

# 2026 Municipal Credit Sector Outlook

January 2026



*The comments below represent credit-focused opinions for selected municipal sectors. Any reference to issuance expectations for 2026 is based on 2025 issuance data compiled by Bloomberg.*

## CREDIT KEY



**AIRPORTS:** While government shutdowns, cyber events, and severe weather will likely continue to be disruptive factors, passenger traffic levels should remain constant to slightly lower in 2026, supporting additional funding needs.

Outlook	Issuance Expectation v. 2025
<b>Stable</b>	Higher   Driven by sizable cap-x plans across the sector

**GAS & ELECTRIC PREPAYS:** It should be an interesting year for the gas & electric prepay sector, while coming off another record issuance year. Outside of a sector shock (funding recipient failure or an IRS investigation), we should expect another record issuance year, the introduction of new funding recipients, and increased retail participation. Investors should be wary of public ratings, as they tend to tie to the underlying rating of the funding recipient and not necessarily reflective of all the risk factors in a particular transaction.

Outlook	Issuance Expectation v. 2025
<b>Stable</b>	Higher   Greater absorption into Retail market along with new funding recipients

**HIGHER EDUCATION:** Risks related to federal policies and requirements should ebb in 2026. Regional disparities among full-time equivalents (FTEs) growth-demand should continue to drive under and outperforming credit profiles. Outside of elite universities, the northeast will likely struggle with FTEs, while affordability and locational factors should continue to drive outward migration to schools in more favorable climates. We should expect to see additional closings and bankruptcy filings for smaller 'non-essential' schools.

Outlook	Issuance Expectation v. 2025
<b>Negative</b>	Flat   Federal level concerns should abate, watch research institutions funding needs

**HOSPITALS:** 2026 should present an interesting investment landscape for the Not-for-Profit Hospital sector ('winners & losers'). Large multi-state systems will likely continue to increase profitability and maintain balance sheet metrics, whereas smaller systems will likely face operational profitability challenges in relation to addressing cuts to Medicaid (2027 event), an ACA repeal, and increased administrative and supply costs. We should expect to see an uptick in M&A and affiliation activity (larger systems buying stand-alone systems). For safety net providers and rural hospitals, watch for language/support through states (state budget proposals) – lacking support, we can expect to see multi-notch downgrades, closings, and an uptick in bankruptcy filings.

Outlook	Issuance Expectation v. 2025
<b>Stable (-)</b>	Higher   2027 foreground creates additional supply needs, watch M&A activity

**LOCAL GOVERNMENTS:** We should expect to see pressure in the sector as local governments address likely reduced state support in addition to less federal funding and/or issues related to FEMA funding. These areas of concern will be heightened during state budget negotiations and as we head into 2027.

Outlook	Issuance Expectation v. 2025
<b>Stable (-)</b>	Flat   Will likely need to 'make-due' despite less Federal and State funding

**PUBLIC POWER:** Demand growth, data center build-out, and storm hardening efforts will likely continue to shape issuance levels. High prices will likely be politically challenging to fully pass on to the end user despite rate-setting autonomy for many issuers. The physical location of assets, operations (including the location of the power market), and the customer base should potentially be a primary investment priority. Watch for developments in California specific to wildfire mitigation efforts (for instance, will there be support for municipal utilities, akin to creating an infrastructure similar to what investor-owned utilities (IOUs) benefit from?)

Outlook	Issuance Expectation v. 2025
<b>Stable</b>	Higher   Demand needs and storm hardening efforts should drive growth

**STATES:** We have likely entered a point in the credit cycle that should be viewed as 'peak credit'. From a balance sheet perspective, many state governments will be entering 2026 from a position of strength; however, they will likely come under pressure as local funding needs lower reserve levels and operating cuts take effect. It will be challenging to ignore the political brinkmanship between the federal Administration and certain states in relation to potential funding claw-backs and/or freezes.

Outlook	Issuance Expectation v. 2025
<b>Stable (-)</b>	Higher   Federal funding cuts and FEMA needs drive higher supply

**TOLL ROADS:** We should expect to see an uptick in traffic patterns as consumers potentially pull back in travel spending – there should be regional variances. Any cuts in federal infrastructure funding will likely pose a broader sector risk; however, we should anticipate project funding to benefit from greater involvement in public-private partnership (P3) activity.

Outlook	Issuance Expectation v. 2025
<b>Stable (+)</b>	Flat   Likely see an increase in P3 based transactions (project specific)

**TRANSPORTATION:** We should expect state and local tax revenue (dedicated taxes) to continue to satisfy many operating funding gaps and ensure reliable transit service. Ridership and fare revenue are likely to improve; however, fares will likely continue to remain a smaller percentage of transit system revenue than before the pandemic.

Outlook	Issuance Expectation v. 2025
<b>Stable</b>	Flat   We may see an increase in issuance depending on factors at state levels

**WATER & SEWER:** We will likely see an increase related to federal requirements for per- and polyfluoroalkyl substances (PFAS) and lead pipe remediation efforts that will likely weigh on lower-rated systems. We should continue to see the bulk of the sector remaining stable, as many cost increases will likely be passed along to customers. We are likely to see credit risks for lower-rated systems with limited ability to pass along incurred costs. There is likely a potential for greater M&A activity (IOUs buying Municipal systems).

Outlook	Issuance Expectation v. 2025
<b>Stable</b>	Higher   EPA requirements should drive an uptick in issuance

- i. Bloomberg Total Municipal Issuance Supply, DSET MUNI\_ISSUANCE
- ii. Bloomberg Total Municipal Issuance Supply, DSET MUNI\_ISSUANCE



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