

Municipal Bonds Q1 2026 Outlook with Jason Appleson, CFA, FRM

Here are four reasons to get excited about the muni market in 2026.

First, all-in yields remain at historically attractive levels. With carry playing a larger role in overall returns, investors' tax shelters will be working harder for them. Additionally, higher income gives bond investors more room to absorb price declines.

Second, taxable equivalent yields of municipal products continue to present attractive opportunities relative to other fixed income instruments. For example, muni investors in the top marginal tax bracket can pick up after tax income of over 100 basis points compared to the corporate index, or over 200 basis points compared to the Treasury index, respectively.

Third, underperformance in 2025 leaves room for outperformance in 2026. Especially notable was the underperformance in the municipal high yield index of 2% compared to most other taxable fixed income sectors, which finished with returns north of 6%. A healthy amount of dispersion in high income munis creates a unique opportunity set for investors willing to dig into underlying credit.

Finally, fundamentals continue to show strength. Our 2026 expectation for trend economic growth should continue to support both tax-backed and revenue bond sectors. These sectors mostly benefited from upgrades outpacing downgrades in 2025.

So, despite expected volatility from higher supply, November midterms, and possibly a change in Federal Reserve approach, 2026 looks like a supportive year for municipal bonds.

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