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Federal Overreach and Municipal Bonds: Navigating Credit Risk in a Politicized Landscape

Overview

– Trump’s federal interventions in local governance, including military deployments and sanctuary city policies, have heightened municipal credit risk and triggered legal challenges.

– Credit agencies like Moody’s and Fitch have downgraded or placed jurisdictions (e.g., D.C., Kansas) on negative outlook due to federal overreach disrupting budgeting and governance.

– The 2025 OBBBA Act preserved tax-exempt bond status but introduced Medicaid cuts and delayed disaster aid, exposing municipalities to fiscal shocks in high-risk regions.

– Investors now prioritize states with fiscal discipline (e.g., Oklahoma) while avoiding politically vulnerable jurisdictions, as credit risk increasingly depends on policy shifts over pure financial metrics.

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