

April 2025

Sourcing social bonds: the case for U.S. munis



Margot Kleinman
Head of Municipal Bonds Research



Brenda Ojendyk, Ph.D.
Municipal Bonds Research Analyst

Increasingly, institutional investors are looking for innovative investment solutions that allow them to put their money to work in ways that help communities or provide some social benefit — without sacrificing financial returns.

U.S. municipal bonds — a well-established fixed income investment — can help investors achieve goals focused on the social good and risk-

return targets. With many non-U.S. investors reevaluating taxable municipal bonds as an additional source of diversification and income, their potential for social good is worth exploring.

HIGHLIGHTS:

- *The institutional demand for social impact investments*
- *Why many U.S. municipal bonds can be considered social bonds*
- *The social good of different U.S. public finance sectors and issuers*
- *The investment characteristics of U.S. municipal bonds.*

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

SOURCING SOCIAL BONDS

Investor demand to make positive social impact is strong. According to Nuveen's EQuilibrium survey of 800 institutional investors globally, 68% currently consider or plan to consider social impact in the next 12 months when making investment decisions. This figure is highest in EMEA (Europe, Middle East and Africa), at 80%, but the proportion of investors in Asia-Pacific and North America indicating similar intentions is also significant, at 71% and 50% respectively.

Sourcing investments aligned with a social good can be a challenge. The opportunity set is small if an investor only considers securities clearly labeled as social. Labeled social bonds represent 0.5% of the total \$180 trillion global fixed income market, according to Bloomberg, and 3.0% if including green- and sustainability-labeled bonds. It is worth noting that while small, labeled green, social and sustainable bonds are a rapidly growing area of the fixed income market. Currently sized at around \$5 trillion, industry sources expect it grow another trillion by 2026.¹

Among U.S. municipal bonds, 1.9% is specifically labeled as social, and the amount of bonds labeled green, sustainable or social is higher at 7%. Focusing on labeled bonds could limit options for investors targeting social and financial objectives.

MUNIS AS A SOCIAL GOOD

U.S. municipal bonds are inherently social bonds. By definition, municipal bonds fund projects that are vital to the well-being of communities, such as providing healthcare access, affordable housing and education.

The positive benefits to society are obvious in these examples and they directly line up with the industry standard use of proceeds definition of social bonds; that is, bonds that raise funds for projects that address or mitigate a specific social issue and/or seek to achieve positive social outcomes (as defined by the International Capital Markets Association).

Using a use of proceeds definition, there is no shortage of examples in the municipal market. In the past year, the Pflugerville Community

Development Corporation in Texas issued \$18.3 million to construct job training facilities, the Iowa Finance Authority issued \$372 million to provide funding for local governments' clean water programs, and the City of Philadelphia issued \$218 million to fund its Neighborhood Preservation Initiative to eliminate blight, provide rental assistance and help small landlords address building code issues.

Municipal bonds are also considered social bonds because of the nature of the issuers themselves. States and local governments are the most frequent issuers of municipal bonds. These government entities make decisions that directly impact the quality of life within their communities and play a key role in shaping society. States and local governments provide essential services, such as public safety and transportation, promote economic development projects and maintain parks and recreation facilities.

As a part of the largest fixed income market in the world, the U.S. municipal bond market is significant, currently valued at \$4.2 trillion. Municipal bonds finance much of the public services and infrastructure throughout the U.S. through more than 50,000 different governmental entities and not-for-profit organizations.² Many of these issuers provide services that enhance community well-being — such as schools, hospitals, affordable housing and public transportation.

U.S. MUNICIPAL SOCIAL BOND SECTORS

General obligation (tax-backed)

The general obligation (GO) or tax-backed sector is the largest sector of the municipal bond market, often accounting for about 30% of annual issuance. GO bonds are backed by the full faith and credit of the issuing state, local government or municipality. The issuer promises to use its tax revenues to pay the interest and principal on the bonds.

Taxes are needed as a source of repayment because GO bonds typically fund large capital projects that do not directly generate revenue. These may include projects such as street and sidewalk improvements, and building and improving public

schools, libraries, fire stations or courthouses. Not only are the municipalities issuing GO bonds for projects that benefit their communities, but constituents often have a say in whether they approve of the project. In many instances, the issuance of GO bonds must be approved by local voters because the bonds are repaid with local taxpayer dollars.

Education

The education sector is broad and can include primary and secondary schools, colleges and universities. These entities operate without a profit motive and have a common mission to provide a quality education to the populations they serve.

The importance of education for health and well-being, economic development and growth, and civic engagement is well known. But the U.S. university system has other characteristics when considering social contribution. For example, some colleges and universities in the U.S. have need-blind admissions policies, meaning the schools do not consider an applicant’s financial situation when deciding whether to admit them. Many colleges across the U.S. offer dual-enrollment programs to local high school students so they can complete college-level courses while still in high school, lessening their financial burden for college in the future. Community colleges often work with local businesses to develop curriculum and training programs that meet the needs of the local job market. Most colleges and universities in the U.S. partner with their local communities in a variety of ways including student organizations focused on outreach initiatives, volunteer opportunities and offering student internships with local businesses.

Health care

Health care is an essential need within any community. According to the American Hospital Association, approximately 80% of the 6,093 hospitals in the U.S. are not-for-profits. The mission of these hospitals and healthcare systems is to provide quality health care to all patients, regardless of their ability to pay. Providing quality care is achieved, in part, through consistent infrastructure modernization often financed by municipal bonds. Hospital bonds are typically

issued for new construction or to upgrade and invest in more state-of-the-art medical facilities and equipment.

These projects are often necessary to address the U.S.’s aging population and/or population growth in different areas of the country. Many hospitals provide charity care, as federal law requires them to offer some level of financial assistance to patients who cannot afford their medical bills. Most hospitals have outreach programs that offer free healthcare services to underserved communities.

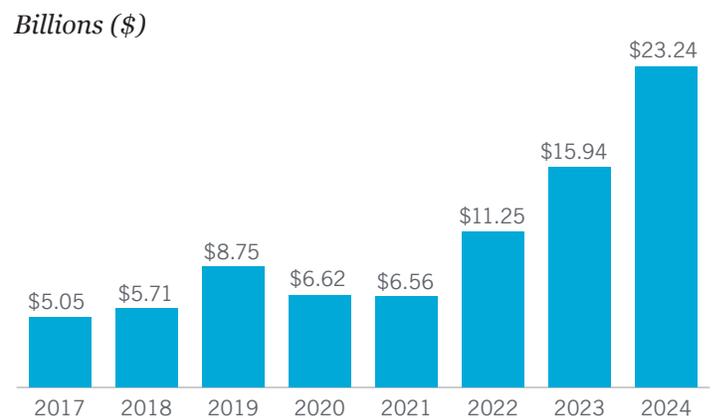
Housing

The municipal housing sector includes mortgage revenue bonds, which finance single-family home purchases and multifamily housing bonds. These bonds are issued by state and county housing finance agencies to fund affordable housing programs.

Providing low-cost financing for low- and moderate-income families has a clear social benefit. In fact, the need for affordable housing is so strong that there has been increased issuance of new money housing bonds in the past few years (see Fig. 1).

Multifamily housing bonds have provided financing for almost 1.4 million apartments affordable to low-income families. These developments must set aside at least 40% of their apartments for families with incomes of 60% of AMI (area median income) or less, or 20% for families with incomes of 50% of AMI or less.

Figure 1: Housing bonds – new issue supply



Source: Bloomberg, 01 Jan 2017 – 31 Dec 2024

Utilities

Utility revenue bonds are used to fund capital projects to provide essential services such as water and electricity to urban and rural communities across the U.S. and make improvements to those systems. The services generate revenue through customer fees, which provide cash flows that can maintain the system and service the debt.

Although utility systems aim to keep costs down and be more efficient, costs to customers in many communities across America have increased substantially because of inflation, repairs to aging infrastructure, growing energy demand and the transition to cleaner energy sources. Many utility systems participate in Customer Assistance Programs, which use a range of tools to help the most vulnerable community members pay for these critical services.

Access to safe and reliable water and electricity is fundamental to the health and well-being of communities. Water/sewer utilities and electric systems are not only addressing legacy problems, such as the replacement of lead service lines and

the reduction in coal-generated power, but they are also modernizing systems to be more reliable and resilient during extreme weather events and to meet ever-increasing demand.

Transportation

This sector includes local train, subway and bus systems that power daily life in most metropolitan areas in the U.S.

Mass transit is an important factor for economic growth and sustainable development. As stated in the annual report for New York’s Metropolitan Transportation Authority, “mass transit is the ultimate engine of equity in an expensive region.” Subways, commuter railroad and bus fleets provide accessibility to jobs, health care and education for people of all socioeconomic backgrounds. Studies have indicated that lack of transit access is a key barrier to employment, leading to income inequality.³ Public transportation can also positively impact the environment by reducing traffic congestion, air pollution and greenhouse gas emissions, which directly benefits the health and well-being of communities.

How municipal bond issuers help foster the social good

	SAN DIEGO COMMUNITY COLLEGE	UTAH HOUSING CORPORATION	PORT OF MORROW	ALLINA HEALTH SYSTEM
	California	Utah	Oregon	Minnesota
WHO ARE THEY?	Community college district that operates three campuses serving over 100,000 students	State of Utah’s housing finance agency	Inland port in Morrow County, Oregon	Nonprofit health system operating in Minnesota and western Wisconsin
WHAT DO THEY DO?	Provides high-quality, affordable education and career training	Provides affordable home loan programs for lower-income households, first time buyers and for affordable apartment projects	Provides freshwater and wastewater systems, storage and warehousing, and port/rail/roadway access for port tenants	Provides a full range of healthcare services
USE OF PROCEEDS	\$850 million issued to protect college affordability, remove lead pain/asbestos and improve veteran/homeless student resources	Several \$200 – \$225 million issuances in the past year to fund home loan program	\$277 million issued to construct large water storage lagoons and three anaerobic digestors to reduce nitrate levels in local groundwater	Issued \$363 million to finance improvements to certain healthcare facilities, including a ten-story surgical and critical care pavilion
SOCIAL FACTOR	More than 70% of students are people of diverse ethnic backgrounds, with approximately two-thirds of students from low-income families	In 2024, UHC provided down payment assistance and raised \$1.27 billion in capital that helped 3,384 low- and moderate-income families buy their first homes	The port’s long-time tenants include large farms and food growers that produce millions of pounds per day of potato, corn, wheat and dairy products	Serves many communities through its 100+ specialty care sites that offer mental health and addiction services, emergency medical services, same-day surgery and rehabilitation
SDG ALIGNMENT*				

*A challenge for institutional investors who want to make social or environmental impact is the ability to measure and report on these objectives. Many municipal bonds and the projects financed align with a range of the United Nations Sustainable Development Goals (SDGs).

INVESTMENT CHARACTERISTICS

Municipal bond issuance was \$526 billion in 2024. We estimate that 74% of last year’s issuance could qualify as social bonds, including sectors such as health care, education, state and local governments, public transportation and affordable housing.

Comparing municipal bonds to their closest asset class — U.S. corporate bonds — they can offer compelling risk and reward characteristics.

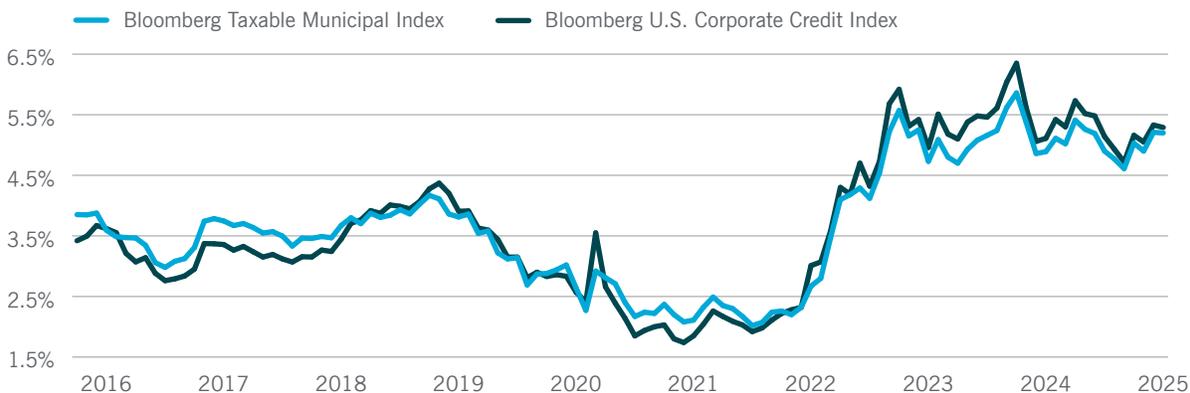
- More than 70% of the Bloomberg U.S. Taxable Municipal Bond Index is rated AA- or better, while the average rating for investment-grade corporate bonds is A-.
- The historical default rate for municipal bonds is exceptionally low. Moody’s Investor Services notes that over a 10-year rolling period from

1970 to 2023, investment grade municipals had a default rate of 0.10% compared to 2.24% for corporate bonds.

- Municipal bonds have inherent protections. GO bonds are among the safest municipal bonds in the market because they are backed by tax revenues of the issuer. In other sectors, such as education, the bonds may also be backed by local municipalities or by state-level agencies. The issuers are generally entities that provide an essential public service, which correlates with the historically low defaults.

Given the stronger credit characteristics of taxable municipal bonds, the valuations of municipals are attractive when compared with corporate bonds (see Fig. 2).

Figure 2: Yields: taxable municipal bond versus U.S. corporate bonds



Source: Bloomberg, Bloomberg Taxable Municipal Index and Bloomberg U.S. Corporate Credit Index, 30 Oct 2015 – 31 Jan 2025.

DOING WELL, WHILE DOING SOCIAL GOOD

Communities across the U.S., from large cities to small rural towns, rely on municipal bonds to finance roads, bridges, public transportation, water and sewer systems, electric utilities, affordable housing, educational facilities and hospitals.

These bonds provide a cost-effective financing tool for states, local governments and other public purpose entities to support public infrastructure across the U.S. They also provide investors with an opportunity to allocate to bonds that benefit the social good without sacrificing risk or return objectives.

Leading the way in municipal bonds

Since 1898, Nuveen has been financing essential municipal bond projects and building lasting value for investors.

- **Experience:** A rich heritage spanning 125+ years remains focused on relative value, principal growth and tax-aware investing.
- **Research:** As one of the industry's largest credit research teams, 25 analysts averaging 18 years experience are dedicated to municipal investing.
- **Presence:** Market power and institutional pricing provide an advantage when evaluating and purchasing municipal bonds.

For more information, please visit [nuveen.com](https://www.nuveen.com).

Endnotes

Sources

1 Sustainable Bond Insights 2025, Environmental Finance

2 Municipal Securities Rulemaking Board (MSRB), Muni Facts, as of Mar 2024

3 "Transportation Access as a Barrier to Work," Econ Focus Fourth Quarter 2023, Federal Reserve Bank of Richmond; and "The Unequal Commute", *Urban Institute*, Oct 6, 2020

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. Performance data shown represents past performance and does not predict or guarantee future results. Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on [nuveen.com](https://www.nuveen.com). Please note, it is not possible to invest directly in an index.

Important information on risk

Investing involves risk; principal loss is possible. All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as "high yield" or "junk" bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. Bond insurance guarantees only the payment of principal and interest on the bond when due, and not the value of the bonds themselves, which will fluctuate with the bond market and the financial success of the issuer and the insurer. No representation is made as to an insurer's ability to meet their commitments. This information should not replace an investor's consultation with a financial professional regarding their tax situation.

Nuveen is not a tax advisor. Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the state of residence. Income from municipal bonds held by a portfolio could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

Nuveen, LLC provides investment solutions through its investment specialists.

This information does not constitute investment research as defined under MiFID.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

nuveen

A TIAA Company