U.S. Municipal Bond Market

The New American Infrastructure Buildout and the Case for $630 Billion in 2027

Summary

- We forecast $630 billion of municipal bond issuance in 2027, approximately 6.7% above the expected 2026 total and another annual record.
- The new American infrastructure buildout should help drive the increase. Rising project costs and investment in essential infrastructure will expand the market's annual issuance capacity.
- Revenue-backed and specialty-sector issuance should provide most of the growth, while tax-backed issuance remains historically high but relatively flat as governments manage rising expenses and realign recurring expenditures with recurring revenues.
- Higher interest rates remain a principal risk, but early fall of 2026 showed that issuers will often continue financing essential capital needs despite higher rates.

Tom Kozlik
Head of Public Policy and Municipal Strategy
214.859.9439
tom.kozlik@hilltopsecurities.com

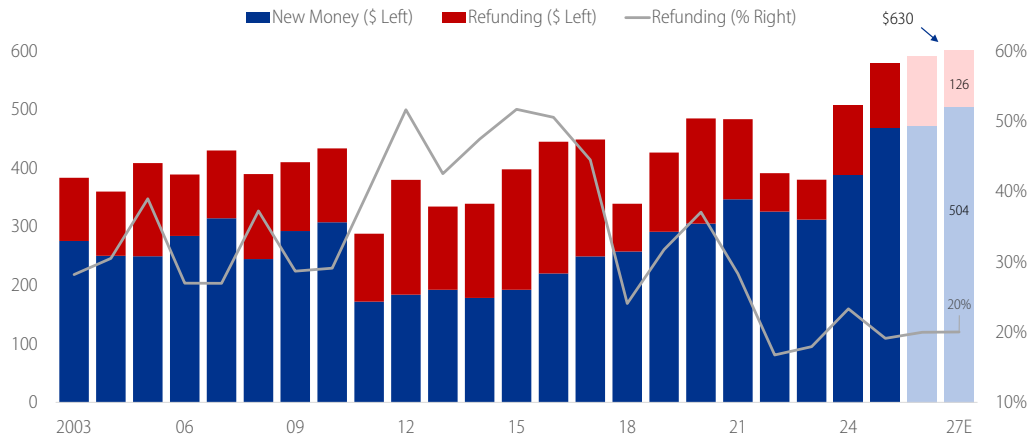
Record Issuance Again Likely in 2027

The current infrastructure buildout is expanding the municipal market's annual capacity. Large capital programs, rising project costs, technological change, and essential infrastructure needs are supporting record issuance despite higher rates and realigning credit conditions.

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$630 Billion – The HilltopSecurities 2027 Issuance Forecast



Source: LSEG, The Bond Buyer and HilltopSecurities.

The increase will not be evenly distributed across the entire market. Tax-backed borrowing is likely to remain near 2026 levels as governments manage inflation, demographics, rising expenses and bring recurring expenditures back into line with recurring revenues. Revenue-backed and specialty-sector issuance should continue to expand, led by electric power, energy prepay, airports, health care, housing, student loans, and other infrastructure borrowers.

Tax-backed borrowing is likely to remain near 2026 levels as governments manage inflation, demographics, rising expenses and bring recurring expenditures back into line with recurring revenues.

Our $630 billion forecast includes approximately $504 billion of new-money issuance, or 80% of the total, and $126 billion of refundings, or 20%. Reaching that level does not require a sharp decline in interest rates or a historically attractive refinancing cycle. It depends primarily on the continuation of the infrastructure financing cycle that has been gaining momentum in recent years and really materialized in 2026. This shift has been building, intensified in 2026, and is likely to not just continue but intensify in 2027.

Moving from an estimated $591 billion (or potentially higher) in 2026 to $630 billion in 2027 requires approximately $39 billion of additional issuance. In a market approaching $600 billion in annual volume, that represents important growth, but not an extraordinary departure from the existing trend we have witnessed in recent years.

Higher Rates Could Influence Issuance, Not Determine It

Higher interest rates could affect the timing and composition of 2027 issuance. Expectations are that another rate hike is expected from the U.S. Fed in December. However, higher rates are unlikely to prevent another record. But still, higher interest rates are probably the most significant risk to our forecast. They could reduce refunding opportunities, increase debt service costs, and can delay pricings.

Municipal issuance averaged approximately $56 billion per month in August, September, and October, when interest rates were among their highest levels of the year.

But the experience of the end of the summer of 2026 weakened the assumption that higher rates necessarily lead to lower issuance. Municipal issuance averaged approximately $56 billion per month in August, September, and October, when interest rates were among their highest levels of the year. Borrowers continued to finance capital programs despite higher yields, volatile market conditions, and financial uncertainty.

Summary of HTS 2027 Issuance Forecast (Updated Nov 18, 2026)

Ten Year Average, 2016-2025	Month	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Actual/ Forecast	HTS 2027 BASE CASE Forecast	2027 Forecast to 2026 Actual, % Change
29	January	28	26	32	37	35	**50**	42.8%
31	February	37	32	33	41	42	**50**	17.9%
36	March	48	46	39	43	52	**55**	5.6%
36	April	37	40	45	52	52	**55**	5.8%
38	May	35	37	48	53	51	**55**	7.0%
45	June	50	38	49	59	63	**65**	3.8%
35	July	38	28	41	56	46	**45**	-3.2%
43	August	45	42	51	51	61	**60**	-2.1%
39	September	45	27	49	48	57	**55**	-3.3%
49	October	42	29	66	59	51	**55**	8.8%
34	November	37	26	25	42	40	**45**	12.5%
35	December	41	20	32	40	40	**40**	0.0%
449	**Total**	**483**	**391**	**508**	**580**	**591**	**630**	6.7%
37	Avg/Mth	40	33	42	48	49	**53**	6.7%

Source: LSEG, The Bond Buyer, and HilltopSecurities.

Issuers can adjust the timing, size, and structure of a transaction, but many projects cannot be deferred indefinitely.

Interest rates are only one part of the borrowing decision. Municipal capital programs are usually developed over several years. Issuers can adjust the timing, size, and structure of a transaction, but many projects cannot be deferred indefinitely.

The additional issuance in 2027, above and beyond the $600 billion level, is likely to come primarily from revenue-backed borrowers and specialty sectors with increasing and defined capital needs and identifiable revenue streams.

Revenue-Backed Issuance Should Lead the Increase in 2027

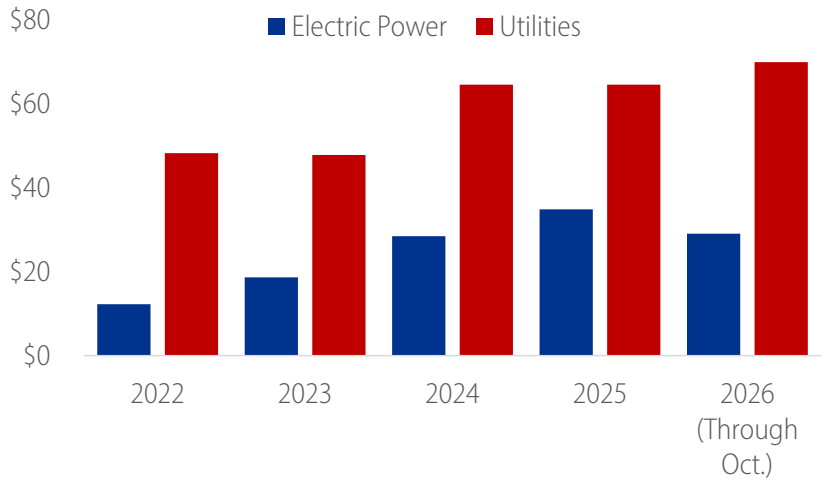
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The American Society of Civil Engineers gave U.S. Energy infrastructure a "D+" in its 2025 Infrastructure Report Card, compared with a "C" for U.S. infrastructure overall. ASCE estimated the Energy sector's 10-year funding gap at $578 billion. The combined gap for Drinking Water, Wastewater, and Stormwater approaches $1 trillion. Issuers are trying to make up some ground during this buildout.

A rise in the amount of electric power and energy financings is central to our 2027 forecast. After years of flat or declining demand in the wake of the Great Recession and Financial Crisis of 2008, utilities must now address load growth, reliability, generation and transmission needs, and infrastructure supporting technology investment. These projects take years to plan and are difficult to put off.

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Rising Energy and Utility Issuance Supports the Infrastructure Cycle



Source: LSEG, The Bond Buyer and HilltopSecurities.

Energy prepay transactions should remain another important source of increased supply.

Energy prepay transactions should remain another important source of increased supply. Volume will depend on transaction economics and market conditions, but the sector demonstrated in 2026 that it can contribute substantially to annual issuance when those conditions are favorable.

Airports are also working through multiyear capital programs involving terminals, runways, parking, concessions, and related facilities. Interest rates can alter financing schedules, but they do not eliminate the need to maintain and expand major transportation assets. We do not expect airport issuance to be especially sensitive to rising rates.

Broad public finance credit quality appears to have peaked in 2023 or 2024, following several years of strong revenue growth, federal support, and rising reserves.

Tax-Backed Issuance Should Remain High but Relatively Flat

Tax-backed issuers will enter 2027 under a different set of credit and operating conditions. Broad public finance credit quality appears to have peaked in 2023 or 2024, following several years of strong revenue growth, federal support, and rising reserves. Governments began realigning recurring revenues and expenditures in 2025 as temporary federal aid faded and operating costs rose. We described this dynamic as the Post-Golden Age Realignment, when state and local governments and school districts had to restore structural balance after a surge of federal aid.

Those adjustments, or that ongoing realignment, is likely to continue in 2027, but it does not represent a broad credit downturn. State government rainy-day funds remain above historical levels. State and local government revenues are higher nationally than they were a year ago, and property-tax collections continue to benefit from elevated home values. Therefore, we have maintained our "Stable" credit sector outlooks on the "State" and "Local Government" sectors.

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Most of the pressure is coming from rising expenditure demand. Labor, insurance, construction, health care, and other operating costs have risen. Slower home sales could eventually restrain assessment growth and transaction-related revenues. In some cases reduced federal aid is forcing some governments and school districts to determine

whether programs supported by temporary funding can be maintained with recurring revenue.

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Results from the 2026 HilltopSecurities Public Finance Leaders Survey identified workforce and budget issues as the leading challenges for public entities heading into 2027. Those issues are closely connected. Governments may need to raise compensation and spend more to maintain workforce capacity.

K-12 school districts warrant particular attention. We assigned a "Negative" credit sector outlook to the K-12 sector at the beginning of 2026, and realignment in this sector has been and will continue. Many are managing rising labor and transportation costs, enrollment changes, fixed facility expenses, and reduced federal support within funding systems they do not fully control. Rating pressure increased in 2025 and 2026 and rating pressure will likely continue in 2027, as we discussed in The Transition from Credit Momentum to Credit Selection, Public Finance Enters a More Demanding Phase.

Bond referendums are a source of ongoing activity. Voters approved nearly $96 billion across 583 state and local bond measures in 2024, followed by at least $67 billion of authorizations in preliminary 2026 results for schools, housing, and other public investments. The scale of these approvals provides a substantial pipeline of authorized borrowing that should support tax-backed supply over several years, even if budget pressure and affordability concerns prevent that part of the market from driving the overall increase.

Many governments still have strong reserves, manageable debt burdens, and substantial capital needs.

These sector pressures are likely to restrain growth in general obligation and other tax-backed issuance, but not cause a broad retreat, according to our base case. Many governments still have strong reserves, manageable debt burdens, and substantial capital needs. We expect the 2026 pattern to continue in 2027, with tax-backed issuance remaining historically high but contributing less to the market's incremental growth.

Economic Growth Should Remain Supportive

The economy is entering 2027 with more momentum than expected. Real GDP grew at a 3.4% annualized rate in the third quarter of 2026, supported by consumer spending and continued investment in technology infrastructure.

The November 2026 Moody's Analytics base case forecasts 2.2% real GDP growth in 2027. That would represent slower but continued expansion, supporting employment, tax collections, transportation activity, utility demand, housing, and capital investment. Recent activity also suggest some upside if consumer spending and business investment remain steady.

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Our issuance forecast does not require stronger growth. The greater risk is a sharper slowdown combined with persistent inflation and higher long-term rates, which could weaken revenues, raise operating costs, and make capital financing more expensive. That could move issuance toward the lower end of our expected range, but again such a scenario is not our base case.

Key Assumptions Driving Our 2027 Issuance Forecast

Indicator	2020	2021	2022	2023	2024	2025	2026E	2027E
	Actual	Actual	Actual	Actual	Actual	Actual	Est	Est
U.S. GDP	-2.2%	6.1%	2.4%	2.9%	3.0%	2.3%	2.4%	2.2%
Fed Funds Rate	0.4%	0.1%	1.7%	5.0%	5.1%	4.2%	3.7%	4.1%

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

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Why $630 Billion is Within Reach

Municipal bond issuance has set or approached a record in five of the past seven years, suggesting that elevated volume is no longer an exception. That pattern is consistent with the $3.7 trillion infrastructure funding gap identified by the American Society of Civil Engineers. Infrastructure needs, rising project costs, and expanding revenue-backed sectors continue to increase annual issuance despite elevated borrowing costs.

Our 2026 outlook anticipated normalization, slower growth, and greater fiscal discipline. Those forces emerged but did not prevent record issuance because infrastructure financing was stronger than we expected. Reaching $630 billion in 2027 requires neither lower rates nor a historic refinancing cycle. It requires the infrastructure financing cycle that developed in recent years and emerged in 2026 to continue.

Our 2026 outlook anticipated normalization, slower growth, and greater fiscal discipline.

Recent HilltopSecurities Municipal Commentary

- The Fed Waits as Municipal Bonds Regain Their Defensive Role, October 28, 2026
- The Municipal Bond Tax-Exemption Finances America's Public Infrastructure, October 9, 2026
- Modernization Meets the Limits of Public-Sector Capacity, Results of 2026 HTS Public Finance Leaders Survey, October 7, 2026
- A Stronger-Than-Expected Economy Is Offering Less Support to the Public Sector, While Municipal Yields and Relative Value Remain Very Attractive, October 5
- The Municipal Opportunity Strengthens as Yields and Relative Value Rise, September 28, 20026

Readers may view all of the HilltopSecurities Municipal Commentary here.

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