
Municipal Bonds: The State of States' Fiscal Health

Here, we answer investor questions about the fiscal standing of the states that are among the largest municipal bond issuers.

Key Takeaways

- Going into the fourth quarter of 2025, the overall fiscal health of U.S. states, key issuers of municipal bonds, remains strong.
- That strength is evident in data from NASBO showing state reserve fund balances at their highest levels in nearly a decade, along with positive budget news from major issuers such as California, New York, Illinois, New Jersey, and Massachusetts.
- We will continue to monitor developments in state budgets for any early indicators of potential weakness, but for now, fiscal conditions remain supportive of the municipal bond market.

As investors consider the performance of the municipal bond market going into the fourth quarter of 2025, we believe there are many positive factors to note. Year to date through September 12, the Bloomberg Municipal Bond Index (muni index) returned 2.70%. Starting yields on municipal bonds remain attractive; the muni index yield at that date stood at 3.56%, representing a 6.0% tax-equivalent yield. Longer-dated municipal bonds (maturities of 22 years or greater) yielded 4.6%, or about 7.8% on a tax-equivalent basis. (Tax-equivalent yields based on the top 40.8% tax rate.)

Clearly, the asset class retains its appeal for investors seeking tax-free income. Against that backdrop, however, we continue to receive questions about the overall fiscal health of U.S. states, the major issuers of general obligation municipal bonds. We are also asked about the state and local governments that are among the largest individual issuers within the asset class. Here, we will address these questions and offer some observations about their implications for investors.

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