

2026 TAXABLE MUNICIPAL MARKET OUTLOOK

Scarcity creates opportunity

Five themes to watch in 2026



OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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Key takeaways

- **Limited supply should drive strong technicals.** Taxable issuance is expected to remain flat at \$30-\$40 billion while maturing principal and Build America Bond redemptions should create powerful reinvestment flows.
- **Performance momentum continues.** After outperforming Treasuries by 170 basis points in 2025, we believe taxable municipals should continue to offer attractive yields and spread compression potential, particularly in BBB rated bonds.
- **Curve positioning favors 7–11 year duration bonds.** If this continues, the yield curve's current steep short end and flat long end should create optimal value in intermediate bonds, potentially offering strong returns without sacrificing meaningful yield pickup.
- **Credit fundamentals should remain resilient despite policy headwinds.** Selective positioning in proven sectors can offer meaningful risk mitigation.

Technical tailwinds align for taxable municipals

Taxable municipal bonds enter 2026 positioned for compelling performance. Limited supply, strong reinvestment flows and attractive valuations should converge to create exceptional technical conditions. We think resilient credit fundamentals and strategic opportunities in the 7–11 year duration range support a constructive outlook for attractive risk-adjusted returns versus other taxable fixed income, despite evolving federal policies.

Evaluating the municipal landscape

Exceptionally strong technicals, attractive absolute yields and spread compression potential should position taxable municipals for outperformance despite evolving federal policy dynamics.

OPPORTUNITIES	RISKS
Limited supply with excess maturing principal to help absorb issuance	Federal policy uncertainty creates episodic volatility
Attractive absolute yields exceed both corporates and Treasuries	Medicaid restructuring impacts hospitals and state budgets
Optimal curve positioning in 7–11 years captures value before curve flattens	Economic slowdown and reduced federal support increase credit differentiation

1 Limited supply strengthens technical foundation

Total municipal bond supply in 2026 is projected to surpass 2025's estimated \$550 billion. However, taxable municipal issuance tells a different story. After remaining flat at \$24.6 billion year-over-year through September 2025, taxable supply is expected to hold steady at \$30-\$40 billion in 2026 — matching 2024 and 2025 levels. We don't anticipate meaningful increases until rates fall sustainably, making refunding economically attractive. Primary growth sectors include single-family housing, general obligation bonds, hospitals and higher education.

Strong technical factors should support demand. Since January 2024, more than \$23 billion in Build America Bonds (BABs) have exercised extraordinary redemption provisions (ERPs), creating reinvestment flows into a limited new-issue market. Additionally, \$22.8 billion in taxable municipal principal matures in 2026. If new issuance reaches \$30-\$40 billion, maturing principal alone would absorb 55%-75% of supply. BABs redemptions should continue at a slower pace, sustaining reinvestment demand throughout the year.

This convergence of suppressed supply, robust reinvestment flows and strong investor demand should create exceptionally favorable technical conditions for taxable municipals in 2026.

Actions to consider

Participate in new issue opportunities seeking to capture pricing concessions typically unavailable in secondary markets.

Figure 1: BABs redemptions should sustain reinvestment demand for 2026

BABs extraordinary redemption provisions (\$ billions)



Data source: JPMorgan, 31 Oct 2025.

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2 Momentum supports strong performance outlook

Taxable municipal bonds delivered impressive returns in 2025, outperforming U.S. Treasuries by over 170 basis points (bps) year-to-date through October 28. The Bloomberg Taxable Municipal Bond Index returned 8.32% versus 6.58% for Treasuries, while slightly trailing the Bloomberg Investment Grade Corporate Index at 8.38%. With corporate credit spreads approaching 25-year tights, taxable municipals are positioned for relative outperformance.

Despite strong gains, taxable municipals still offer compelling value. They yielded 4.84% as of the end of September — more than both the Bloomberg U.S. Corporate Bond Index (4.80%) and the Bloomberg U.S. Treasury Index (3.94%) — delivering corporate-like returns with typically lower default risk.

Additional spread compression potential remains. Municipal credit spreads widened amid policy uncertainty earlier in the year but have since tightened for higher-quality issues. However, spreads for BBB and lower-rated bonds remain wide, creating opportunities. For instance, while the overall Bloomberg Municipal Taxable Index tightened 6 bps from March through September, BBB rated spreads widened 21 bps during the same period.

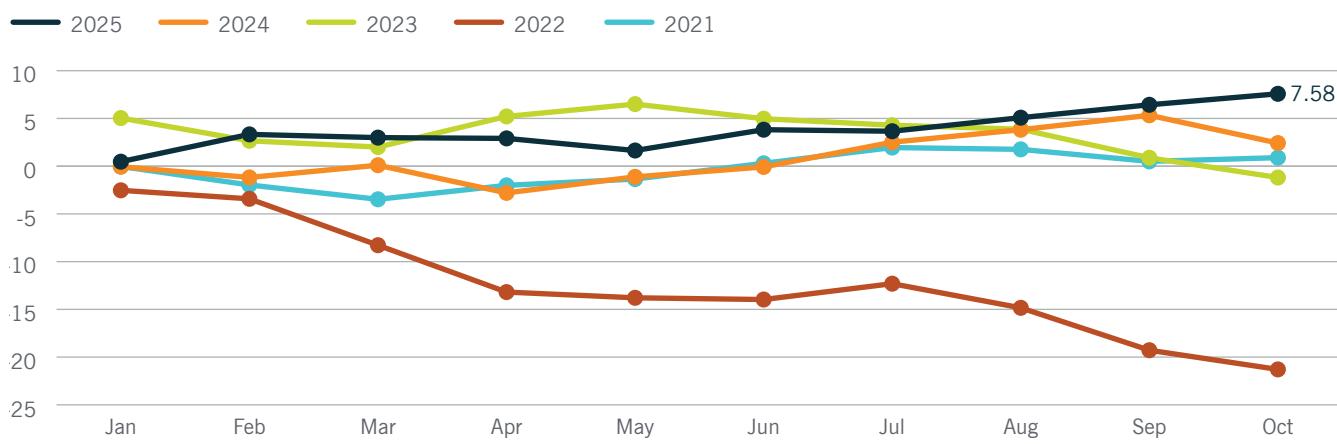
High absolute yields, attractive relative value versus corporates and room for further spread compression should create a favorable setup for 2026. We expect institutional investors to increasingly recognize municipal credit quality and shift allocations from relatively expensive alternatives, driving continued strong performance.

Actions to consider

Lock in yields to help enhance income and total return potential.

Figure 2: Taxable municipal debt performance has rebounded strongly in 2025 YTD

Bloomberg Taxable Municipal Bond Index (%)



Data source: Bloomberg, L.P., 01 Jan 2021 – 31 Oct 2025. Performance data shown represents past performance and does not predict or guarantee future results. Representative index: Bloomberg Taxable Municipal Index.

3 Yield curve positioning offers compelling value

The taxable municipal yield curve presents an attractive opportunity for strategic positioning. The curve steepens along the short end but flattens significantly beyond 11 years duration due to limited issuance and robust demand from absolute yield buyers seeking long duration assets.

We see compelling value in the 7–11 year duration range. Bonds with 14 years duration currently yield just two basis points more than 11-year bonds. We think this is insufficient compensation for the additional rate risk. This intermediate section has historically offered the optimal balance of income and price appreciation potential.

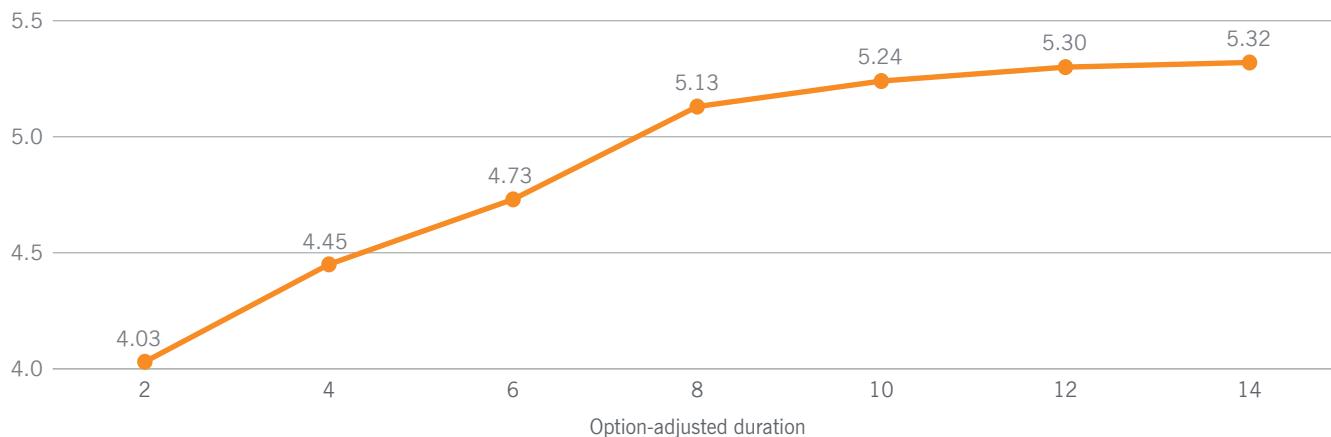
While the U.S. Federal Reserve's easing cycle supports longer duration bonds, the curve's flatness beyond 11 years suggests this outlook is already priced in. We believe the 7–11 year range offers superior risk-adjusted positioning: sufficient duration to benefit from rate declines without paying the premium embedded in the long end. This creates an asymmetric opportunity as intermediate bonds capture rally potential while maintaining better relative value than either the front or long end of the curve.

Actions to consider

Invest in bonds with 7–11 year duration to potentially capture optimal yield per unit of duration.

Figure 3: The taxable municipal yield curve is nearly flat beyond 11 years

Bloomberg Taxable Municipal Bond Index option-adjusted duration yield (%)



Data source: Bloomberg, L.P., 30 Sep 2025. Performance data shown represents past performance and does not predict or guarantee future results. Yield to worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. Option-adjusted duration (OAD) is a measure of a bond's price sensitivity to interest rate changes that accounts for the bond's embedded options, such as a call or put provision.

4 Federal policy shifts create differentiation opportunities

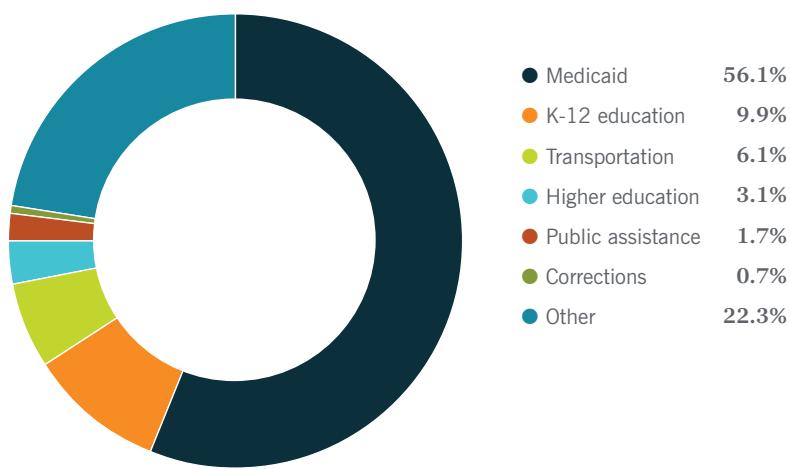
The landscape is changing quickly. For the past five years, municipal borrowers have benefited from unprecedented federal support and a strong economy. During the pandemic, more than \$800 billion in federal transfers offset revenue declines, driving rating upgrades that exceeded downgrades by two to four times and pushing credit quality to all-time highs.

Today, current federal policy reduces support for state and local governments, colleges, universities and hospitals. The One Big Beautiful Bill Act (OBBA) signed in July 2025 will reshape Medicaid eligibility beginning in 2027. The bill, expected to reduce beneficiaries by 11 million, will lower federal matching dollars for states and increase the number of uninsured patients at hospitals.

OBBA also limits federal student loan borrowing and reduces renewable energy subsidies, impacting higher education and electric utilities throughout 2026. Staff reductions at several government agencies could further slow funding deployment.

However, tax policy remains supportive. The municipal bond tax exemption survived OBBBA's passage, and a new muni sector — spaceports — will emerge from the legislation. We anticipate additional policy headlines throughout 2026. While municipal borrowers possess some insulation through monopolistic market positions, coupled with taxing and spending powers, market volatility around federal policy changes is inevitable. Investors who conduct thorough due diligence on these evolving dynamics should be best positioned to capitalize on opportunities.

Figure 4: States spend federal funds primarily on health care and education



Data source: National Association of State Budget Officers State Expenditure Reports (2022–2024).

Actions to consider

Add exposure selectively to top-tier higher education and health care credits with strong reserves.

5 Record reserve levels anchor credit resilience

Economic growth is moderating as federal support declines. Federal Reserve Chair Jerome Powell has warned of labor market softness, while tariff-driven price increases could slow tax revenue growth. These dual pressures will likely challenge municipal revenues in 2026.

However, most municipal borrowers enter 2026 with reserves at historic highs and recession-tested revenue sources. State reserves now stand at 13% of expenditures, up from 8% in 2019. Three factors support credit resilience: monopolistic essential service providers generate stable revenue; municipalities possess flexibility to adjust tax rates and spending; and limited federal subsidy reliance reduces vulnerability.

We do not expect wholesale credit deterioration but anticipate increased downgrades in sectors most exposed to policy changes, creating opportunities for active managers to identify well-positioned issuers.

We favor state and local governments, water/sewer utilities, and electric utilities — sectors proven steadfast during past downturns. High-grade hospitals and higher education remain attractive, though lower-rated entities face pressure. Airports are supported by strong travel demand and consistent supply. The housing sector should benefit from strong demand for affordable housing.

Sectors facing political scrutiny — higher education, hospitals and large cities — will likely experience headline risk. Harvard's spread volatility (38 bps to 87 bps, then back to 41 bps) exemplifies how patience captures value as spreads normalize. In high yield, select charter schools with proven track records and land-secured deals meeting strict credit criteria present opportunity.

Figure 5: Muni sector score card

SECTOR	CREDIT FUNDAMENTALS	CREDIT MOMENTUM	KEY TAKEAWAY
State & local governments	==	==	Steady tax revenue growth and strong reserve periods provide cushion against possible economic slowdown and federal policy uncertainty.
Education	==	-	Pressure due to increased competition for students and affordability coupled with federal policy changes. 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. 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 Oct 2025. 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.

Actions to consider

Focus on high-quality state and local GOs, water/sewer and electric utilities.

LOOKING FORWARD:

Strategic positioning captures compelling risk-adjusted opportunities

Taxable municipal bonds enter 2026 with exceptional technical support: limited supply meeting robust reinvestment demand, attractive absolute yields above corporates and Treasuries, and significant spread compression potential, particularly in BBB-rated credits. Combined with resilient credit fundamentals and optimal value in the 7–11 year duration bonds, these converging factors should position taxable municipals for sustained outperformance.

Disciplined investors who maintain rigorous credit standards while capitalizing on strategic opportunities should capture meaningful risk-adjusted returns throughout the year.



Nuveen is honored to be named the #1 team in the 2025 Smith's All-Star Municipal Analysts Awards.

For more information, please visit nuveen.com.

Endnotes

Treasury yields and ratios and municipal index data: Bloomberg (subscription required). Municipal bond yields: Municipal Market Data. Fund flows: Morningstar. Municipal Issuance: Seibert 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). State revenues: U.S. Census Bureau.

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