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Bad Moon Rising: Navigating Uncertainty in Federal-Exposed Municipal Credit

Federal-exposed sectors and credits are facing rising uncertainty amid shifting policies. Head of Municipal Fixed Income Greg Steier and Credit Analyst Kate Fuller examine how these evolving federal policies are reshaping risk profiles for exposed sectors and credits, and what investors should watch for next.

When it comes to credit, we don't shoot for the moon. Instead, we seek durability, which we view as resilience to a wide variety of economic and political circumstances. Over the last year, federal aid, once viewed by our team as a source of credit strength, has become increasingly politicized. As a result, sectors and credits with large exposures to the federal government – through the local economy, appropriations, or grant funding – now face increased uncertainty. We also expect to see a shift in the funding burden away from the federal government. Consequently, there's a bad moon on the rise for some, including states, local governments, and other not-for-profit entities.

The impact of the One Big Beautiful Bill Act

The One Big Beautiful Bill Act (OBBBA) became law in July 2025, and with it came sweeping tax and policy provisions with implications for municipal credit. Medicaid cuts of $900 billion by 2034 and significant changes to the Affordable Care Act (ACA) grabbed headlines. The changes include more stringent eligibility requirements for enrollment, a reduction of the provider tax cap in Medicaid expansion states, and new limits on state-directed payment programs. The cumulative impact of these modifications will ultimately include less covered lives, lower reimbursement rates for providers, and less federal dollars flowing in support of Medicaid-related programs.

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