments, particularly those that rely on federal grants to support large-scale or megaprojects. Additionally, the broader macroeconomic environment, including the Federal Reserve's evolving stance on interest rates, will significantly influence inflation trends and borrowing costs. With uncertainty surrounding how the Fed will respond to economic signals, considerable ambiguity remains in the outlook.

In this article, we examine the current state of key public finance sectors, highlight emerging risks and performance trends, and offer insights into what the path ahead may hold.

Cities, Counties, Special Districts and More

Ongoing economic and federal policy uncertainty is elevating the importance of strong fiscal management for local governments. While widespread credit downgrades are not anticipated, many agencies are projecting budget deficits that could begin to erode the financial reserves built up over the past several years. Additionally, potential shifts in federal policy may affect local, regional, and state economies — posing risks to key revenue sources such as property and sales taxes. As reserve levels decline, local governments may face increasing financial strain in a sector that has otherwise demonstrated resilience since the onset of the pandemic.

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