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Muni Market's Main Growth Driver Set to Slow After Yield Spike.

State and local governments are holding off on refinancing debt after municipal bond yields spiked last month, raising the prospect of tighter supply in the fourth quarter, according to Nuveen.

Refunding debt to reduce costs has driven much of this year's issuance growth, but just 43% of bonds eligible in August were refinanced as yields pushed higher, down from a monthly average this year of 75%, according to the firm's outlook for October to December.

"Supply could slow in the fourth quarter, as issuers planning to refund existing debt may wait for a more favorable rate environment," Daniel Close, Nuveen's head of municipals, and Margot Kleinman, head of municipal research, wrote.

Refunding supply is up 20% this year through the third quarter compared to the same period in 2025, while new-money supply grew 1%, Nuveen said.

Yields on benchmark 30-year muni debt soared to about 5.26% in late September, the highest since at least 2011, before falling back to roughly 5.09% on Wednesday. That volatility has pushed issuers with flexibility to wait for rates to drop. Nuveen expects \$600 billion in 2026 muni issuance but that could trend lower if refinancings, which were up 6.8% through the third quarter, slow in the final three months of the year, the report said.

Though, "lower supply may help the muni market find its footing and could be met with reemerging demand," the authors wrote.

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