

U.S. Municipal Bond Market

Municipal Issuance Moves Toward Stability with \$555 Billion Expected in 2026

- 2026 won't likely be a year of extremes—it will be a year of normalization. Issuance should remain solid by historical standards, but the easy tailwinds of the past two years are gone. **Slowing economic growth and fiscal discipline** will define municipal market activity, not acceleration.
- Municipal bond issuance in 2026 is expected to **normalize at \$555 billion**. About \$440 billion will be new money and roughly \$115 billion will be refundings, or around 21% of the total. This is strong by historical standards but not record-breaking.
- Several forces are likely to ease supply slightly. Pandemic-era fiscal boosts have faded, policy uncertainty pulled deals forward into 2025, and credit quality has been normalizing for two years. Budget pressures, slower economic growth, and muted refunding activity add to the restraint. Public entities are going to prioritize finding and maintaining structural balance.
- Higher costs or reduced federal aid do not always lead to more borrowing. Most governments operate under balanced budget rules and avoid debt for operating shortfalls. Instead, they rely on cost controls, project deferrals, and workforce adjustments.

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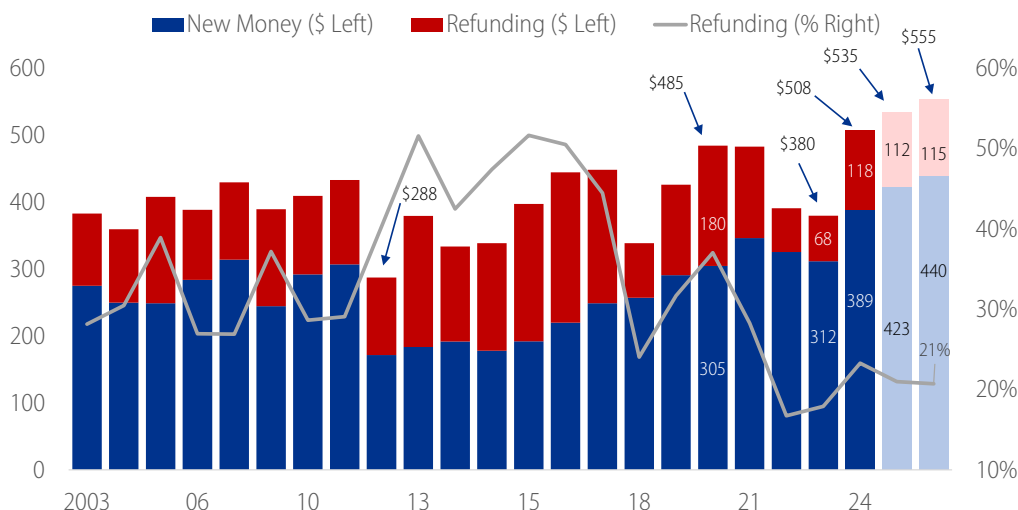
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2026 Municipal Bond Issuance

Looking ahead to 2026, municipalities are unlikely to experience extremes, assuming conditions remain stable. Instead, we expect a year of continued credit normalization. After two years of elevated issuance, public entities will likely use this period to pause and catch their breath.

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\$555 Billion – The HilltopSecurities 2026 Issuance Forecast



Source: Refinitiv and HilltopSecurities. \$535 billion for 2025 was our forecast, market likely to see about \$565 billion in 2025.

Our forecast for 2026 calls for **\$555 billion in total municipal bond market primary issuance**, with about \$440 billion in new money and roughly \$115 billion in refundings, or about 21% of the total. That number, \$555 billion, is a healthy level by historical standards, but will not set another record. And we would be very surprised to see market activity leap meaningfully over \$600 billion.

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While enthusiasm for increased supply is building, the quantitative and qualitative factors that drive issuance are not aligned. None of the signposts we watch—credit conditions, budget flexibility, economic momentum—are pointing to another increase, much less a surge. Balance sheets need to stabilize before issuers can shoulder more fixed costs at a higher level. Uncertainty, in general, rose in 2025 and will carry into 2026. **Municipal credit is not breaking, but it has been normalizing for nearly two years.** Supply tends to be influenced by credit fundamentals, and 2026 looks like a year when issuance levels ease slightly while staying strong compared to long-term experience.

Why Municipal Issuance Could Ease Slightly in 2026

The forces that lifted supply in 2024 and 2025 are fading. Several pressures are nudging issuers to slow the pace rather than add new fixed costs to their balance sheets.

- **Sugar Rush is Over**
Pandemic relief gave budgets a temporary boost. That support is gone, and fiscal reality is back. Governments once again must balance ongoing spending with ongoing revenues, without extraordinary aid to cushion the gap.
- **Policy Risk Pulled Transactions Forward.**
As in 2010 and 2017, uncertainty in 2025 likely accelerated some issuance that otherwise could have landed in 2026.
- **Credit Quality is Normalizing**
Municipal market credit strength peaked about two years ago and has been reverting. Even the strongest credits are making harder choices.
- **Rising Budget Pressures**
Our [2025 HTS Public Finance Leadership Survey](#) showed budget stress climbing the list of challenges. In sectors like K–12 schools and higher education, structural challenges, weaker fundamentals and more negative rating actions could likely translate into fewer new-money deals as well.
- **Economic Deceleration**
The economy is not expected to boom in 2026. Growth is expected to slow, and uncertainty remains. Moody's (Moody's Analytics) projects GDP growth of 1.9% in 2025 and **1.7% in 2026**, with an "uncomfortably high" or 48% chance of recession in the next 12 months, and notes almost half of U.S. states already in or near contraction. The ongoing government shutdown adds even more uncertainty.
- **Stable Refunding Activity**
Even with expected rate cuts, refunding volume will rise only slightly above current levels. We estimate about 21% or of total issuance due to the pool of viable candidates.

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- **Inflation, Labor Costs, Lower Federal Aid are Pressuring Budgets**
Governments typically match these expenses with current revenues. If they cannot, they sometimes choose to do without rather than borrow more.

Summary of HTS 2026 Issuance Forecast (Updated Nov 3, 2025)

Ten Year Average, 2015-2024	Month	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	HTS 2025 Forecast, (BASE CASE)	Actual - Forecast, Difference	HTS 2026 Forecast	2025 Forecast to 2026 Forecast, % Change
28	January	28	26	24	32	37	40	-3	40	0%
30	February	37	32	22	33	41	40	1	45	13%
36	March	48	46	34	39	43	45	-2	45	0%
35	April	37	40	33	45	52	50	2	50	0%
36	May	35	37	30	48	53	50	3	45	-10%
43	June	50	38	40	49	58	55	3	55	0%
33	July	38	28	28	41	55	45	10	45	0%
41	August	45	42	39	51	48	50	-2	55	10%
36	September	45	27	31	49	45	45	-0	45	0%
47	October	42	29	39	66	55	50	5	55	10%
32	November	37	26	37	25	-	30	-	35	17%
33	December	41	20	24	32	-	35	-	40	14%
430	Total	483	391	380	508	487	535	17	555	4%
36	Avg/Mth	40	33	32	42	49	45	2	46	4%

Source: Refinitiv and HilltopSecurities.

Myths About What Drives Municipal Issuance Higher

It is tempting to assume that if inflation runs hot or federal support declines, states and cities will issue more bonds to fill the gap. That is not how public finance typically works. Most governments operate under balanced budget requirements, which means they usually do not borrow for big-ticket items without a way to pay for them, or for day-to-day operations the way households use credit cards. **When costs rise, leaders are more likely to tighten belts, delay projects, or trim programs—not rush to market and add fixed costs.**

Guidance from the Government Finance Officers Association's [Debt Management Policy](#) reinforces this general point. **Debt is PRIMARLY used for long-term capital investments, not operating shortfalls, and many jurisdictions have specific legal or policy-based debt limitations that restrict borrowing to approved purposes.** The more common drivers of municipal bond issuance tend to be long-planned projects and priorities that move through capital improvement programs and voter approval processes. These are typically institutional choices, not quick reactions to day-to-day circumstances.

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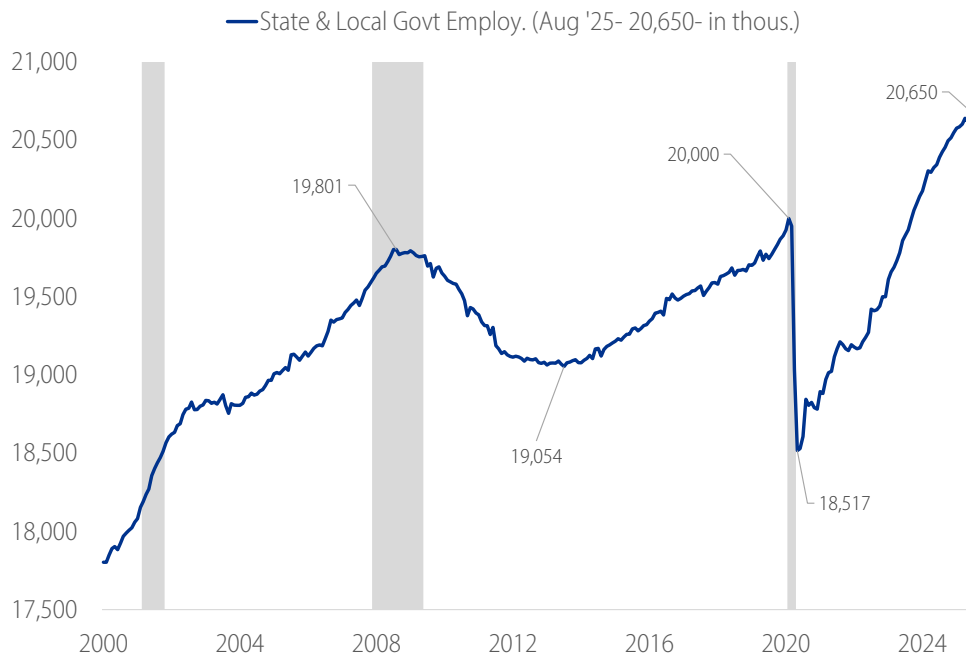
Budget Normalization Strategies

In the near term, governments are more likely to normalize budgets through cost controls rather than new revenue streams or more debt. Historically, most have been reluctant to raise taxes or fees, and we do not expect widespread tax increases in 2026 either. Budget adjustments often come through spending reductions, deferring or resizing capital plans, and workforce changes. After the Great Recession, many entities trimmed staff for years even after the downturn ended. Similar actions could reappear if pressures mount.

Budget stress will not be uniform across all sectors. K–12 schools and higher-education institutions face structural headwinds that limit flexibility. Regions with heavy concentrations of federal workers could feel sharper impacts if federal uncertainty leads to more layoffs. In most cases, leaders will try to reduce ongoing expenses rather than add new obligations in the form of debt service.

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State and Local Government Employment Continues to Peak



Source: Bureau of Labor Statistics and HilltopSecurities.

State and local government employment is a telling signal of near-term budget stress and policy priorities. If hiring cools or headcounts start to roll over, that is real-time evidence of tightening on the ground, and it can dampen appetite for new-money deals. That said, state and local government employment is usually a lagging indicator of fiscal stress. By the time payrolls move, the squeeze has already been working through budgets.

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Key Assumptions for the HilltopSecurities 2026 Municipal Bond Forecast

Moody's expects the economy to cool slightly in 2026 compared with 2025. In its October outlook, Moody's writes, growth will average 1.9% in 2025 and 1.7% in 2026.

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Monetary policy is expected to ease. Also, according to the Moody’s analysis, the Fed cut rates a quarter point at the late October FOMC meeting and “is expected to cut rates another quarter point in December, and two more times in early 2026,” which would bring the funds rate “close to 3%, consistent with its estimated equilibrium rate, or R-star.” Moody’s also projects that “about 1 million jobs will be added this year, and only about 300,000 next year,” with unemployment peaking “at the end of next year.”

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Key Assumptions Driving Our 2026 Issuance Forecast

Indicator	2020	2021	2022	2023	2024	2025E	2026E
	Actual	Actual	Actual	Actual	Actual	Est	Est
U.S. GDP	-2.2%	6.1%	2.5%	2.9%	2.8%	1.9%	1.7%
Fed Funds Rate	0.4%	0.1%	1.7%	5.0%	5.1%	4.2%	3.3%

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

These assumptions from Moody’s base case underpin our 2026 outlook. Slower growth, a more accommodative Fed, and a labor market that cools without severe stress.

The Early Impact of the AI Transition on Public Finance

Artificial intelligence (AI) is not just moving fast. It is reshaping the path while we are still on it. Public finance depends on planning, predictability, and long-term assumptions, so the early phase during technological change rarely feels smooth. It can feel disruptive. In the very near term, we expect the effect on public finance to be neutral to negative before benefits begin to show.

Generative AI is still in the early stage, yet the adoption curve is steep.

The reason is simple. Adoption comes first. Benefits arrive later. In [Intro to the New Era of AI, Infrastructure & Growth](#) we explored the big picture and the potential path ahead. Generative AI is still in the early stage, yet the adoption curve is steep. Faster uptake can create friction before efficiency gains appear.

Over time, more capable systems could reshape productivity, labor markets, and the broader economy. That may change how land, labor, and capital are valued and deployed. These shifts can arrive faster than traditional planning cycles, making real-time adjustments hard for governments and investors. Assumptions about workforce needs, property use, and capital allocation may need to be revised sooner than expected.

The long-term outlook for the AI transition should be constructive. This phase is about adoption and adaptation, rather than pinpointing the strategic edge, for now. **For 2026 we do not expect AI to drive major changes in municipal issuance, though it likely will influence patterns at the margin and set the stage for more meaningful effects in coming years.**

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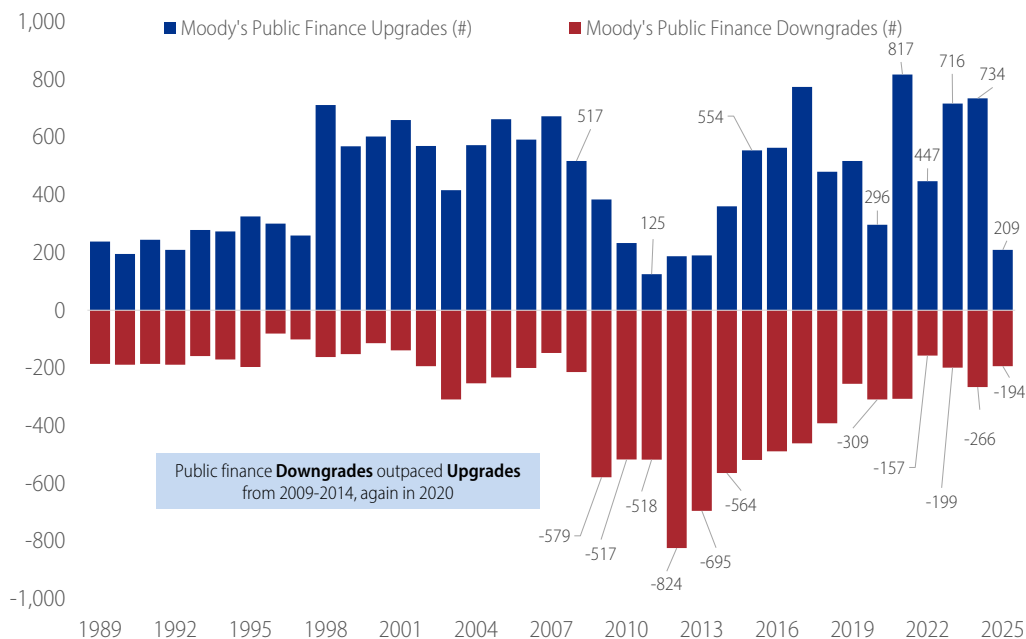
What to Watch For Next Year, in General

- Budget pressure signals, including rating revisions, revenue trends and reserve use in the first half of 2026.

- Labor costs, hiring freezes, and office vacancy rates in downtown & sensitive markets.
- Voter approval sensitivity for select bond measures.
- Economic growth risks that could curb (or increase) activity even if they do not trigger a recession.
- Mix of general tax relief versus revenue enhancements especially on high-earners.
- The depth of the refunding pipeline if or when yields drift even lower.
- Federal uncertainty, including shutdown risk and policy volatility.
- Clarity on federal funding channels and disaster aid.
- Impact from the path to Artificial General Intelligence.

Our \$535 billion base-case, published in November 2024, seems conservative now, however when we published it last year it was at the high-end of forecasts.

Public Finance Upgrades Have Barely Outpaced Downgrades in the First Half of 2025



Source: Moody's and HilltopSecurities.

2025 Municipal Bond Issuance (Close to Last but Not Least)

Even at the low end, 2025 looks set to finish at a record level, again. With two months to go, issuance appears on track to land in a range of \$560 to \$580 billion. Our \$535 billion base-case, published in November 2024, seems conservative now, however when we published it last year it was at the high-end of forecasts.

Issuance should remain solid by historical standards, but the easy tailwinds fueling the past two years are gone.

Big Picture

2026 won't likely be a year of extremes—it will be a year of normalization. Issuance should remain solid by historical standards, but the easy tailwinds fueling the past two years are gone. Slowing economic growth and fiscal discipline will define the municipal market, not acceleration.

Recent HilltopSecurities Municipal Commentary

- [No Major Scares for Municipal Investors in October as Momentum Holds](#), October 27, 2025
- [Preserve Wealth, Capture Yield with Municipal Bonds as Concern Mounts](#), October 20, 2025
- [October's Municipal "Moment" Continues to Unfold Amid Market Uncertainty](#), October 15, 2025
- [The Municipal Bond "Moment" Persists—But Cracks Are Forming](#), October 6, 2025
- [The Secret's Out – Municipal Bonds Are Having a Moment](#), October 1, 2025

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

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