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The Transition from Credit Momentum to Credit Selection, Public Finance Enters a More Demanding Phase.

- Our 2026 Sector Credit Outlook anticipated that the municipal bond credit backdrop was moving from broad credit momentum toward a more demanding period of issuer-by-issuer differentiation. Moody's second quarter public finance rating actions support that view.
- Despite generally supportive economic conditions, public finance rating downgrades exceeded upgrades 116 (55%) to 96 (45%), driven largely by continued pressure in the K-12 School District, Higher Education, and Healthcare sectors.
- Demographics, enrollment trends, competition, governance, and fiscal management are increasingly determining credit quality, reinforcing the importance of credit selection.

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