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Six Key Themes for Today's Municipal Bond Market.

A closer look at the factors that could influence the municipal bond market in the months ahead.

The first half of 2025 brought several notable developments in the municipal bond market. Yields at the long end of the municipal curve (i.e., maturities 10 years and longer) have risen 40 to 70 basis points (bps) from the start of the year, contributing to a slightly negative performance for the Bloomberg Municipal Bond Index through June 20. This was partially driven by uncertainty around the new administration's fiscal policies, which have also made Treasury bond rates rise somewhat, but municipals have risen more due to very heavy new-issue bond supply.

Recent developments have brought some clarity for municipals on the federal budget side, most notably, that municipal bond interest will remain tax exempt, with no changes coming out of the House and Senate budget bills under consideration near midyear.

Elevated supply has presented the main challenge for the market. Last year, new-issue supply set a record at approximately $500 billion, and this year the amount is ahead of 2024's pace. Issuers have been looking to raise money, after not issuing much debt in the aftermath of COVID-19, and want to tap the market now rather than wait for any policy changes coming out of Washington. Investor demand has been generally strong enough to absorb newly issued muni bonds throughout much of the year, but the increased supply has pressured rates to move higher than other fixed-income markets. Meanwhile, municipal credit fundamentals remain solid, bolstered by the domestic focus of issuers and continued fiscal discipline, so that is helping the market as well.

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