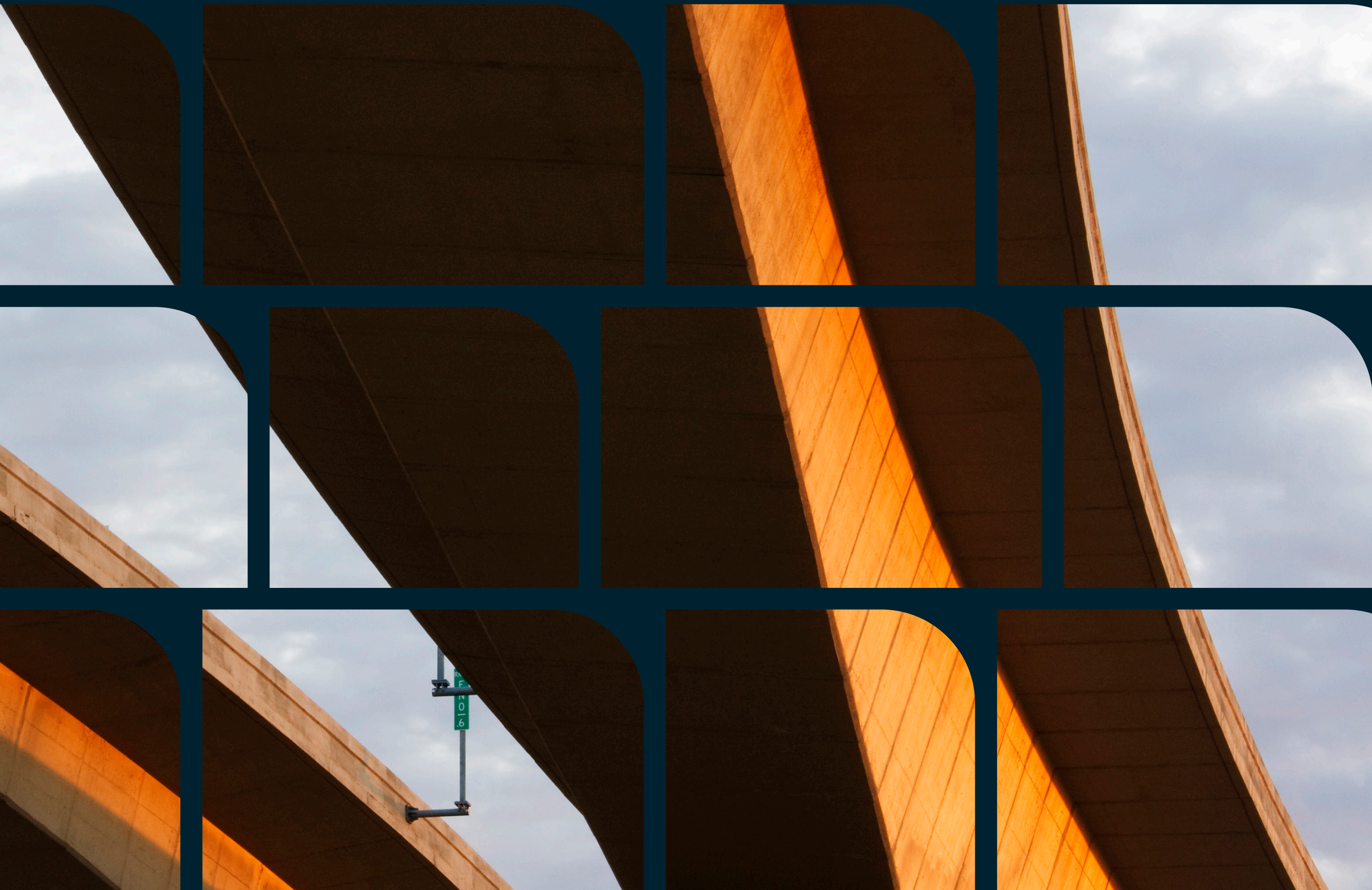
nuveen
A TIAA Company

2026 MUNICIPAL MARKET OUTLOOK

Convergence creates opportunity

Five themes to watch in 2026



OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

Key takeaways

- **Sustained inflows are expected to return to munis.** Fed rate cuts are likely to accelerate cash migration into other safe, higher-yielding asset classes.
- **Supply should remain elevated.** Higher levels of supply support attractive valuations and should provide ample investment opportunities.
- **Income should drive outperformance.** High absolute yields should provide strong income, while relatively wide credit spreads are positioned to tighten, potentially enhancing total returns.
- **Credit fundamentals should remain resilient.** Policy headwinds require selective positioning in proven sectors to mitigate risk.

Multiple dynamics align for municipal outperformance

The municipal bond market stands at an inflection point. Following an extended period of underperformance relative to other fixed income segments, we think municipals are positioned to deliver in 2026.

Multiple tailwinds are converging to create what we believe will be a favorable environment for the asset class. Though headwinds persist, disciplined credit analysis and active management can unlock compelling tax-advantaged, risk-adjusted returns for municipal bond investors.

Evaluating the municipal landscape

OPPORTUNITIES	RISKS
Attractive entry point with yields near 10-year highs	Federal policy uncertainty creates episodic volatility
Strong technical support from cash migration and reinvestment flows	Medicaid restructuring impacts hospitals and state budgets
Steeper curve rewards strategic duration positioning	Economic slowdown and reduced federal support increase credit differentiation

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

1 Fed rate cuts unlock massive cash rotation

The U.S. Federal Reserve's rate-cutting cycle should accelerate the migration of cash into other safe asset classes that offer higher yields. Approximately $7.5 trillion in cash sits on the sidelines waiting to return to fixed income markets. Investors in the 24% tax bracket now face after-tax yields below 3% on 1–3 month T-Bills for the first time since 2022 — a threshold that should spark meaningful portfolio repositioning.

Municipals are positioned to benefit from this "great rotation," in our view. They offer relatively safe, high-quality investments with an average credit rating of AA/Aa2, and current yields are near the most attractive levels of the past decade. We expect spreads to compress amid investor inflows and stable credit conditions, sustaining bond prices.

History supports this thesis: Over the past decade, positive fund flows into municipal bonds have coincided with positive returns 79% of the time.[1] We anticipate this dynamic will repeat in 2026, driving performance.

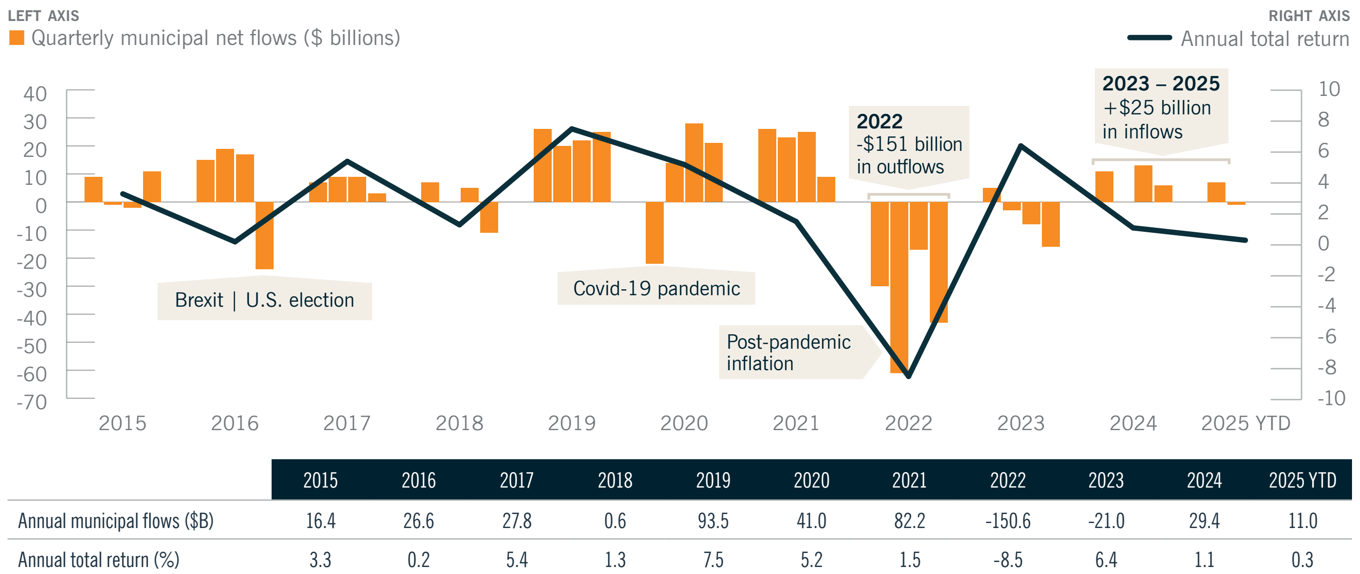
Municipals should be relatively insulated from federal fiscal deficits weighing on the long end of the curve. Most issuers, such as state and local governments, must pass balanced budgets, and taxing entities can address budget gaps through rate or tax adjustments.

Municipal-to-Treasury ratios will vary depending on market conditions. However, we anticipate short ratios will hover in the 65%–70% range to align with federal tax rates, whereas longer bond ratios will be closer to 90%, which provides even more substantial after-tax yield for investors. While these ratios can indicate relative value, municipal call protection can allow investors to capture better relative value while maintaining duration protection.

Actions to consider

- **Position in high-quality munis potentially** benefitting from cash rotation.
- **Lock in yields to help enhance income,** particularly with call-protected longer-duration bonds.

Figure 1: Municipal mutual fund flows have been strongly correlated with performance



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 YTD
Annual municipal flows ($B)	16.4	26.6	27.8	0.6	93.5	41.0	82.2	-150.6	-21.0	29.4	11.0
Annual total return (%)	3.3	0.2	5.4	1.3	7.5	5.2	1.5	-8.5	6.4	1.1	0.3

Data source: Morningstar Direct, 01 Jan 2015 – 31 Aug 2025, fund flows shown quarterly and performance shown annually. **Performance data shown represents past performance and does not predict or guarantee future results.** Representative index: Bloomberg Municipal Bond Index. Municipals represent the total of all municipal bond open-end funds, including high yield, but excluding exchange-traded funds. Shading represents significant market events.

2 Record supply wave meets surging reinvestment demand

Municipal bond supply is expected to remain elevated in 2026, with $600 billion in anticipated issuance compared to approximately $550 billion in 2025, driven by ongoing infrastructure needs and project cost inflation. At the same time, principal redemptions and coupon payments are projected to surge 50%, which should create powerful reinvestment flows from higher prior-year issuance and refinancing opportunities as rates decline.

The $4.3 trillion municipal market continues expanding with ample investment opportunities, though supply composition will vary by sector. We expect greater volumes of high-quality local infrastructure projects will be funded through municipal bonds at attractive yields driven by elevated supply. Given our forecast of declining short taxable rates, investors may rotate from cash and lower-yielding investments into new issue municipal bonds offering higher after-tax yields.

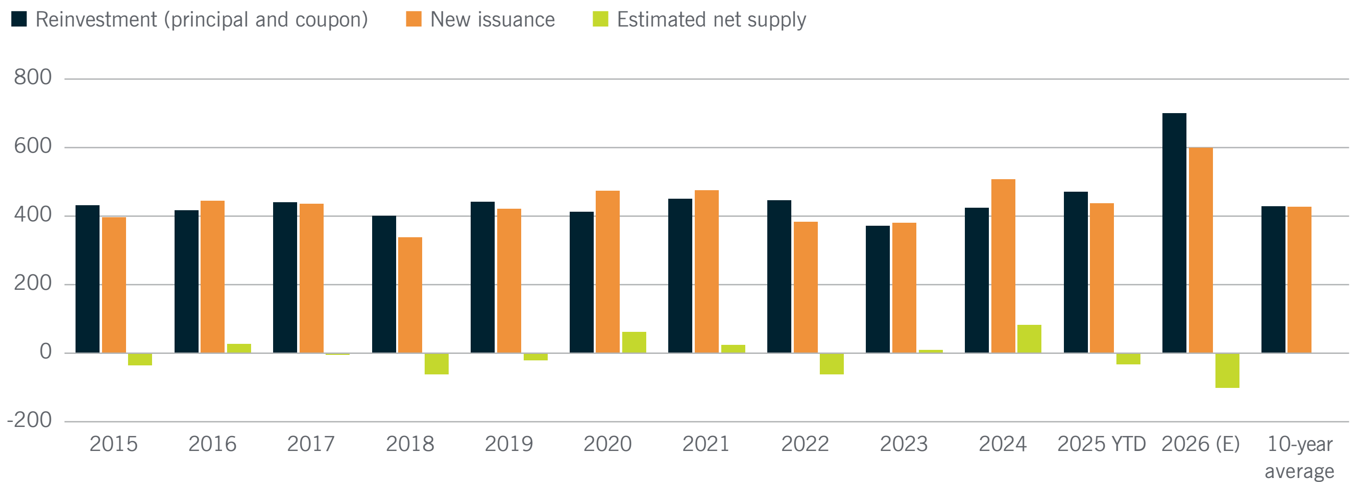
Airport issuance stands 53% above trailing 5-year averages, reflecting terminal expansion capital needs that should sustain plentiful supply. Health care issuance accelerated in anticipation of policy uncertainty in Q2, though hospital supply remains only 5% higher year-over-year.

Elevated supply in airports and health care should create favorable technical conditions to capture additional yield. However, security selection grows increasingly critical as underlying debt structures and issuer credit health drive relative performance, rewarding disciplined analysis and active management.

Actions to consider

- **Capitalize on new issue concessions** to help enhance yield and security selection.
- **Apply rigorous credit research,** seeking to identify value amid elevated supply.

Figure 2: Record reinvestment flows exceed new issuance in 2026



Data source: Siebert Williams Shank, 2015 – 2025; Nuveen, Bank of America Merrill Lynch, 2026 estimates, 31 Oct 2025. 2026 estimates include both taxable and tax-exempt municipals.

3 Steepest yield curve in years rewards duration extension

Long-dated munis offer the most attractive entry point in over two years — and early movers should benefit the most as we expect sustained demand to drive a continued rally for longer duration investments. Consider 20-year municipal bonds that currently offer 1.46% and 1.12% yield pickup versus 5- and 10-year bonds, respectively, as of 21 November 2025. This steepness is expected to compress, which should reward strategic positioning on the yield curve.

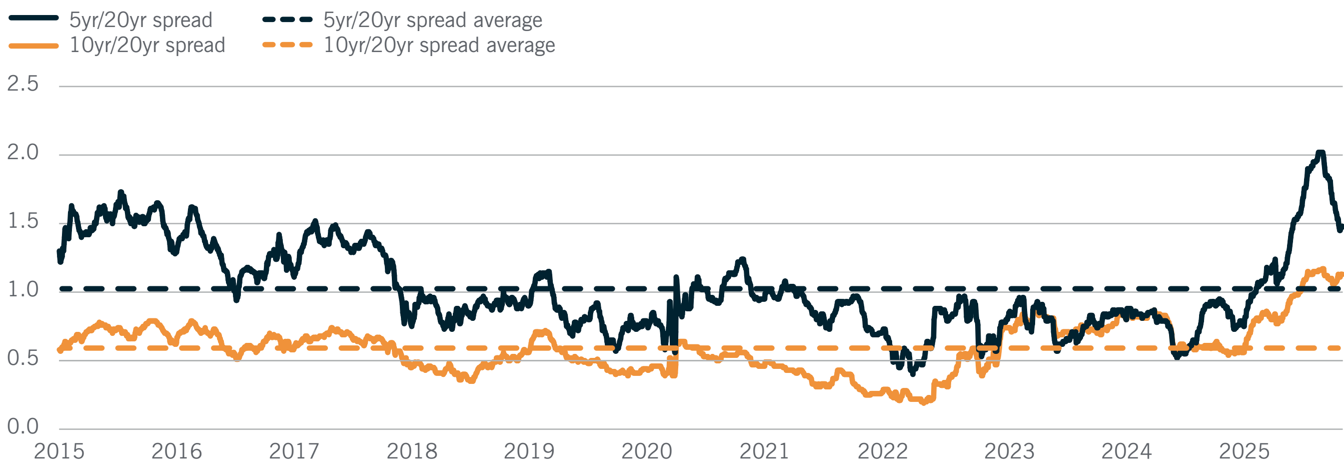
The asymmetric risk-return profile of investing in longer duration bonds has markedly improved with the steepening of the curve throughout 2025. The Bloomberg Municipal 20-Year Index reflects 12.52% upside potential if rates fall 100 basis points, versus -4.97% downside if rates rise 100 basis points. Looking back at averages for the last 10 years, investors can concurrently gain an additional 2.52% in upside returns and 1.24% in yield for similar downside risk. The additional yield pickup is particularly important given income has historically comprised 85% of municipal total returns.

The Treasury curve offers less compelling opportunities, with 20- and 30-year Treasuries providing only 1.05% and 1.09% pickup over 5-year bonds. Given our constructive outlook on the municipal yield curve, with meaningful additional yield for investors buying longer maturities, we favor extending marginal duration in municipals over Treasuries.

Actions to consider

- **Extend duration** to take advantage of a steep municipal yield curve.
- **Add exposure** to 15- to 30-year municipal bonds.

Figure 3: A steep muni yield curve creates duration opportunity



Data source: Nuveen, MMD Refinitiv, 01 Jan 2015 – 31 Oct 2025. **Performance data shown represents past performance and does not predict or guarantee future results.** Curve slopes represent the yield spread between the relevant AAA municipal tenors.

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 (OBBBA) 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.

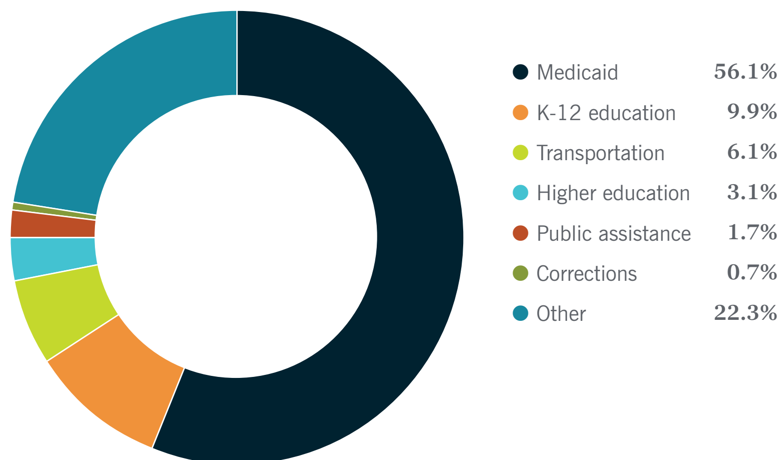
OBBBA also limits federal student loan borrowing and reduces renewable energy subsidies, impacting higher education and electric utilities throughout 2026. Staff reductions at several government agencies could further slow funding deployment.

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.

Actions to consider

- **Add exposure selectively to top-tier** higher education and health care credits with strong reserves.
- **Monitor spread volatility** and identify quality credits mispriced due to headline risk.

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).

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 (29 bps to 82 bps, then to 3 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.

Actions to consider

- **Focus on high-quality** state and local GOs, water/sewer and electric utilities.
- **In high yield, favor select charter schools** and land-secured deals.

Figure 5: Muni sector score card

+ Positive = Neutral — Negative

SECTOR	CREDIT FUNDAMENTALS	CREDIT MOMENTUM	VALUATIONS	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.

LOOKING FORWARD:

Strategic positioning captures compelling value

2026 presents favorable market dynamics for municipal bonds. Attractive valuations, structural demand shifts and proven credit fundamentals are aligning to help support sustained outperformance. Investors who extend duration strategically while maintaining rigorous credit standards should capture meaningful risk-adjusted returns as these technical and fundamental tailwinds reinforce one another 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

1 Data source: Bloomberg, L.P., ICI, Nuveen, 31 Oct 2025. Weekly correlation using ICI municipal bond estimated weekly net new cash flow and the Bloomberg Municipal Bond Index Total Return Index Value Unhedged USD.

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.

About the Smith's awards: Smith's All-Star Municipal Analyst Awards Program is the only program that consistently and prominently provides recognition in the municipal space. Smith's Research & Gradings announced the annual awards on 03 Dec 2025. The program starts with the formation of Smith's Blue Ribbon Ballot Committee - comprised of portfolio managers and senior leaders from many of the nation's largest institutional investment firms. Once the ballot nominations for the different categories are compiled and verified, the final ballot is sent to 1,000 institutional investors for voting. The entire process is transparent, and the voting increases the democratization of the municipal bond market. Please see https://www.smithsresearch.net/events/smiths-municipal-all-star-awards for more information. Used with permission.

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. **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.

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.

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

WF3776050 5085644