

SEPTEMBER 2025

# Third Quarter 2025 Municipal Securities Market Summary



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**Introduction**

Remarkably, secondary trading volumes in the third quarter of 2025 remained at extremely high levels, close to the levels we saw in the second quarter. New Issuance volumes remain on pace for another record year. Although benchmark tax-exempt yields rose at the beginning of the third quarter, the market saw a significant decline in rates starting in mid-July. In fact, benchmark tax-exempt yields were lower at the end of the month than they were in early April before yields and volatility increased dramatically. Finally, tax-exempt mutual funds and exchange traded funds (ETFs) saw net inflows for the quarter, although net inflows into tax-exempt ETFs were higher than into tax-exempt mutual funds.<sup>1</sup>

<sup>1</sup> The views expressed in the research papers are those of the author(s) and do not necessarily reflect the views and positions of the MSRB Board and other MSRB staff.

## Trade Volume

Trade count in the third quarter of 2025 was 4.7 million, up 30% compared to the third quarter of 2024. The last quarter was the first quarter in history to have more than 1.5 million trades in each month. The third quarter's trade count was 2% lower than the record set in the second quarter and 10% higher than trade count in the fourth quarter of 2023, the previous record. Trade count in the second quarter was bolstered by frenetic trading levels in early April while trading in the third quarter was much more consistent. In fact, the seven highest daily totals for trade count were in the second quarter, as were eight of the top 10. Only one day in the third quarter, September 4, 2025, was in the top 10. Year-to-date, trade count is 13.4 million, which is greater than the full-year trade count for any year except 2024, which had 14.5 million trades. The market is likely to exceed that count before the end of October. Record trade count likely indicates continued strong demand from individual investors, directly and through separately managed accounts (SMA).

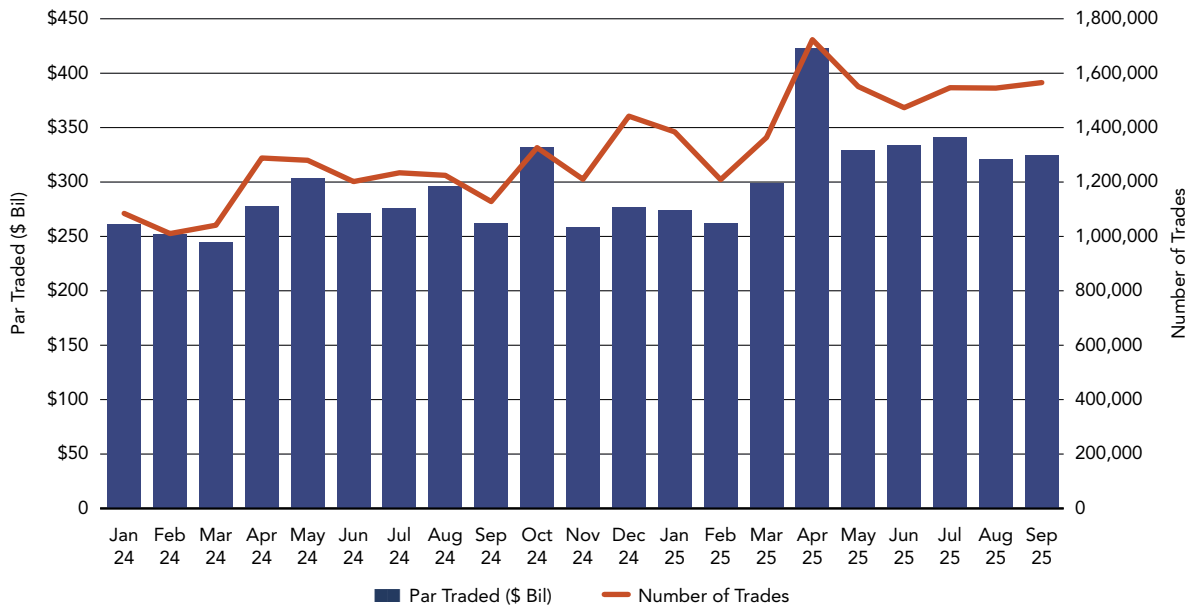
Prior to May 2023, there had only been eight months since 2005 with at least 1 million trades. All those months were associated with some type of market event and volatility. Since May 2023, every month but one has had more than 1 million trades. However, more than 1 million trades in a month no longer seems abnormal for active trading months. Every month in the past quarter had more than 1.5 million trades. Prior to this, 1.5 million trades had only been exceeded three times—twice in the second quarter of this year and once in the fourth quarter of 2023. A recent MSRB research publication shows a high correlation between higher trading activity and both tax-exempt benchmark 10-year yields and yield volatility.<sup>2</sup>

The par amount traded also remained at very high levels in the third quarter of 2025, reaching \$988 billion, up 18% compared to the third quarter of 2024, but down 9% from the second quarter of this year. The average trade size was approximately \$212,000, down from \$229,000 in the second quarter of 2025 and \$233,000 in the third quarter of 2024.

The number of fixed-rate trades for the quarter reached 4.6 million, down 2% from the record set in the second quarter and up 30% compared to number of fixed-rate trades in the third quarter of 2024. The par amount of fixed-rate securities traded was \$732 billion, down 8% from the record second quarter volume and up 18% from the fixed-rate par amount traded in the third quarter of 2024.

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<sup>2</sup> See Simon Wu and John Bagley, "[What Drives Trading Volume in the Municipal Securities Market? A Study of Likely Factors](#)," MSRB, February 2025.

**Figure 1. Monthly Municipal Market Activity, January 2024–September 2025**

## Yields

As Figure 2 below shows, benchmark tax-exempt 10-year bond yields rose in early July but then saw a significant and consistent downward movement for most of the third quarter. In fact, in the third quarter, tax-exempt bonds erased the large losses from early April, and benchmark 10-year tax-exempt yields closed 29 basis points lower than the closing yields on April 4, 2025, right before yields spiked. During the second quarter, the change in yields was dominated by wild swings during the week of April 7. In contrast, the third quarter had much less volatility and a slow steady move to lower yields from the middle of July to the end of the quarter.

Figure 3 shows that tax-exempt benchmark yields declined 15–41 basis points in the third quarter, dramatically outperforming the Treasury bond market. Correspondingly, the Muni-to-Treasury ratio dropped throughout the curve. In fact, on the short end of the yield curve, tax-exempt yields are unattractive relative to short-term Treasury bond yields. Tax-exempt yields are significantly lower on the short end of the curve but still higher on the long end compared to year-end 2024.

**Figure 2.** Bloomberg BVAL 10-Year Callable Yields, January 2024–September 2025



Source: Bloomberg Finance L.P.

**Figure 3.** Bloomberg BVAL® AAA Callable and U.S. Treasury Yields

| Year | BVAL Callable<br>09/30/2025 | TSY<br>09/30/25 | BVAL Q3 2025<br>Change BPS | TSY Q3 2025<br>Change BPS | Muni/TSY Ratio<br>09/30/2025 | Muni/TSY Ratio<br>06/30/2025 |
|------|-----------------------------|-----------------|----------------------------|---------------------------|------------------------------|------------------------------|
| 1    | 2.281                       | 3.68            | -29                        | -28                       | 62%                          | 65%                          |
| 2    | 2.248                       | 3.6             | -35                        | -12                       | 62%                          | 70%                          |
| 3    | 2.227                       | 3.61            | -41                        | -7                        | 62%                          | 72%                          |
| 5    | 2.287                       | 3.74            | -41                        | -5                        | 61%                          | 71%                          |
| 10   | 2.904                       | 4.16            | -29                        | -8                        | 70%                          | 75%                          |
| 20   | 3.969                       | 4.71            | -15                        | -8                        | 84%                          | 86%                          |
| 30   | 4.238                       | 4.73            | -23                        | -5                        | 90%                          | 93%                          |

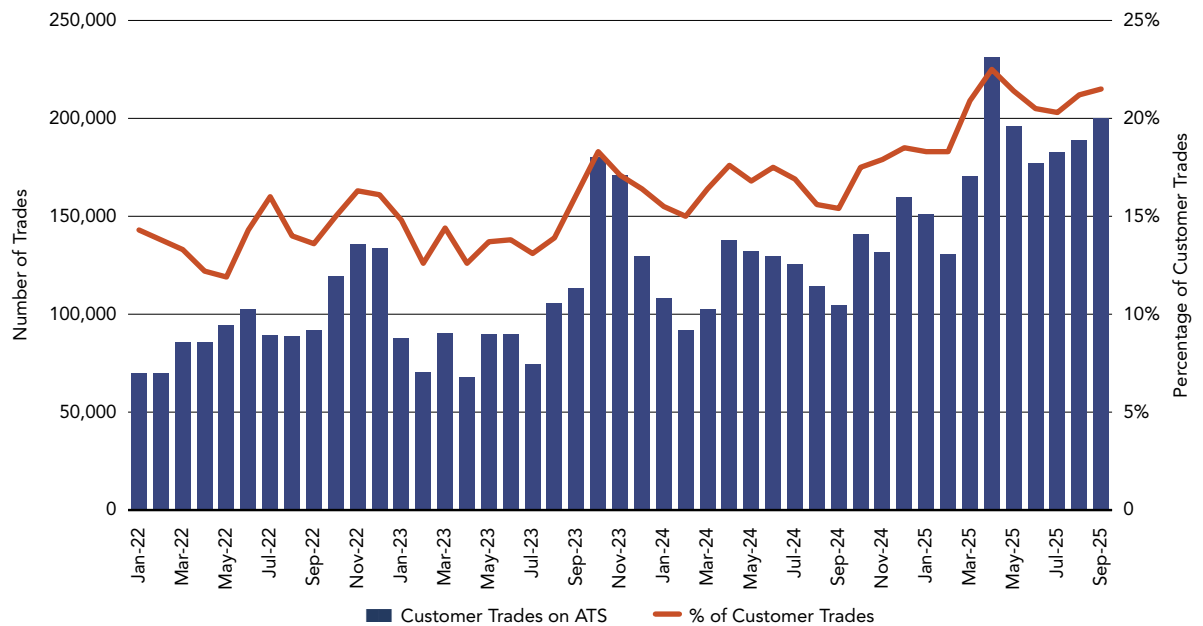
Sources: Bloomberg Finance L.P., U.S. Department of Treasury.

## Trading on Alternative Trading Systems

Alternative trading systems (ATSs) continue to be a primary source of liquidity for individual investors and an increasing source of liquidity for institutional investors. For the third quarter of 2025, trading on ATSs as a percentage of all interdealer trades held steady at 58%.

Figure 4 shows the number and percentage of customer trades executed with a dealer associated with an ATS. In the third quarter of 2025, the percentage was 21%, up from 16% in the third quarter of 2024 and in line with 21.5% in the second quarter of 2025. For each month since March of this year, the percentage of customer trades executed on an ATS has been greater than 20%. This means that more than one in five customer trades are being executed on an ATS.

**Figure 4.** Institutional Customer Trades Executed on ATS, January 2022–September 2025



## Mutual Fund and Exchange Traded Fund Flows

Unlike the volatile net flows mutual funds and ETFs experienced in the second quarter, they had fairly consistent net inflows in the third quarter. Through September 24, tax-exempt mutual funds had moderate net inflows of almost \$9 billion, and there were only two weeks with net outflows in the quarter.<sup>3</sup> Tax-exempt ETFs had three weeks with net outflows but stronger overall net inflows, which amounted to almost \$10 billion for the quarter. Year-to-date, tax-exempt ETFs have experienced almost double the net inflows that tax-exempt mutual funds have.

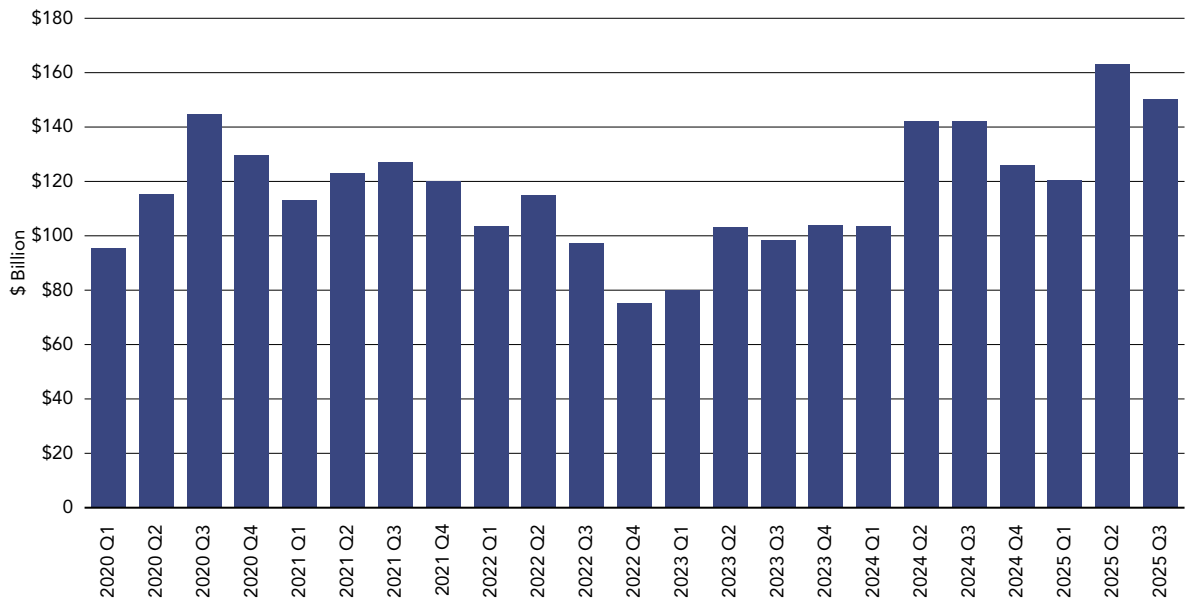
<sup>3</sup> The Investment Company Institute

## New Issue Volume

Figure 5 shows new issue volume by quarter. Volume in the third quarter remained robust but declined compared to the record issuance in the second quarter. Issuance in the third quarter was \$150.2 billion, down 8% compared to the second quarter and up 6% compared to the third quarter of 2024. Tax-exempt issuance was down 7% compared to the second quarter and up 9% compared to the third quarter of 2024. Year-to-date, issuance is up 14% compared to 2024.

Taxable issuance for the quarter dropped dramatically. Total taxable issuance for the third quarter was \$6.8 billion, down 42% from the second quarter and 31% from the third quarter of 2024. For perspective, the last time taxable issuance was below \$6 billion was the first quarter of 2018. The decreased use of private placements continued in the third quarter, with private placements totaling \$1.1 billion for the quarter. In 2023, private placements were almost 6% of total new issuance. In the third quarter of this year, they were less than 1% of issuance. Year-to-date, tax-exempt issuance is up 14% but taxable issuance is down 9% compared to 2024. Similarly, new money issuance is up 23% and refunding volume is down 31%.

**Figure 5. Municipal Market Issuance, January 2020–September 2025**



Source: LSEG

## Conclusions

The second quarter of 2025 was a very productive quarter for the municipal securities market. Consider the following developments:

- Trade count of 4.7 million was on par with the second quarter of this year and up 30% compared to the third quarter of 2024.
- The par amount traded was \$988 billion, up 18% compared to the third quarter of 2024 but down 9% from the second quarter of 2025.
- New issue volume was down 8% from the record second quarter but up 6% compared to the third quarter of 2024.
- Tax-exempt mutual funds saw net inflows of almost \$9 billion while tax-exempt ETFs had net inflows of almost \$10 billion. Year-to-date, net inflows into tax-exempt ETFs are almost double those into tax-exempt mutual funds.

Although tax-exempt benchmark yields declined significantly in the third quarter, we did see the market struggle a little toward the end of September. With the calendar expected to continue to be robust, Muni-to-Treasury ratios to remain at very low levels on the short end of the curve and 10-year benchmark tax-exempt yields to stay below 3%, we could see some continued struggles in the market. It is expected that the record trade count of 14.5 million established in 2024 will be surpassed in October of this year.



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