

# Q3 2025 Municipal Bonds Outlook

## Transcript

[ Music ]

**Jason Appleson, CFA, FRM, Head of Municipal Bonds:** While municipal bonds finished the first half of 2025 underperforming Treasuries, there is reason to believe munis are poised to catch up. A key headwind this year has been supply of new bonds. New issue volume has been running around 15% above last year's record. We believe the rationale to issue has partly been driven by uncertainty regarding changes to the tax exemption. As Congress works to pass the reconciliation bill, it appears that the tax exemption will go unscathed. With greater certainty around the tax exemption, issuers will not have the same urgency to issue bonds, easing supply headwinds. Municipal bond valuations also appear attractive. Muni/Treasury ratios, a measure of relative value, are considerably cheaper than their one-year averages. Additionally, alternatives such as corporate bonds have seen spread compression beyond what the municipal market has experienced. Taxable equivalent yields on high quality municipal bonds are now as high as BB corporate bonds. We believe relative values are signaling very attractive entry points. Finally, our economic outlook is for slowing growth through year-end. Statistically, municipal bonds have lower default rates and stickier ratings through economic cycles relative to other asset classes. Also, municipal fundamentals continue to show resiliency. Savings accounts are elevated and tax collections continue to grow. Making municipal bonds a powerful late cycle credit haven. Municipals are positioned to succeed in the current, slowing economic environment. Today is an exciting time to be invested in municipal bonds, as fundamentals, valuations and technicals are aligning to create unique opportunities for investors.

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Source(s) of data (unless otherwise noted): PGIM Fixed Income, as **July 2025**.

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