

# 2025 Municipal Bond Market Review

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## Trends, Wins and Turning Points

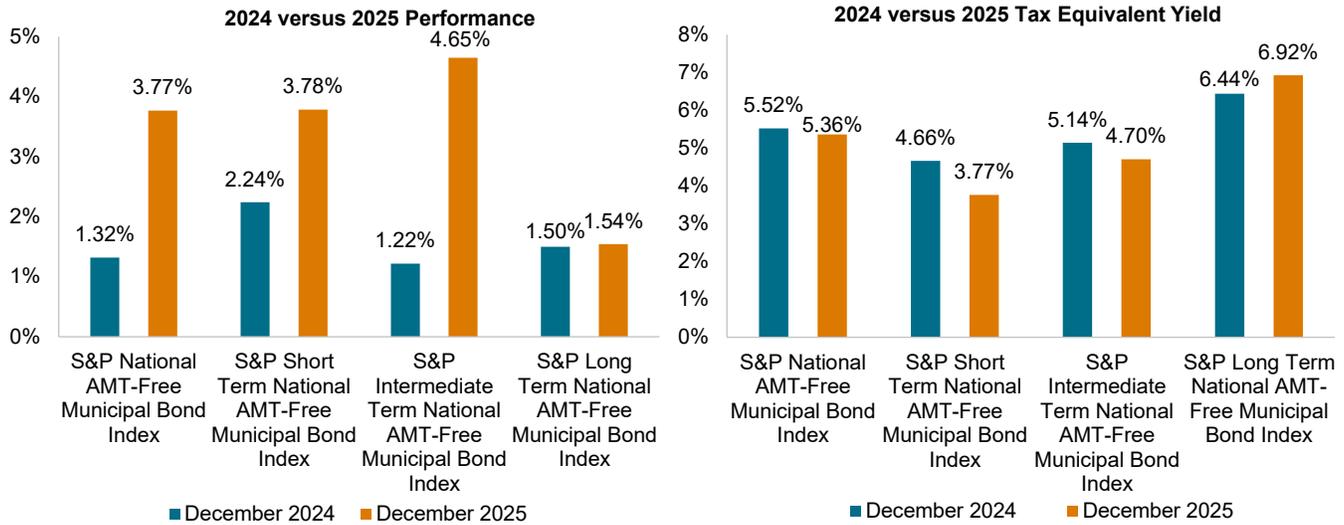
The municipal bond market demonstrated robust performance in 2025, with record issuance of USD 580.4 billion,<sup>1</sup> a 13% increase from 2024. The market experienced heightened volatility due to geopolitical tensions, tariffs, the Fed rate cut cycle and the passage of the U.S. tax and spending bill, also known as the One Big Beautiful Bill Act.

The bill had both positive and negative impacts on the municipal bond market. It preserved and expanded the federal tax exemption to additional sectors, notably private activity bonds (PABs) for new issuance in infrastructure and energy-related projects. The act blunted higher education bonds by creating additional tiered taxation on university endowments over USD 750,000 per student.<sup>2</sup> Practically, this limits a university's ability to offer need-based scholarships and pushes students to apply for private loans. In terms of healthcare sector impact, the 2025 budget bill reduced Medicaid spending by USD 1 trillion over the next 10 years,<sup>3</sup> with implications of increasing unpaid care for hospitals and health institutions.

The U.S. Federal Reserve continued the loosening of monetary policy in 2025, with a series of three rate cuts of 25 bps each, bringing the official federal funds rate to 3.50%-3.75% at the end of December. This set the stage for further rate reductions in 2026 and brought renewed interest to the USD 4.4 trillion municipal bond market.

Higher yields and credit quality along with strong issuer fundamentals set the stage for a strong 2025 finish. The S&P National AMT-Free Municipal Bond Index was up 3.77% for the year, with a tax equivalent yield (TEY) of 5.36%. In 2025, all indices within the National, Short, Intermediate and Long curve beat their 2024 performance.

### Exhibit 1: 2025 Performance and TEY

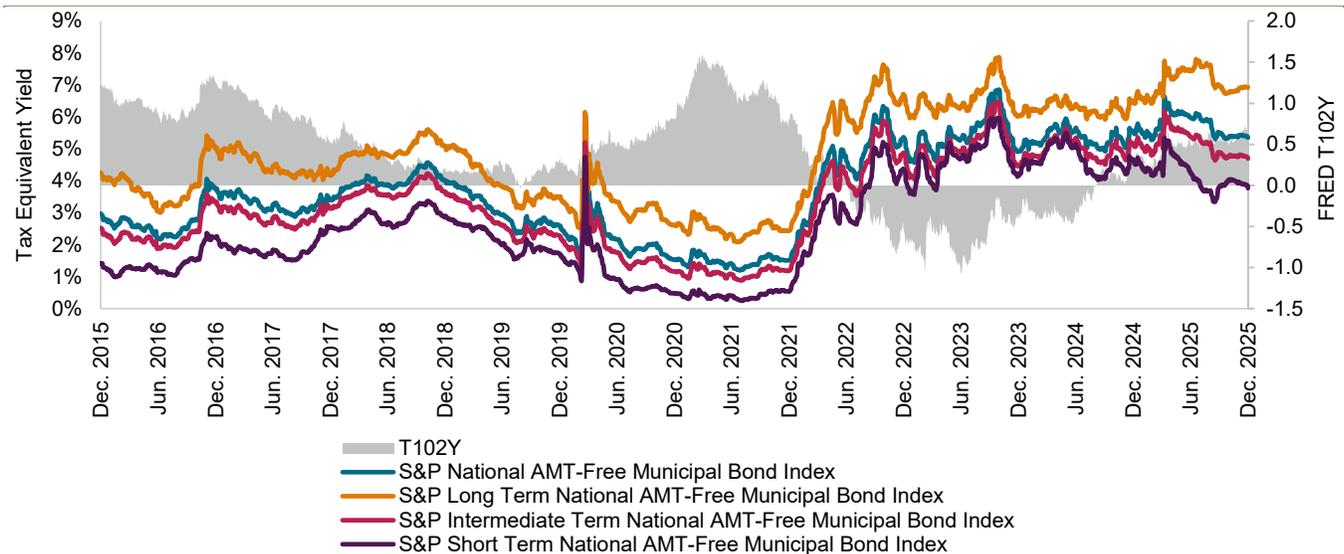


Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2025. Index performance based on total return in USD. Past performance is no guarantee of future results. Charts are provided for illustrative purposes.

Evaluating the S&P AMT-Free Municipal Bond Indices' TEYs with the FRED 10-Year Treasury Constant Maturity Minus 2 Year Treasury Constant Maturity (T102Y) spread, a noteworthy pattern emerges.

### Exhibit 2: TEY versus FRED T102Y

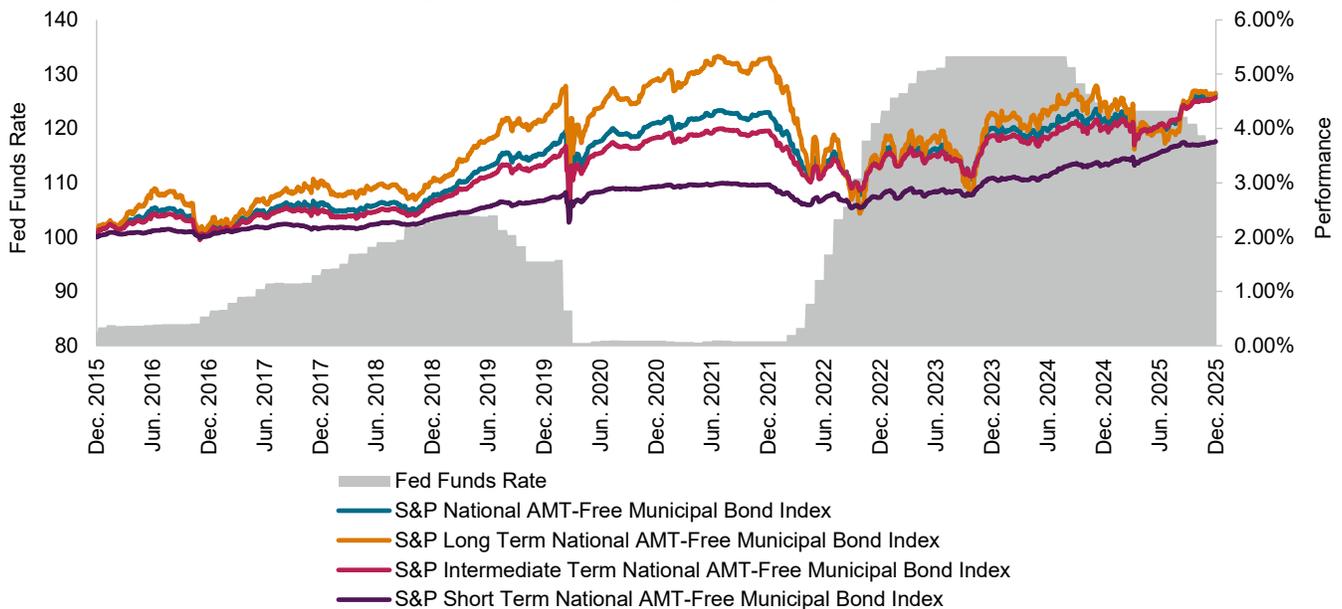
Index Name	10-Year TEY Average (%)
S&P National AMT-Free Municipal Bond Index	3.76
S&P Short Term National AMT-Free Municipal Bond Index	2.64
S&P Intermediate Term National AMT-Free Municipal Bond Index	3.36
S&P Long Term National AMT-Free Municipal Bond Index	4.86



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2025. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes.

The T102Y spread is one of the classic recession indicators. When the Federal Reserve initiated rate hikes in March 2022, the yield curve inverted until September 2024, the longest in the history of the indicator. Historically, a recession follows 6-24 months after the inversion is over. After September 2024, the curve steepened and short-term rates declined, prompting the Federal Reserve to begin a rate-cutting cycle. A notable observation is that TEYs for all S&P AMT-Free Indices had a drastic jump starting in March 2022 and have since stayed above their historical averages. In 2025, the curve steepened, and the S&P Long Term National AMT-Free Municipal Bond Index ended the year with a 6.92% TEY, an increase of 48 bps when compared to 2024. The S&P National AMT-Free Municipal Bond Index was the second best in terms of TEY, ending 2025 lower at 5.36%, a 16 bps decrease. Pattern-wise, the yields started a mild descending trend in 2025; however, they were still significantly above their 10-year averages.

**Exhibit 3: Fed Funds Rate versus Index Performance**



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2025. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Comparing the S&P AMT-Free Indices performance versus the Fed Funds Rate over a 10-year period, we notice the expected COVID-19 dip, but starting in March 2020, performance followed an ascending trend. A second decline is noticed when the Federal Reserve started increasing rates in March 2022. The S&P Long Term National AMT-Free Municipal Bond Index was above its peers and the benchmark in terms of index performance across all cycles of the Federal Reserve policy. This tells us that while high rates depressed bond prices due to the inverse price-yield relationship, the carry of long-term municipal bonds has been high through various market cycles. High coupons (see Exhibit 4), tax equivalent yields and the rolldown effect are key characteristics that emphasize the value of long-dated municipal bonds.

**Exhibit 4: S&P AMT-Free Municipal Bond Indices Coupons**

Year	Coupon (%)			
	S&P National AMT-Free Municipal Bond Index	S&P Long Term National AMT-Free Municipal Bond Index	S&P Intermediate Term National AMT-Free Municipal Bond Index	S&P Short Term National AMT-Free Municipal Bond Index
2015	4.61	4.37	4.72	4.85
2016	4.60	4.35	4.70	4.84
2017	4.61	4.40	4.67	4.89
2018	4.58	4.38	4.65	4.85
2019	4.53	4.36	4.59	4.75
2020	4.50	4.33	4.56	4.73
2021	4.43	4.16	4.52	4.68
2022	4.41	4.13	4.50	4.68
2023	4.45	4.26	4.51	4.67
2024	4.51	4.39	4.57	4.71
2025	4.56	4.53	4.59	4.73
10-Year Coupon Average	4.53	4.33	4.60	4.76

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2025. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

To assess the valuation of bond prices, we analyzed the Muni-to-Treasury Ratio, a metric that compares the yield of municipal bonds to U.S. Treasury bonds with similar maturities. This ratio, as illustrated in Exhibit 5, offers insights into the relative value of municipal bonds. A ratio exceeding 100% shows that municipal bonds are yielding more and are underpriced compared to U.S. Treasuries.

**Exhibit 5: Muni-to-Treasury Yield Ratio**

Index	Weighted Average Index Maturity	TEY (%)	Equivalent U.S. Treasury Bond Yield (%)	Estimated Equivalent U.S. Treasury Bond Maturity	Muni-to-Treasury Ratio (%)
S&P Short Term National AMT-Free Municipal Bond Index	2.39	3.77	3.47	2-Year U.S. Treasury	108.52
S&P Intermediate Term National AMT-Free Municipal Bond Index	9.18	4.70	4.18	10-Year U.S. Treasury	112.47
S&P Long Term National AMT-Free Municipal Bond Index	26.33	6.92	4.84	30-Year U.S. Treasury	143.02

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2025. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

In conclusion, 2025 proved to be a strong year for the S&P AMT-Free Municipal Bond Series. The indices not only outperformed expectations but also maintained TEYs above their 10-year averages amid record-high issuance. This trend underscores the market's current preference for stable assets, especially when fiscal and monetary policies exert significant influence on the economy. The S&P AMT-Free Municipal Bond Indices showcased resilience in 2025, highlighting the market's demand for stability during times of heightened volatility.

**References:**

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3. [Tracking the 2025 One Big Beautiful Bill Act](#)

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