U.S. Municipal Bond Market

Infrastructure, Muni Investors, and Trump Score Big with the OBBBA

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- The One Big, Beautiful Bill Act of 2025 (OBBBA) marks a signature legislative win for President Trump's second term, preserving the municipal bond tax-exemption and reaffirming federal support for infrastructure investment.
- The continued protection of tax-exempt municipal bonds boosts investor confidence by offering clarity and stability amid interest rate uncertainty, shifting fiscal priorities, and broader market volatility.
- The municipal bond tax-exemption faced unprecedented risk, as we expected a Republican-led Washington D.C. to offset new tax policy with spending cuts. Instead, lawmakers added over $4 trillion to the national debt, preserving the exemption—a decision also driven by strong advocacy and bipartisan support, at least for now.

A Landmark Legislative Victory

President Donald Trump created an unprecedented multiracial and working class coalition within the Republican Party, propelling him to the White House in 2024. His campaign resonated with a broad spectrum of voters. An increasing number of Americans disillusioned with the political status quo, found in Trump a candidate who echoed their frustrations over economic stagnation, border insecurity, and cultural displacement. By channeling these sentiments, Trump has not only reshaped the Republican base but is also continuing to redefine the contours of American politics, governance and national identity.

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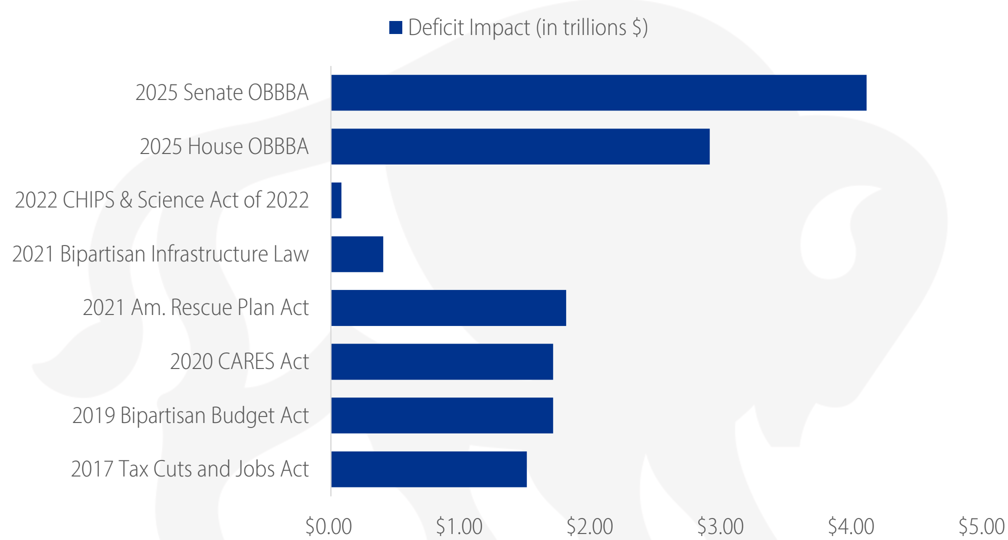
Comparison of Deficit Impact of OBBBA Versions to Recent Laws



Source: Committee for a Responsible Federal Budget, CBO, and HilltopSecurities.

Please see disclosure starting on page 4.

The first five months of President Trump's second term in office have illustrated his commitment to reshaping Washington D.C.—and nowhere is that more evident than in the passage of the One Big, Beautiful Bill Act (OBBBA) of 2025.

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What began the year as a politically daunting and complex legislative goal became a signature achievement. Despite deep divisions within the GOP and fierce Democratic opposition, Speaker Mike Johnson, Senate Majority Leader John Thune, and House Ways and Means Chairman Jason Smith navigated the bill through a turbulent legislative process. After a dramatic 50-50 Senate vote—broken by Vice President J.D. Vance—the bill returned to the House, where Johnson rallied his narrow majority to secure final passage. The OBBBA of 2025—a sweeping package of tax cuts, spending reductions, and broad-based policy reforms—now stands as a defining legislative achievement of President Trump's second term. President Trump is expected to sign the OBBBA into law soon.

A Victory for Infrastructure Financing

At the core of this legislation for municipal bond investors and public entities is the preservation—and even modest expansion—of the municipal bond tax-exemption tax expenditure. Long considered a cornerstone of infrastructure financing in the United States, this policy allows state and local governments, as well as other public entities to borrow at reduced interest rates. The result for U.S. infrastructure: more affordable funding for essential public projects such as schools, roads, hospitals—and now, even spaceports—underscoring the importance of tech change and the evolving scope of the needs of American infrastructure.

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We had been deeply concerned about the unprecedented threat to the municipal bond tax-exemption dating back to the November 2024 elections. Proposals to eliminate or cap the municipal bond tax-exemption as a revenue offset sparked concern among investors and public officials. While early discussions of the One Big, Beautiful Bill Act (OBBBA) left the tax-exemption's fate uncertain, our outlook improved after the House passed its version in April, preserving the provision.

Thanks to sustained advocacy from organizations such as the Government Finance Officers Association's Public Finance Network, the Bond Dealers of America, the American Securities Association, the Securities Industry and Financial Markets Association, the American Society of Civil Engineers, and many other public finance stakeholders, the final bill fully protects the tax-exempt status of both outstanding and newly issued municipal bonds. As a result, the tax-exemption now appears secure—at least through the remainder of 2025 and potentially into 2026—offering much-needed stability for U.S. infrastructure financing and municipal bond investors.

Our concern about an unprecedented threat to the municipal bond tax-exemption stemmed from the unexpected fiscal direction of the Republican-led U.S. government that emerged after the November elections. With over $4 trillion in new deficits projected under the OBBBA—according to the Committee for a Responsible Federal Budget—we anticipated that Congress would seek revenue offsets, putting the tax-exemption at risk. We did not expect this Republican led Congress and White House would add $4 trillion to the U.S. deficit.

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Looking ahead to 2026 and 2027, the threat to the municipal bond tax-exemption could reemerge. Deficit reduction efforts, along with shifting policy priorities from both parties, may again place the exemption in jeopardy. Frequent turnover among elected officials and staff in Washington only heightens this risk. Ongoing education and advocacy will be essential to ensure lawmakers understand the tax-exemption's critical role in financing public infrastructure.

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Fiscal Impact of Senate OBBBA of 2025

	Deficit Increase (-) / Decrease (FY 2025-2034)	
Title / Provision	As Written	If Permanent
Finance	-$3,550 billion	-$4,415 billion
Armed Services	-$150 billion	-$431 billion
Homeland Security	-$129 billion	-$214 billion
Judiciary	-$9 billion	-$76 billion
Banking	$2 billion	$2 billion
Environment & Public Works	$3 billion	$3 billion
Energy & Natural Resources	$27 billion	$27 billion
Commerce, Science, & Transportation	$44 billion	$42 billion
Agriculture	$120 billion	$120 billion
HELP	$278 billion	$278 billion
Interactions	-$3 billion	-$3 billion
Subtotal, Primary Deficit Impact	-$3.4 trillion	-$4.7 trillion
Interest	-$0.7 trillion	-$0.8 trillion
Total Debt Impact	-$4.1 trillion	-$5.5 trillion

Source: Committee for a Responsible Federal Budget, CBO and HTS.

Tax Clarity Fuels Muni Market Confidence and Infrastructure Momentum

The OBBBA delivers a major win for municipal bond investors, reaffirming the tax-exempt status of both current holdings and future issuance. In a volatile economic and policy environment, this clarity boosts near-term market stability and reinforces municipal bonds as an attractive tax-advantaged investment, offering generationally attractive yields and reliable credit quality.

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It's also a critical win for infrastructure financing. In March 2025, the American Society of Civil Engineers gave U.S. infrastructure a "C" grade—an improvement from the "C-" in 2021, but still far from globally competitive. State and local governments will continue to rely on the municipal bond tax-exemption to fund both traditional and emerging infrastructure needs, from roads and schools to broadband and spaceports.

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A Double-Edged Sword: Rising Fiscal Deficit and Weakening Sovereign Credit Risk

While the OBBBA of 2025 is a triumph for infrastructure financing and Republican tax policy, it comes at a fiscal cost. The CRFB estimates that the legislation will increase the federal deficit by at least $4 trillion over the next decade. This type of expansionary fiscal policy was one of the key drivers behind Moody's April 2025 downgrade of the U.S. credit rating, following Fitch's downgrade in 2023.

Rising U.S. debt levels could eventually push interest rates higher and raise concerns about long-term fiscal sustainability.

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A Defining Moment or Temporary Reprieve

The passage of the One Big, Beautiful Bill Act is both a defining moment and a temporary reprieve. It reaffirms federal support for tax-exempt financing, empowers state and local governments to invest in critical infrastructure, and offers investors a stable, tax-advantaged income stream in an uncertain landscape.

As we look ahead, the preservation of the municipal bond tax exemption stands as a rare bi-partisan success in an otherwise divided and divisive political climate. For issuers and investors alike, this is a moment to celebrate—but also a time to prepare for the fiscal and political challenges that lie ahead.

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