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2026 Supply Outlook

Key takeaways

1

The tax-exempt asset class is expected to finish 2025 with the highest level of supply on record, and this trend is anticipated to continue into next year. Despite this technical headwind, investors can benefit from historically elevated yields, expectations of further central bank easing – which could drive additional inflows into the asset class – and attractive relative value.

2

November saw investment grade municipal bonds underperform relative to taxable fixed income, following two consecutive months of outperformance. However, returns remained positive, and the coming months are expected to be generally supportive due to lower overall supply and an increase in reinvestment capital.[1]

3

At its final meeting of the year, the Federal Reserve reduced its policy rate for the third consecutive time, bringing it to a range of 3.50%–3.75%. While the committee made minor adjustments to the language in its statement, the central bank signaled expectations for an additional rate cut sometime next year.

Special feature: New Year, New Supply

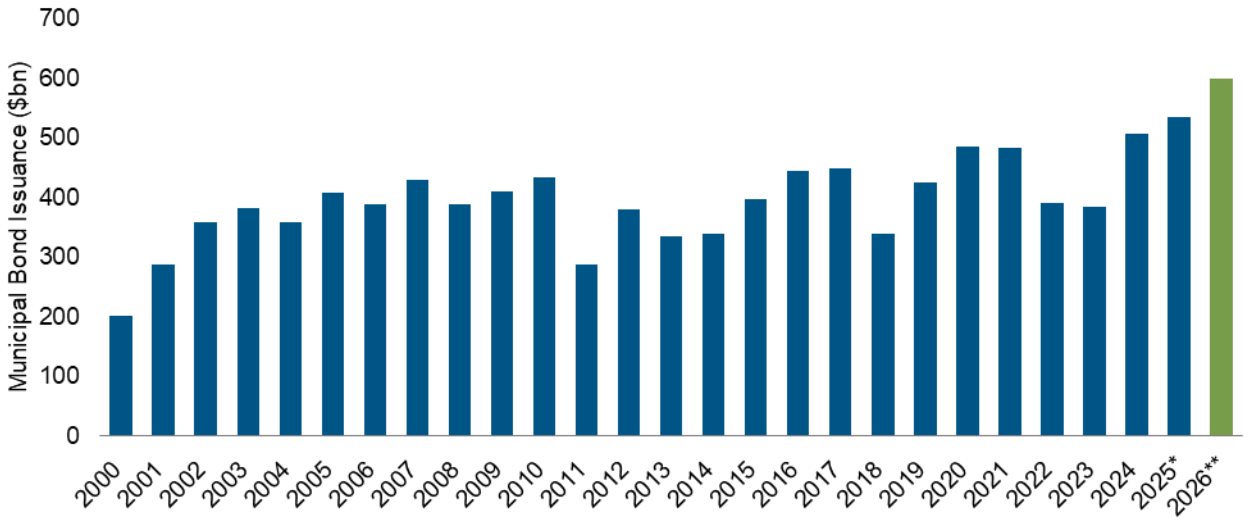
The driving force in the tax-exempt market throughout 2025 has been a wave of issuance. This year will mark the second consecutive year of record supply, as a variety of factors have prompted issuers to come to market. Prior to the One Big Beautiful Bill, policy uncertainty regarding the tax-exemption status of specific sectors – higher education, private activity bonds, and healthcare – resulted in a pull-forward effect. Overall supply has also been driven by increased infrastructure investment, supported by previous legislation, as well as inflation. A more nuanced factor relates to underlying balance sheets: the market has seen stable to declining leverage over the past 15 years, which stands in stark contrast to trends in the corporate and U.S. Treasury markets. As pandemic-era stimulus begins to roll off in 2026 and municipalities aim to maintain healthy reserves, market participants have chosen to issue additional debt. These elevated levels of gross supply, which have outpaced coupon payments, calls, and maturities – have resulted in net positive supply over the past few years, contributing to a growing municipal market.

This trend is expected to continue into the new year, with forecasts calling for a third consecutive year of record-breaking supply. These elevated issuance levels are driven largely by infrastructure investment and maintenance, both of which have been affected by inflation.

Current estimates project gross municipal supply to range from $525B to $600B, a significant increase compared to the average annual issuance of $387B since 2000 (Figure 1).[2] Tax-exempt issuance is anticipated to total between $485B and $545B, while taxable municipal supply is estimated to range from $40B to $55B. This level of issuance is expected to deliver another year of net positive supply, extending the trend that began in 2024 – a sharp contrast to the 2011–2023 period.

Although this environment poses a relative headwind compared to prior years that benefited from more supportive net negative supply, several factors still favor allocations to tax exempt bonds for tax sensitive investors. First, starting yields have historically shown a strong correlation with long-term, forward-looking returns.[1] Second, while fundamentals remain strong, relative value currently favors tax-exempts over comparable taxable fixed income, with many issuers well-positioned to withstand a range of macroeconomic scenarios. Finally, significant capital remains in municipal money market funds and taxable cash, which could shift into longer-dated vehicles as the Fed continues to cut rates.

Figure 1: Historical Supply and 2026 Estimates



As of 30 November 2025; Source: Bond Buyer, J.P Morgan Research, Barclays
*Year-to-date through 30 November 2025
*** Estimate

Market snapshot – September 2025

Munis posted positive performance in November but underperformed taxable fixed income, as tax-exempt yield movements were mixed. Yields declined slightly for maturities up to two years, while yields in the belly of the yield curve (five to 11 years) increased by 1 to 4 basis points. Yields beyond 12 years remained relatively unchanged over the month.[3] The Bloomberg Municipal Bond Index returned 0.23%, underperforming both the Bloomberg U.S. Aggregate Bond Index, and the Bloomberg U.S. Treasury Index, which each returned 0.62%. High yield municipals outperformed investment grade; however, high quality has continued to outperform year-to-date, with the Bloomberg High Yield Municipal Bond Index up 0.39% over the month.[1]

November saw a slowdown in issuance compared to October's record month, due in part to the holiday at the end of the month. However, like other months this year, November's total gross supply of $45B including $40.7B in tax-exempt bonds marked the highest level of tax-exempt issuance for the month in history. Year-to-date, primary market volume has surpassed the $500B threshold, with gross supply reaching $528B, up 30% relative to the 5-year average. Tax-exempt supply, at $483B, is also notably elevated, representing a sizable 67% increase over the trailing 5-year average. In contrast, taxable supply remains a laggard compared to recent years, totaling $46B. [4] Investor sentiment stayed positive, with $5.5B in net inflows to municipal mutual funds and ETFs during the month – though this marks a moderate slowdown from the prior month. Year to date, municipal funds have attracted $54.5B, with a clear preference for ETFs, particularly active ETFs.[5]

Despite multiple policy shocks, the U.S. economy has demonstrated unexpected resilience in 2025, but the environment has created winners and losers. While growth has moderated compared to previous years, it remains solid, largely driven by investment in technology and AI. Core inflation continues to exceed the central bank's 2% target. The labor market has shown signs of weakness, with companies managing labor costs to protect profit margins. At its December meeting, the Fed cut rates for the third consecutive time after restarting in September. Guidance from the committee is for one cut in 2026, however, modifications to the statement suggested uncertainty about when the next cut may be.

	Muni yields (AAA MMD)			U.S. Treasury yields			Muni/Treasury ratio	Muni taxable equivalent*	
	Yield	MTD change	YTD change	Yield	MTD change	YTD change		Yield	Spread
2 year	2.44%	-0.02%	-0.38%	3.49%	-0.12%	-0.76%	69.91%	4.12%	+0.63%
5 year	2.41%	+0.03%	-0.46%	3.60%	-0.11%	-0.80%	66.94%	4.07%	+0.47%
10 year	2.75%	+0.02%	-0.31%	4.02%	-0.08%	-0.56%	68.41%	4.65%	+0.63%
30 year	4.16%	+0.01%	+0.26%	4.67%	0.00%	-0.12%	89.08%	7.03%	+2.36%

Source: TM3 MMD Interactive Data as of 30 November 2025. **For illustrative purposes only.**
*Taxable-equivalent yield calculation assumes a 37% federal income tax and a 3.8% Medicare investment tax.

Looking ahead: Staying Nimble

While the final weeks of the year are usually quiet for the municipal market, broader movements in taxable fixed income could introduce volatility to the space. Active allocators may find value in adding to the asset class at current yield levels, while also taking advantage of opportunities during periods of weakness. The yield to worst for the Bloomberg Municipal Bond Index ended the month at 3.58% (6.05% on a taxable-equivalent basis), placing it in the 82nd percentile over the past 10 years and making this one of the most attractive entry points of the past decade.[1]

As always, we remain committed to helping clients navigate this evolving landscape. To learn more about our tax-advantaged municipal strategies, please visit Tax-Efficient Investing.

Sources

[1] Bloomberg as of 30 November 2025
[2] Bond Buyer as of 30 November 2025
[3] TM3 MMD Interactive Data as of 30 November 2025
[4] J.P Morgan Research as of 30 November 2025
[5] ICI, "Combined Estimated Long-Term Flows and ETF Net Issuance," as of 25 November 2025

Disclosure

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Disclosure

Bloomberg Municipal Bond Index consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market. The index is made up of all investment grade municipal bonds issued after 12/31/90 having a remaining maturity of at least one year. The **Bloomberg High Yield Municipal Bond Index** measures the non-investment grade and non-rated U.S. tax-exempt bond market. It is an unmanaged index made up of dollar-denominated, fixed-rate municipal securities that are rated Ba1/BB+/BB+ or below or non-rated and that meet specified maturity, liquidity, and quality requirements. **Bloomberg US Aggregate Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. **The Bloomberg US Treasury Index** is a measure of the public obligations of the U.S. Treasury.

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