

Risks to Consensus 2026 Market Outlooks

Given the large number of outlooks provided by various market participants, we thought it may be more helpful to identify those consensus views and outline risks to those views as opposed to re-stating views that may already be widely held. We also highlight characteristics of New York City, which is one of larger issuers in the market that has attracted attention lately following its mayoral election.

Consensus Point #1: Heavy Supply Will Be Absorbed by Strong Demand

Market strategists agree that 2026 will see another year of record or near-record municipal bond issuance, with gross supply estimates ranging from \$520bn to \$640bn¹. Despite this heavy calendar, they expect robust demand to absorb new issuance, citing strong principal redemptions, coupon payments, and continued inflows from retail investors and ETFs. The technical backdrop may be challenging in spring and fall, but the market's structural demand, particularly from tax-sensitive buyers and the growing ETF/SMA channel, is expected to provide a solid floor for valuations.

¹ Charles Schwab, Municipal Bond Outlook, November 2025 *Please note CoPilot was used for summary purposes.

What could go wrong?

- **Demand Could Falter:** Mutual fund and ETF inflows have been strong in 2025, but they are sensitive to rate volatility and equity market performance. If equities rally or short-term yields stay attractive, investors could shift away from municipal bonds, leaving supply poorly absorbed.
- **Tax Policy Risk:** Even though the budget reconciliation bill passed in 2025 left tax exemption untouched, any federal tax reform reducing the value of tax exemption could dampen demand for tax-exempt munis.

Consensus Point #2: Favor Long Duration

Market consensus recommends overweighting the long end of the curve and for good reason given the steep municipal yield curve. Expectations are for moderate, positive returns (3–5%), with the best performance in longer maturities. The consensus expects a flattening curve early in the year, with steepening later.

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What could go wrong?

- **Curve Steepening Surprise:** If inflation reaccelerates and/or the Fed aggressively cuts rates, long-end yields could rise sharply, hurting long-duration positions.
- **Demand/Supply Mismatch:** Bonds are mostly issued for infrastructure and therefore have long-er maturities to match the useful life of facilities/projects being financed. If another year of large supply is insufficiently matched with demand from mutual funds/ETFs and other retail buyers seeking long duration, the yield curve could steepen as long yields move higher.

Consensus Point #3: Credit Fundamentals Are Stable; High grade still favored

Strategists see municipal credit fundamentals as broadly stable, with upgrades expected to outpace downgrades, though at a slower pace than recent years. High-grade paper viewed as a safe haven amid macro uncertainty, favoring essential services (utilities, transportation), housing, and sectors with structural tailwinds. Selectivity is urged in sectors facing demographic or policy headwinds (higher ed, healthcare, local governments), and investors are encouraged to watch for policy or demographic shifts that could affect spreads.

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What could go wrong?

- **Credit Deterioration:** Slowing economic growth, demographic pressures, and rising healthcare costs could lead to more downgrades than expected, particularly in local governments and healthcare sectors.
- **Credit Spread Compression:** Credit spreads widened in 2025 with spreads for the Bloomberg High Yield Municipal Bond Index now near the three-year average. Limited new issuance in lower quality sectors and/or strong inflows into high yield strategies could lead to credit spread tightening.

Bottom Line:

While the consensus outlook calls for another year of record supply that is able to be met with strong demand, a preference for longer duration given the steep yield curve, and a general preference for higher quality as we likely have passed the peak in the current credit cycle, investors should remain alert to shifting technicals, policy surprises, and contrarian credit opportunities in the municipal bond market as 2026 unfolds.

*Bank of America, Barclays, and JP Morgan

Special Credit Profile – New York City

New York City maintains high-grade credit ratings—Moody’s Aa2 (Stable), S&P AA (Stable), and Fitch AA (Stable)—reflecting its large, diversified economy and strong fiscal management despite above-average debt levels.

Debt and Revenue Scale

As of June 30, 2025, the city reported \$45.94 billion in outstanding debt and \$117.2 billion in General Fund revenues. Approximately 74% of revenues are locally generated through property, sales, and income taxes, while 26% come from state and federal sources.

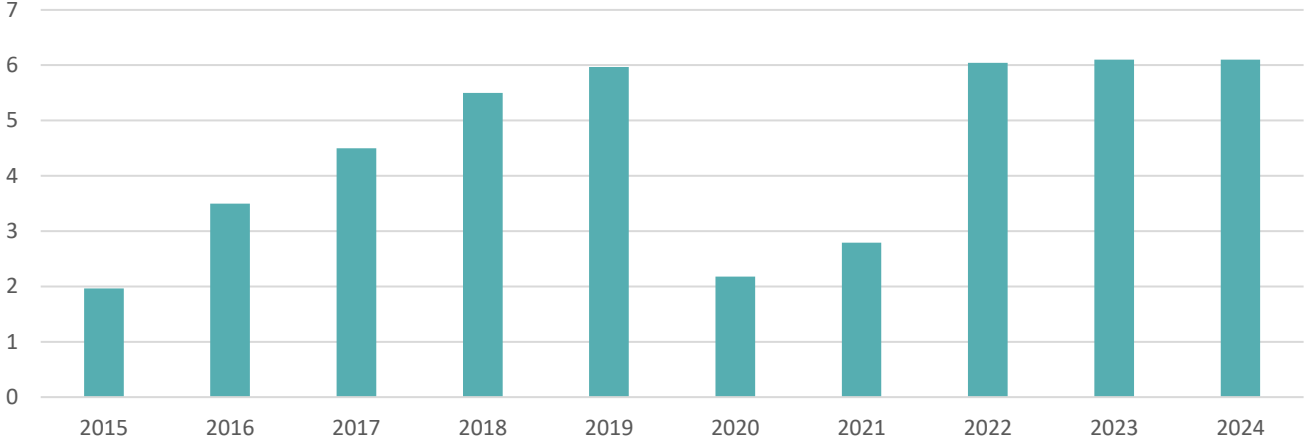
Economic Powerhouse

The NYC metropolitan area produced \$2.3 trillion in GDP in 2023, making it the largest U.S. metro economy. If ranked as a state, it would be third nationally—behind California and Texas.

Political Change Likely to Have Limited Fiscal Impact

Zohran Mamdani was elected as the city’s 111th mayor, becoming the first Muslim and South Asian to hold the office. His progressive proposals, such as free bus service, city-owned grocery stores, and new taxes, face significant legal and structural hurdles, as taxation and transit authority rest with the State and NYC must adhere to constitutional debt limits.

NYC Reserves (Billions USD)



*Amounts include Budgeted Reserves, Retiree Health Benefits Trust, and Rainy-Day Fund.
Source: Citizens Budget Commission

Glossary

Bloomberg High Yield Municipal Bond Index flagship measure of the US municipal tax-exempt non-investment grade bond market.

Bloomberg Municipal Bond Index tracks the performance of investment-grade, fixed-rate municipal bonds with maturities greater than two years.

Bloomberg US Aggregate Total Return Index measures the performance of the U.S. dollar-denominated, investment-grade, taxable fixed-rate bond market.

Credit risk, also known as default risk, is the likelihood that a borrower won't repay a loan or meet their debt obligation.

Credit quality is a measure of a bond issuer's ability to repay interest and principal in a timely manner. Rating agencies assign letter designations such as AAA, AA and so forth. The lower the rating, the higher the probability of default. Credit quality does not remove market risk and is subject to change.

Duration is the measure of price sensitivity to changes in interest rates. In general, the higher the duration, the more a bond's price will drop as interest rates rise. This also indicates a higher level of interest rate risk.

An exchange-traded fund (ETF) is a security that tracks an index or asset like an index fund, but trades like a stock on an exchange.

Federal Funds rate is the interest rate banks charge each other for overnight loans.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

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Municipal Bonds: Interest on municipal bonds is generally exempt from federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax exemption applies if securities are issued within one's state of residence and, if applicable, local tax exemption applies if securities are issued within one's city of residence. The tax-exempt status of municipal securities may be changed by legislative process, which could affect their value and marketability.

Municipal to Treasury Ratio compares the yield of municipal bonds to the yield of U.S. Treasury bonds. This ratio helps investors assess the relative value of municipal bonds, especially considering their tax-free nature. The ratio is calculated by dividing the yield of a municipal bond by the yield of a Treasury bond with the same maturity.

Separately Managed Account (SMA) type of investment portfolio owned by an individual investor but managed by a professional investment manager.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Yields and distribute rates are historical and subject to change.

A **yield curve** shows the annualized yields of fixed-income securities across different contract periods as a curve. When it is inverted, bonds with longer maturities have lower yields than those with shorter maturities.

Yield to worst (YTW) refers to the lowest possible yield an investor can expect to receive on a bond, assuming the issuer does not default.

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