

U.S. Municipal Bond Market

Forecasting \$745 Billion in Municipal Bond Issuance for 2025 Amid Potential Tax-Exemption Elimination

- Predicting \$745 billion in municipal bond issuance for 2025, about a 50% increase from 2024, mostly due to potential tax policy changes.
- Major themes impacting our forecast include tax policy, the macro-economic landscape, and the Fed's monetary policy.
- While the threat to the municipal bond tax exemption is not imminent, it should not be underestimated given the unique political and fiscal landscape in 2025. The threat is close to imminent.

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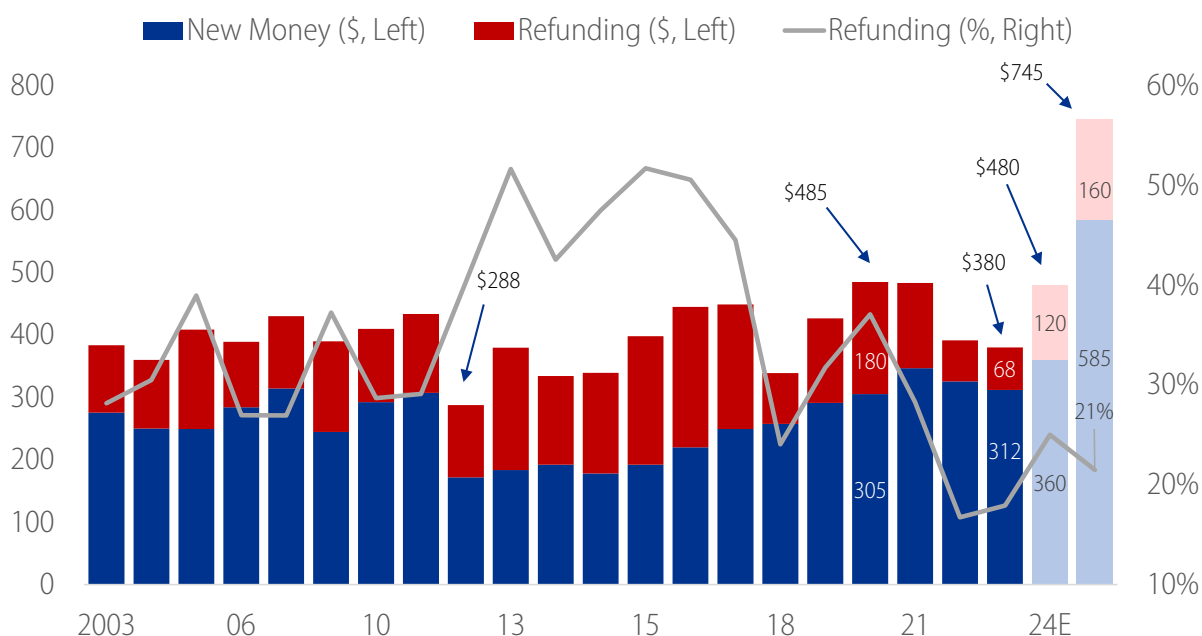
The Base Case

I hope I am wrong, but my base case forecast for municipal bond issuance in 2025 is \$745 billion. This would be about 50% higher than the \$490 billion (or more) likely to be sold in 2024.

The key reason for the substantial increase in issuance, unprecedented in a year-over-year period, is my suspicion that at the end of the first quarter or beginning of the second quarter, lawmakers from the 119th Congress will propose significant and far-reaching tax-related legislation. I suspect the soon-to-be-introduced legislation will eliminate (or significantly curtail) the municipal bond tax exemption, leading to the end of new issue tax-exempt bonds after January 1, 2026.

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\$745 Billion- 2025 Issuance Forecast



Source: Refinitiv and HilltopSecurities.

As a result, we suspect that government and private activity bond issuers will accelerate as much tax-exempt issuance as they can from 2026 into 2025 before the tax-exemption is eliminated as of January 1, 2026.

The reason I hope I am wrong, is because the elimination of the municipal bond tax-exemption, in whole or even just partially, would be devastating to infrastructure financing in the U.S. There is still a substantial infrastructure gap in the U.S. Eliminating the tax-exemption only widens the gap.

There is Still Not an Imminent Threat, But It Should Not Be Underestimated

It is important readers understand the threat to the municipal bond tax exemption is still not imminent. The 119th Congress has not even begun yet. The threat is close to imminent. It is certainly close enough to imminent for public entities to ramp up education and advocacy efforts in D.C., especially for citizens and voters who will be the most negatively impacted.

Many are underestimating this threat. The landscape is very different from past years and decades. A unique threat is likely in 2025 due to the political shift from the 2024 election results, the severely deteriorating U.S. fiscal situation, and competing policy priorities.

Major themes impacting our forecast include tax policy, the macro-economic landscape, and the Fed's monetary policy.

Summary of HTS 2025 Issuance Forecast (Updated Nov. 24, 2024)

Ten Year Average, 2014-2023	Month	2021 Actual Issuance	2022 Actual Issuance	2023 Actual Issuance	2024 Actual/Forecast	HTS Forecast for 2025, (No Elimination)	HTS Forecast for 2025, BASE CASE (If Full Elimination Proposed)	% Change, Actual/ 2nd Est. '24 to Base Case Est. 25 Forecast
27	January	28	26	24	32	40	40	26%
28	February	37	32	22	33	40	40	21%
35	March	48	46	34	39	45	45	17%
34	April	37	40	33	45	50	50	12%
34	May	35	37	30	48	50	60	26%
41	June	50	38	40	49	55	75	54%
32	July	38	28	28	41	45	65	58%
38	August	45	42	39	51	50	70	38%
34	September	45	27	31	49	45	70	43%
44	October	42	29	39	57	50	80	41%
33	November	37	26	37	20	30	75	275%
33	December	41	20	24	30	35	75	150%
413	Total	483	391	380	492	535	745	52%
34	Avg/Mth	40	33	32	41	45	62	52%

Source: Refinitiv and HilltopSecurities.

The Key Assumptions Driving Our Forecast

The major themes impacting our issuance forecast this year are ranked as follows:

- 1. Tax policy
- 2. The macro-economic landscape
- 3. The Fed and monetary policy

We detailed above, and in previous reports such as [An Almost Imminent Threat to the Municipal Bond Tax-Exemption is Here: Act Now to Preserve This Vital Infrastructure Financing Tool](#) (Nov 13th) and [Save the Tax-Exemption, A Call to Action for U.S. Public Finance](#) (August 17, 2023) why we believe tax policy will be so impactful in 2025.

The macro-economic landscape will also be a major contributor in 2025. Despite the 2024 elections being over, a high level of macro-economic and policy uncertainty remains. It is still unclear whether President-Elect Trump’s tariff and immigration policies are merely saber-rattling or if they will be prioritized immediately. If implemented as advertised, these policies could be inflationary. We are assuming minimal disruption from new policies such as these, but downside risks exist, especially if financial markets react by increasing yields even higher than the recent run-up. We are assuming GDP growth of about 2.2% for 2025, but we would not be surprised if the economy again exceeds expectations.

While the threat to the municipal bond tax exemption is not imminent, it should not be underestimated given the unique political and fiscal landscape in 2025.

The threat is close to imminent.

Key Assumptions Driving Our 2025 Issuance Forecast

Indicator	2020	2021	2022	2023	2024E	2025E
	Actual	Actual	Actual	Actual	Est	Est
U.S. GDP	-2.2%	6.1%	2.5%	2.9%	2.7%	2.2%
Fed Funds Rate	0.4%	0.1%	1.7%	5.0%	5.1%	3.8%

Source: U.S. Dept. of Commerce, Fed Reserve, Moody's Analytics and HilltopSecurities.

Another key question we need to address is: 'How many times will the Fed lower their interest rate target in 2025?' We are assuming it will occur only three, or at most four times, in 25 basis point increments each time. We anticipate a high level of noise regarding the relationship between the new administration and the current Fed chair. At times, it may be difficult to discern posturing from reality.

We expect \$535 billion of primary market municipal issuance in 2025 if a threat to the municipal bond tax-exemption does not materialize. Unfortunately, this is not our base case.

Our Issuance Forecast If a Threat Does Not Materialize in 2025

We expect \$535 billion of primary market municipal issuance in 2025 if a threat to the municipal bond tax-exemption does not materialize. Unfortunately, this is not our base case.

Recent HilltopSecurities Municipal Commentary

- [Crypto Abstinence: Safeguarding Public Entity Credit Quality, Taxpayer and Public Funds by Avoiding Digital Illusions](#), November 20, 2024
- [An Almost Imminent Threat to the Municipal Bond Tax-Exemption is Here: Act Now to Preserve This Vital Infrastructure Financing Tool](#), November 13, 2024

- [Election 2024 Results Point Toward a “Red Wave,” Still Appealing Municipal Yields, and Potentially a Stronger Threat to Tax-Exemption than 2017, November 6, 2024](#)
- [Municipal Bonds on the Other Side of Election 2024, November 4, 2024](#)
- [As the 2024 Elections Loom, America’s Infrastructure Challenges Persist & Threaten to Deepen, October 29, 2024](#)
- [The Risk of Unexpended Proceeds Calls Remains Low: The Effect of Declining Rates on Single Family Mortgage Revenue Bonds, October 21, 2024](#)

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

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