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Municipal Bonds: What Investors Should Know About State Fiscal Health - Lord Abbett

An analysis of budget trends, reserve balances, and credit fundamentals across several of the largest municipal bond issuers.

Key Takeaways

- State fiscal fundamentals remain resilient. Reserve balances continue to normalize from pandemic-era highs but remain well above historical averages, helping to provide states with financial flexibility.
- States have been adapting to a more normalized fiscal environment. Spending growth has moderated, as many states implement structural budget adjustments rather than relying heavily on rainy day funds.
- Credit conditions are mostly strong but vary across issuers. While the overall fiscal backdrop remains constructive, individual state and local governments continue to face distinct opportunities and challenges. This trend highlights the importance of active investment management that seeks to capture the high after-tax yields offered by the asset class.

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