

Taxable munis hold their ground in uncertain times

Six months into 2026, taxable municipal bonds have done what they were built to do. Despite macro volatility and rising Treasury yields, taxable munis posted a 1.17% year-to-date total return, outpacing investment-grade corporates. Yields remain near historical highs, technicals are supportive and we think the second half of 2026 offers a compelling opportunity to act.

Key takeaways

- Taxable munis outperformed investment-grade corporates year-to-date, offering comparable yields with lower volatility and higher average credit quality.
- The taxable yield curve favors intermediate bonds, as extending maturity from 20 to 30 years currently generates no additional yield.
- Federal policy is creating winners and losers across muni sectors. Disciplined credit research can uncover compelling opportunities where spread widening has outpaced fundamentals.
- The five themes we identified at the start of 2026 remain intact: Cash rotation, new issue concessions, a flat long-end yield curve, federal policy divergence and historic reserve levels continue to shape the market.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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Munis deliver a resilient first half

Taxable municipal bonds posted a 0.74% total return in the second quarter, bringing year-to-date returns to 1.17% — noteworthy considering 10-year Treasury yields rose 30 basis points (bps) during that time.

The year-to-date income return of 2.44% more than offset a price return of -1.27%, a reminder that in rising rate environments, income has been the performance anchor.

Taxable munis entered 2026 having outperformed investment-grade corporates throughout 2025 and extended that lead by 31 bps year-to-date. Rising yields and geopolitical headwinds have tempered the pace, yet performance continues to exceed that of most fixed income asset classes.

Improving geopolitical sentiment may help taxable municipals resume the stronger trajectory seen last year.

Tepid supply supports a favorable technical backdrop

Municipal new issue volume accelerated in the second quarter, rising 18% from Q1. Total supply stands just under \$300 billion year-to-date against our full-year expectation of \$600 billion. Taxable issuance rose \$4.2 billion in Q2 but remains modest, totaling \$20.5 billion year-to-date — up just 2% from the prior year.

General purpose, single family housing and higher education led taxable issuance in the first half. Higher

education, while still a top sector, fell 59% from the first half of 2025 when institutions rushed to market amid federal policy uncertainty.

We expect full-year taxable issuance to finish near last year’s \$32.3 billion. With \$58 billion in principal and coupon payments coming due this year, net negative supply should persist — a meaningful technical tailwind (Figure 1).

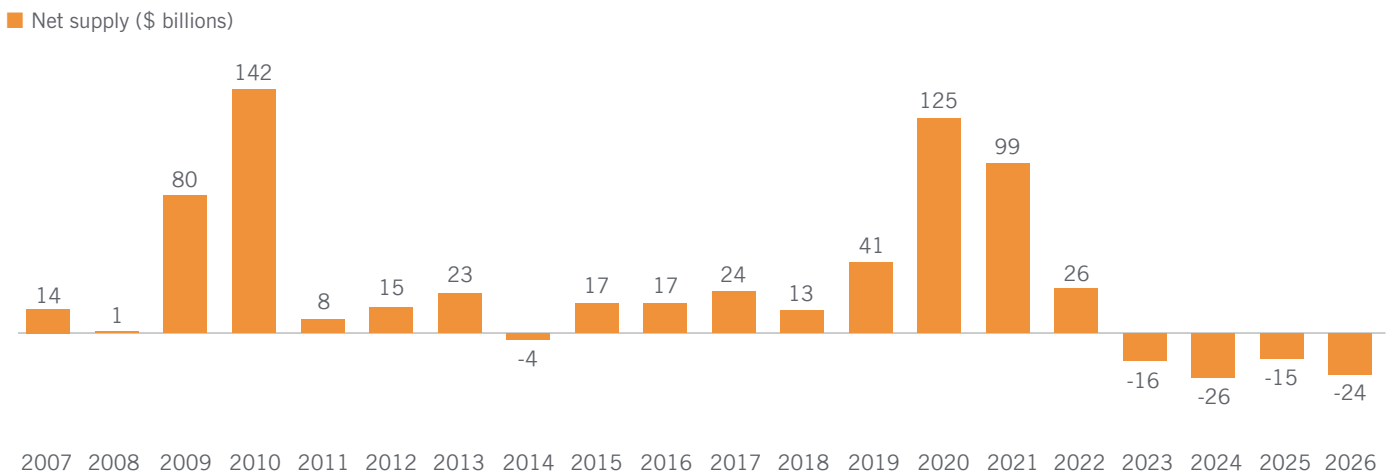
Demand momentum shows no signs of slowing

Spread compression has extended into lower-quality segments. Bonds rated A have tightened 9 bps year-to-date; BBB rated bonds have tightened 14 bps. With AAA and AA paper already near historical tightness, investors seeking yield have naturally moved down in quality — sustaining broad-based demand.

Taxable municipals finished Q2 yielding 5.08%, in the top quintile of their 10-year range. That compares favorably to corporates at 5.19%, particularly given that taxable municipals carry lower volatility and higher average credit quality.

At the sector level, health care and power stand out. Health care offers a 5.43% yield with a spread of 84 bps; power offers 5.24% and 61 bps — both well above the index average of 5.08% and 52 bps. Compelling absolute yields, favorable relative value and targeted sector opportunities reinforce the case for continued strong demand.

Figure 1: Redemptions continue to outpace new issuance



Data source: JPMorgan, 12 June 2026. Long-term bonds only (tenor >= 13 months), excludes sale method of short competitive and short negotiated. Excludes remarketing. 2026 figure reflects JPM forecast.

Portfolio implication: Near term volatility may present an attractive entry point. For invested clients, we think staying the course — or adding on weakness — remains prudent.

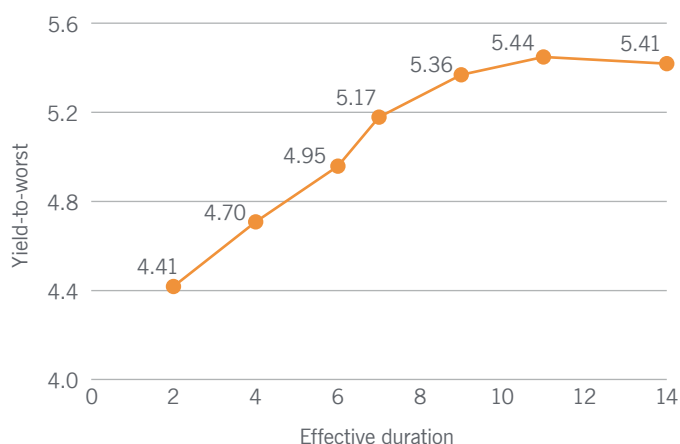
The yield curve still rewards intermediate duration

The U.S. Treasury curve bear flattened in the second quarter as short-end yields rose and long-end yields declined marginally, driven by markets pricing in near-term U.S. Federal Reserve rate hike risk amid resilient labor data and elevated inflation.

The taxable municipal yield curve is steepest from two through eleven years and inverts beyond that point — a function of limited long-end supply and persistent insurance company demand for long-duration paper (Figure 2). Starting yields are compelling, and we find the 6-11 year duration range most attractive, benefiting from the steep curve and yields near or above 5%. Extending duration beyond eleven years adds risk without adding yield.

Portfolio implication: The most attractive duration range on the taxable municipal curve is 6 to 11 years.

Figure 2: The taxable municipal yield curve is nearly flat beyond 11 years



Data source: Bloomberg, L.P., 30 Jun 2026. Performance data shown represents past performance and does not predict or guarantee future results. Representative index: Bloomberg Municipal Index Taxable Bonds Total Return Index Value (Unhedged). Option-adjusted spread measures the spread between a fixed-income security and the risk-free rate, adjusted to account for the value of those options. Effective duration measures a bond's price sensitivity to interest rate changes, specifically accounting for embedded options.

Credit divergence is creating selective sector opportunities

Federal policy shifts are pressuring the municipal market unevenly, drawing sharper distinctions between credits equipped to navigate the current environment and those facing genuine headwinds. In this landscape, disciplined security selection backed by robust credit research is critical.

We find compelling opportunities in water-sewer and public power. Elevated new issue supply in these sectors has produced attractive concessions despite largely stable and strong underlying credit quality.

Water-sewer systems — natural essential service monopolies — show healthy metrics, with average days cash on hand of 543 days as of fiscal year 2025 and average debt service coverage of 2.3x. Supply is up 90% year-over-year, meaning these steady, high-quality credits are coming to market at attractive yields. Capital needs tied to deferred maintenance and forever chemical (PFAS) remediation should keep issuance levels elevated. Water-sewer systems currently yield 5.09% with a spread of 54 bps, slightly exceeding the index average.

Public power utilities face mounting pressure to expand capacity as electricity demand from data centers grows rapidly. We do not expect that demand to abate, and issuance should remain elevated as states debate how to allocate the cost of new build-out between ratepayers and the hyperscalers driving it. The sector currently offers an attractive 5.24% yield and 61 bps spread, relatively high compared to the index.

State and local governments remain the bedrock of the asset class. Median rainy day fund balances are on track to reach 14% of expenditures by fiscal year end 2026 — nearly double the pre-pandemic average of 8%. State and local tax collections grew 5.7% year-over-year in the first quarter of 2026, with both income and sales taxes rising.

Budget season is underway, and revenue forecasts reflect broad-based conservatism. Revenues and expenditures are projected to grow roughly 2% in fiscal year 2027, reflecting expectations of slower economic growth and continued federal policy uncertainty. Revenue-raising capacity and expenditure flexibility support credit resilience across tax-backed sectors, even amid headline volatility. We favor general obligations and tax-backed credits as core portfolio holdings.

Headlines are obscuring solid state and local credit

Budget headlines often overstate fundamental credit risk. Investors who look past the noise can avoid selling into weakness and may find opportunities to add to strong credits when spreads widen without cause.

New York extended its budget deadline as expected, a procedural matter with no financial significance. Governor Hochul resisted income tax increases, and the final budget includes modest additional support for New York City. Mayor Mamdani preserved reserve levels and avoided property tax increases — a constructive outcome.

Illinois continues to manage structural fiscal challenges, but an improved reserve position and demonstrated willingness to address long-term liabilities support a stable credit outlook for now.

Several state ballot measures have direct implications for muni demand by raising the after-tax value of federal tax-exempt income for high earners.

California: Governor Newsom rejected a union-backed compromise on the proposed billionaire’s tax, with a November ballot appearance now certain.

Rhode Island: A new surtax on income over \$1 million is already enacted as part of the fiscal year 2027 budget.

Washington: Higher marginal rates on high earners are now law.

Florida: Voters face a proposed residential property tax reduction that could constrain local revenues, with smaller issuers reliant on residential property taxes more exposed than those with diversified tax bases and strong reserves.

Colorado: Proposed income tax changes could carry local revenue implications that warrant close monitoring.

Portfolio implication: Budget driven spread widening may create opportunities in strong credits.

Outlook: We see a window to act

The next few months offer a meaningful opportunity to put excess cash to work. We favor intermediate-duration bonds — particularly 6 to 11 years — and select water/sewer, health care and higher education credits where spread widening has outpaced fundamental deterioration.

Security selection matters more as credit dispersion widens. Fundamentals are sound, demand is strong and taxable municipal yields offer a meaningful income advantage over similarly rated corporate bonds. We believe the rally likely has further room to run.

Sector fundamentals diverge amid shifting federal policy

The muni sector scorecard shows our views on credit fundamentals, momentum and valuations for major municipal sectors.

Figure 3: Muni sector score card

+ Positive = Neutral - Negative			
SECTOR	CREDIT FUNDAMENTALS	CREDIT MOMENTUM	KEY TAKEAWAY
State & local governments	=	=	Steady tax revenue growth and strong reserves provide cushion against possible economic slowdown and federal policy uncertainty.
Education	=	-	Declining demographics, affordability and federal policy changes are pressuring revenue at the same time inflation is increasing expenses. Large universities will be able to navigate, smaller colleges likely to struggle.
Transportation	+	=	Airport cash balances are healthy and passenger demand remains well above pre-pandemic peak levels, providing a cushion against emerging uncertainty driven by higher oil prices that could impact travel. Capital investment needed to expand capacity.
Housing	+	=	Need for affordable housing bolsters demand. Labor supply constraints due to immigration policy shifts may delay projects.
Water & sewer utilities	+	=	Essential service, monopolistic providers with robust liquidity will continue to require significant capital investment.
Health care	=	=	Elevated labor and supply costs are normalizing. Most hospitals will adapt to federal Medicaid policy changes coming in 2027. Smaller, rural hospitals may struggle.

Data source: Nuveen, 31 May 2026. Certain statements may be deemed forward-looking statements. Please note that any such statements are not guarantees or intended to constitute a prediction of any future performance; actual results or developments may differ materially from those projected.

Five themes are shaping our approach in 2026. Each holds as we approach halftime.

	What's happening?	Progress report	Actions to consider
Low money market rates unlock cash rotation	\$7.5T in sidelined cash may move toward higher-yielding assets	Inflows materialized, but money market assets continue at record highs. We expect a return to Fed easing in 2027 and remain confident demand momentum will stay elevated.	Position in high-quality munis; lock in yields, particularly with intermediate duration bonds
Opportunities are still available through new issue concessions	Overall 2026 issuance is projected at a record ~\$600B, while taxable municipal supply should remain limited	Muted supply creates favorable technical tailwind for taxable municipals	Capitalize on potential new issue concessions; apply rigorous credit research to identify value
Flat long-end yield curve rewards intermediate duration positioning	The taxable municipal yield curve flattens significantly beyond eleven years in duration	Investors extending beyond 11 years capture little additional yield, making the risk/return tradeoff unattractive	Concentrate exposure in the 6-11 year duration range to capture the steepest part of the curve without taking on unnecessary duration risk
Federal policy shifts create differentiation opportunities	The One Big Beautiful Bill Act reduces federal support for states, hospitals, universities and utilities	Reduced federal support will pressure hospitals, higher education and public power unevenly. The municipal tax exemption survived intact. Credit selection matters more than ever.	Selectively add top-tier health care and higher education credits; monitor spread volatility
Record reserve levels anchor credit resilience	Most municipal borrowers enter 2026 with reserves at historic highs and recession-tested revenue sources	Record rainy day fund balances and rising tax revenues support our conviction that municipals are well-positioned even in a recessionary scenario	Focus on transportation and water/sewer utilities, which have shown resiliency during market downturns

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For more information, please visit nuveen.com.

Endnotes

Sources

Gross Domestic Product: U.S. Department of Commerce. Treasury Yields and Ratios: Bloomberg (subscription required). Municipal Bond Yields: Municipal Market Data. Open-end fund flows: Investment Company Institute. Municipal Issuance: Siebert Research. Defaults: Municipals Weekly, Bank of America/Merrill Lynch Research. State Revenues: The Nelson A. Rockefeller Institute of Government, State Revenue Report. State Budget Reserves: Pew Charitable Trust. Global Growth: International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD). Standard & Poor's and Investortools: <http://www.invttools.com/>. Flow of Funds, The Federal Reserve Board: <https://www.federalreserve.gov/releases/z1/default.htm>. Payroll Data: Bureau of Labor Statistics. Bond Ratings: Standard & Poor's, Moody's, Fitch. New Money Project Financing: The Bond Buyer. State revenues: U.S. Census Bureau.

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Taxable-equivalent yields are based on the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income. Individual tax rates may vary. Inflation rate used is the PCE Deflator, which is removed from the after tax income of the 3 month T-bill yield, resulting in an after tax and after inflation rate for cash.

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