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Muni Deals Lure \$1 Trillion Market With a Shift to Shorter Debt.

Takeaways by Bloomberg AI

- US municipal borrowers are opting for shorter-dated debt to cater to investors that prefer those maturities.
- Municipal bonds issued with a maturity date of less than 15 years have totaled about \$61.7 billion this year, up 24% from the same period in 2025.
- The demand from separately managed accounts is driving the shift to shorter-term debt, allowing localities to lower borrowing costs by focusing on that area.

A shift is afoot in how US municipal borrowers structure their debt sales.

Typically, state and local issuers favor longer maturities of 20 to 30 years, giving them more time to repay — akin to a homeowner with a 30-year mortgage. The University of Denver, for example, sold bonds this month maturing in 2056 to build laboratories and athletic facilities.

Lately, however, borrowers are opting for shorter-dated debt to cater to investors that prefer those maturities. Municipal bonds issued with a maturity date of less than 15 years have totaled about \$61.7 billion this year, up 24% from the same period in 2025, data compiled by Bloomberg show.

Demand is growing for shorter-term debt along with the popularity of separately managed accounts, a corner of the muni market that has swelled to more than \$1 trillion. These bespoke muni accounts tend to avoid the interest-rate risk of lengthier tenors, a particular concern lately as the Iran war boosts oil prices and stokes inflation concerns.

The appetite from SMAs, as they're known, has tamped down shorter-dated muni yields relative to longer securities, allowing localities to lower borrowing costs if they focus on that area. Issuers are taking note of the steep gap between short and long muni yields, said Julie Burger at Wells Fargo & Co.

"Many issuer clients are more actively considering strategies to capitalize on the short-end of the yield curve, rather than locking in long-dated yields," the bank's co-head of public finance said in an email.

The yield on the 30-year AAA muni benchmark was about 2.13 percentage points higher than on two-year debt as of March 23, around the biggest gap since September, according to data compiled by Bloomberg. That spread can add up for a municipality that's borrowing hundreds of millions of dollars.

It's also a different dynamic than has been seen in Treasuries in recent weeks, underscoring the power of the demand from SMAs. In the US government-bond market, the spike in oil prices has led traders to price out Federal Reserve interest-rate cuts, causing shorter maturities to underperform.

Hospital Deals

In one short-dated deal, Cleveland Clinic sold more than \$500 million of bonds this month, roughly split between segments maturing in 2029 and 2032. The three-year portion, graded AA by S&P Global Ratings, priced with a yield of 2.51%, or 30 basis points above AAA securities, Bloomberg's BVAL pricing data shows.

The hospital system was "seeking shorter-term maturities where MMD prices offered attractive value," according to Chief Financial Officer Dennis Laraway. MMD is a reference to one of the muni market's AAA yield curves.

Last month, Houston Methodist, a non-profit hospital in Texas, raised roughly \$1.25 billion in a bond sale that only included securities maturing from three to 10 years.

Brian Barney, a portfolio manager on Morgan Stanley's Parametric fixed-income team, said he's seeing more supply in the middle of the curve. In conversations, Barney said underwriters and issuers seem more interested in tailoring sales to investor preferences.

"They're watching the cost of capital, but they're also more and more cognizant of what buyers want," he said. "They want to make sure they're minimizing their cost of capital by maximizing their issuance into that demand."

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