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Municipal Securities Rulemaking Board

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2025 Municipal Market Year in Review: An Extraordinary Year

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Municipal Securities Rulemaking Board

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Introduction[1]

The year 2025 was an extraordinary one in the municipal securities market, led by the continued growth of separately managed accounts (SMAs) and electronification of the market. It was the fourth consecutive year of record trade count, a record for par amount traded in fixed-rate securities, a second consecutive year of record new issuance, and a record year for net inflows into exchange traded funds (ETFs). It also had the most volatile week for tax-exempt yields since the COVID pandemic, as well as a significant increase in live quotes, bid-wanteds, and customer trading on alternative trading systems (ATSs). Highlights include:

- Trade count was up 22% compared to 2024 and more than double the trade count in 2021.
- Par amount traded in fixed-rate securities was up 14% compared to 2024 and 59% compared to 2021, and total par amount (including variable-rate securities) was the largest since 2008.
- New issuance was up 13% from 2024, the previous record year for new issuance.
- ETF net inflows were approximately $46 billion in 2025 vs. $17.4 billion in 2024 and up 60% compared to 2022, the previous record year for ETF net inflows.
- Live quotes and bid-wanteds were up more than 25% and 75%, respectively, and 21% of customer trades were executed on an ATS compared to 12% in 2021.

What makes the trade record levels even more impressive is they come on the heels of 2021, the lowest year for trade count on record. In the past five years, there has been a fundamental shift in market structure in the municipal securities market as the market continues to become more electronic. SMAs have increasingly become a major factor in the market aided by dramatic enhancements in technology, which have allowed asset managers to significantly drop minimum asset limits to open an SMA. Moreover, the electronification of the municipal securities market

1 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.

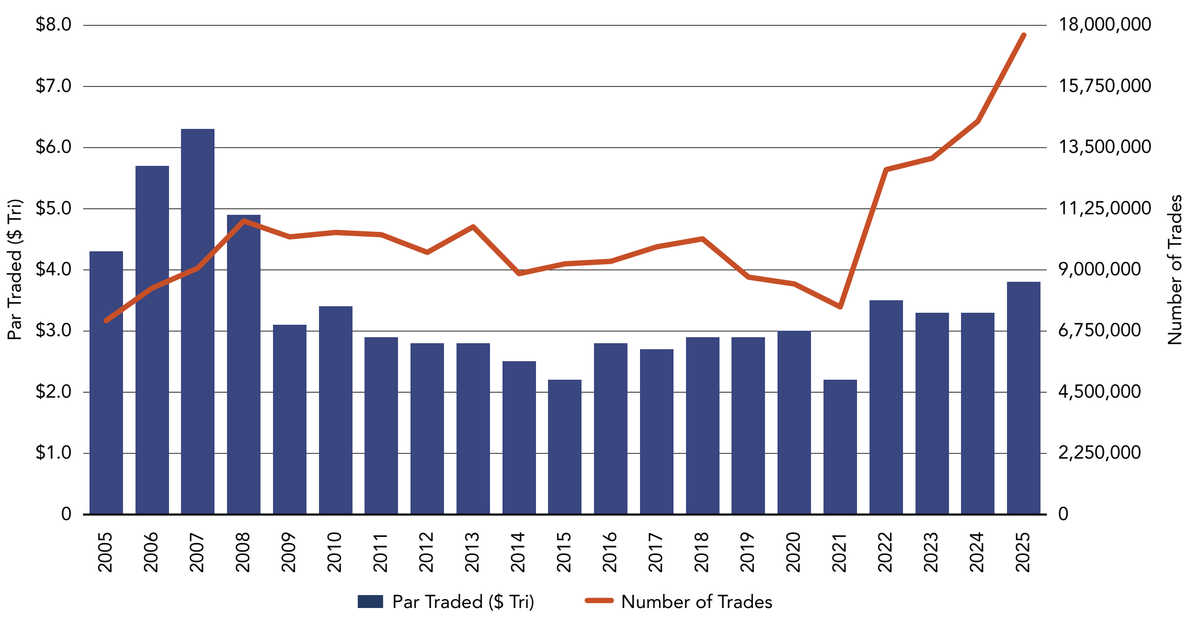
has enabled trading volumes as well as the number of live quotes and bid-wanteds, also known as request for quotes (RFQ), to surge. Besides trading volume, new issue volume has increased dramatically. In addition, ETFs have grown considerably, becoming a much more significant part of the market, especially during times of market volatility.

This publication analyzes the dramatic changes in the municipal securities market over the last five years. Recent changes have been so material and unprecedented that the municipal market in 2025 hardly resembles the market in 2021.

Trading Volume

Figure 1 shows trade count from 2005 to 2025. At the end of 2021, the municipal securities market had seen three consecutive years of consistently declining trade count, dropping from just over 10 million trades in 2018 to 7.6 million trades, a record low, in 2021. This 25% decline in trade count over three years gave market participants little indication that the market would turn around in 2022 and even less that it would begin to fundamentally change.

Figure 1. Municipal Market Activity, 2005–2025



However, in 2022 everything did indeed begin to change. As interest rates rose dramatically and SMA assets continued to climb, trade count started a dramatic and significant ascent, posting four consecutive years of record highs through 2025. Trade count for 2025 was 17.6 million, up 22% from 2024. Remarkably, trade count increased by 66% from 2021 to 2022 and has more than doubled from 2021 to 2025, up 131%.

Figure 2 shows trade count by month from 2021 to 2025. The record low trade count in 2021 is highlighted by three consecutive months with less than 600,000 trades from July to September.

Trade count began to climb significantly in March 2022 with eight of the next 10 months exceeding 1 million trades. Prior to 2022, there were only eight months since 2005 with 1 million or more trades, and all of those months were associated with market events such as the credit crisis in 2008 and the onset of COVID-19 in 2020. Starting in May of 2023, trade count has exceeded 1 million in every month except July 2022, or 31 of the past 32 months. In November of 2023, monthly trade count exceeded 1.5 million trades for the first time and only time prior to 2025. Trade count reached the all-time monthly high of 1.7 million In April 2025 and exceeded 1.5 million in seven of the last nine months. Moreover, eight of the 10 highest months ever recorded for trade count occurred in 2025.

Analysis of daily trade count over the years shows some staggering statistics. Prior to 2025, there were 15 days with 80,000 or more trades in the market; there were 42 of these days in 2025. As to days with 70,000 or more trades, there were 79 prior to 2025; in 2025, there were 141 such days! In 2024, the previous record high year for trade count, average daily trade count was 57,422 trades. In 2025, there were only 15 days with fewer trades and many of them were because of holidays such as the Friday after Thanksgiving.

Figure 2. Monthly Municipal Securities Trade Count, January 2021–December 2025

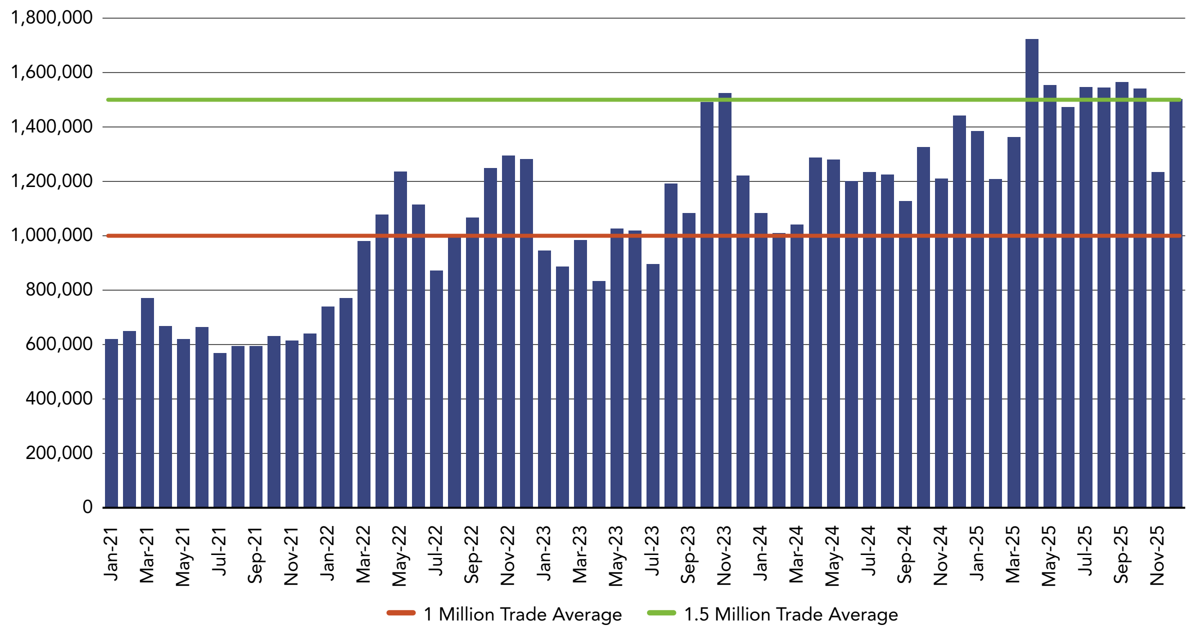


Figure 1 shows that the par amount traded in 2025 is the largest since 2008, but far below the level in 2008 and prior years. It is important to note that up to 2008, the par amount traded in the variable-rate market was larger than the par amount traded in the fixed-rate market. That all changed after the financial crisis, and as of year-end 2025, the variable-rate market was only about 27% of the total par traded. The par amount traded for all securities in 2025 was $3.8 trillion, up 14% compared to 2024 and 70% compared to 2021. If we only include transactions in fixed-rate securities, we see that the par amount traded has also increased in the last five years, although the increases are not nearly as dramatic as for trade count. The analysis shows that 2025 had the largest par amount of fixed-rate securities traded, 14% higher than 2024 and 59% higher than 2021, with a dramatic increase between 2021 and 2022. Average trade size continued to decline in 2025, down to approximately $214,000 from $229,000 in 2024 and $291,000 in 2021. This is consistent with a market that is becoming increasingly more electronic, driven by strong demand from individual investors.

Investor Demand

The substantial increase in trading volumes between 2021 and 2025 has been led by a dramatic increase in SMAs and overall demand from individual investors. As Figure 3 shows, individual investors are by far the largest holders of municipal securities, directly holding more than 48% of municipal securities outstanding. In comparison, individual investors hold only 2% of the corporate bonds outstanding.

ETFs continue to be a growing player in the municipal securities market, especially during times of market volatility. An MSRB research publication showed that on April 9, 2025, at the height of the volatility in the market, the trading volume in the 11 largest ETSs went from $1 billion a day to $6 billion.[2] This seems to show that increasingly, large market participants are using ETFs to increase or decrease their exposure to the municipal market during periods of market volatility. According to the Investment Company Institute (ICI), through December 30, tax-exempt ETFs had net inflows of $46 billion while tax-exempt mutual funds had net inflows of only $15 billion. Tax-exempt ETF net inflows were up more than 160% compared to 2024 and up 60% compared to 2022, the previous record high year.

The last year that mutual funds had higher net inflows than ETFs was 2021. In 2021, tax-exempt mutual funds brought in almost $85 billion compared to less than $14 billion for ETFs. However, from 2022 to 2025, tax-exempt mutual funds have seen net outflows of more than $123 billion, with large net outflows in 2022 and small net outflows in 2023, while tax-exempt ETFs have had net inflows of $106 billion with positive net inflows each year. This shows a dramatic shift in investor product usage.

Banks and insurance companies have been reducing their holdings of tax-exempt securities for many years because of the low corporate income tax rates. Figure 3 shows the relative decline for both banks and insurance companies, and their share of holdings collectively has declined from 23% at the end of 2020 to 18% in the second quarter of 2025. At the end of 2020, banks and

2 See Wu, Simon and Nicholas Ostroy, "Liquidity Impact of Municipal bond ETFs on Municipal Securities Market: An Updated Analysis," MSRB Research Paper, November 2025.

insurance companies combined held more than $1 trillion in municipal securities. By the second quarter of 2025, their holdings dropped to less than $740 billion, a 27% decline.

One item of note: the municipal market has always had a narrow investor base because of the tax exemption. Many types of investors such as pension funds and foreign investors derive little to no benefit from the tax exemption, so taxable securities are normally a better investment. With the lower corporate tax rates and banks and insurance companies buying more taxable products as well, the municipal market is increasingly reliant on demand from individual investors, especially in times of record new issue volumes.

Figure 3. Holdings of Municipal Securities, 2020 Q4 vs 2025 Q2

	4Q 2020 $ Mil	2Q 2025 $ Mil	4Q 2020 % Share	2Q 2025 % Share	Change
Households	2,035,647	1,971,999	46.1%	48.2%	2.1%
Banks and Credit Unions	470,983	374,018	10.7%	9.1%	-1.6%
Insurance Companies	538,384	365,058	12.2%	8.9%	-3.3%
Mutual Funds	985,501	864,621	22.3%	21.1%	-1.2%
Money Market Funds	125,447	140,683	2.8%	3.4%	0.6%
ETFs	63,027	149,830	1.4%	3.7%	2.3%
Brokers	6,615	18,588	0.1%	0.5%	0.4%
Rest of World	118,252	121,741	2.7%	3.0%	0.3%
Other	72,371	82,640	1.6%	2.0%	0.4%

Source: Financial Accounts of the United States, Board of Governors of the Federal Reserve System, September 11, 2025

Yields

Figure 4 shows the significant increase in 10-year benchmark tax-exempt yields since the start of 2021. Yields of 10-year tax-exempt securities peaked on April 11, 2025, a week that had a dramatic and rapid increase in yields and volatility. From April 7 to April 9, 10-year yields rose almost 90 basis points only to drop almost 60 basis points the next day, then increase by almost 30 basis points on the following day. Incredibly, this volatility happened in one week and dropped dramatically the next week. In fact, after this market disruption, 10-year benchmark yields proceeded to decline progressively and consistently for most of the rest of the year. By early September, 10-year benchmark yields were lower than before the beginning of April. Benchmark tax-exempt yields showed almost no volatility toward the end of the year. As shown in Figure 4, the BVAL callable 10-year yield trading within only a 5 basis-point band, from October 22 through December 31.

Figure 4. Bloomberg BVAL 10-Year Callable Yields, 2021–2025

Source: Bloomberg Finance L.P.

Figure 5 shows the change in yields since the end of 2024. Of note, tax-exempt benchmark yields through 10-year maturities, declined 38 to 51 basis points. However, tax-exempt benchmark yields for securities maturing in 20 and 30 years rose about 30 basis points. This dichotomy is likely due to the record new issue volume coupled with the Federal Reserve Board easing short-term interest rates. Additionally, only small inflows into tax-exempt mutual funds, which historically have been the natural buyers of the long end of the market, probably weighed on long-term rates.

Figure 5. Bloomberg BVAL 10-Year Callable and U.S. Treasury Yields

Year	BVAL Callable 12/31/2025	Treasury 12/31/2025	BVAL YTD Change in Basis Points	TSY YTD Change in Basis Points	Muni/TSY Ratio 12/31/2025	Muni/TSY Ratio 12/31/2024
1	2.470	3.480	-48	-68	71%	71%
2	2.423	3.470	-38	-78	70%	66%
3	2.361	3.550	-45	-72	67%	66%
5	2.368	3.730	-51	-65	63%	66%
10	2.710	4.180	-40	-40	65%	68%
20	3.890	4.790	30	-7	81%	74%
30	4.130	4.840	31	6	85%	80%

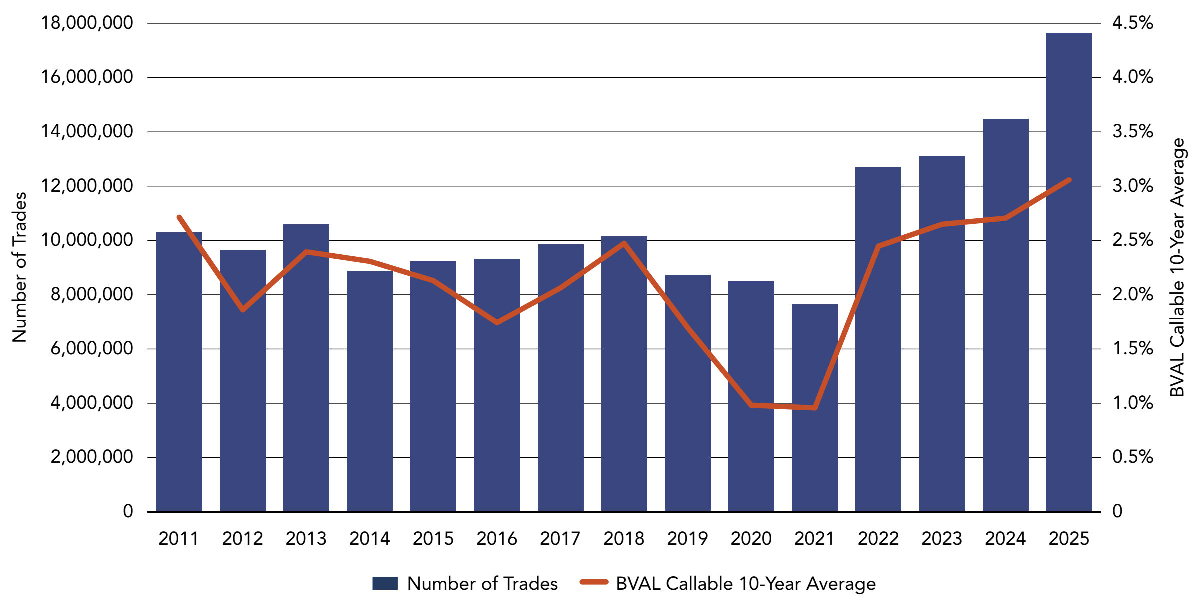
Note: Yellow highlight indicates lower yields compared to the end of 2024 and green are higher rates.
Source: Bloomberg Finance L.P., U.S. Department of Treasury

Figure 6 shows the number of trades in a year with the 10-Year average BVAL callable yield for that year. This chart clearly shows the strong positive correlation between tax-exempt benchmark yields and trade count, as mentioned previously.[3]

The chart shows a dramatic jump in trade volumes in 2022. Not only did yields rise rapidly, but they did so after many years of low interest rates going all the way back to 2012. This long period of historically low yields coupled with a rapid increase in yields in 2022 likely fueled demand for municipal securities, especially from individual investors.

Consider that the average yield in 2020 and 2021 was less than 1% before increasing to 2.45% in 2022. It continued to rise from 2023 to 2025, ending at just over 3%.[4] Yields have risen significantly across all maturities. Consider that 3-year benchmark tax-exempt yields were 0.125% and 30-year yields were 1.40% at the start of 2021, while at the end of 2025, those yields were 2.361% and 4.13%, respectively. Overall, rates at the end of 2025 are 230-272 basis points higher than at the start of 2021.

Figure 6. Bloomberg BVAL 10-Year Callable Yields Annual Average and Number of Trades, 2011–2025



Sources: MSRB and Bloomberg Finance, L.P.

3 MSRB Research shows a positive correlation between yields and par value traded, but not as high as for trade count. Also, there is a positive correlation between volatility and par amount and number of trades.

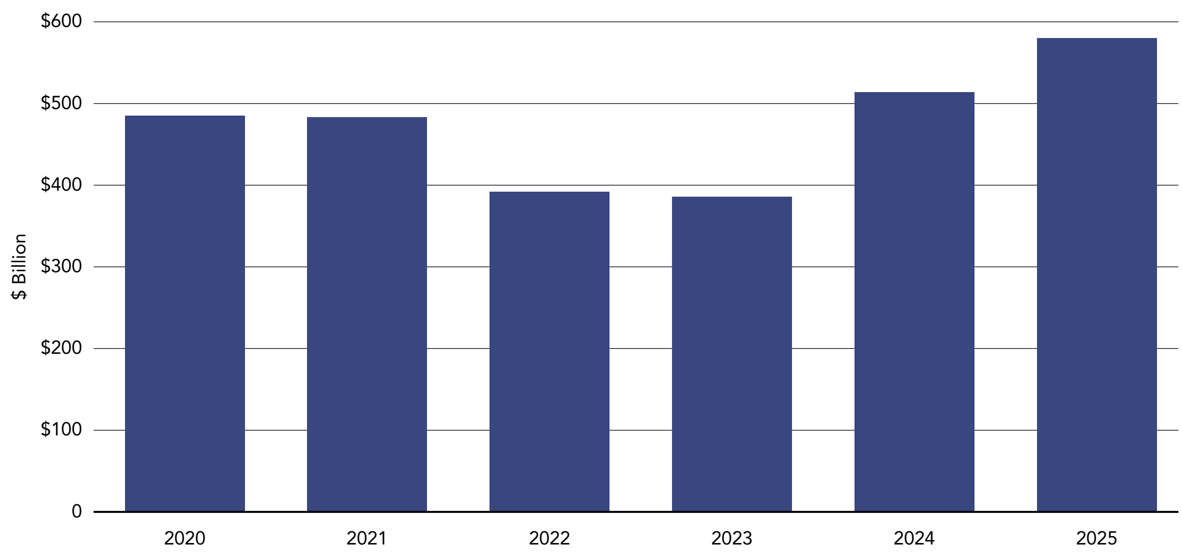
4 10-Year benchmark tax exempt yields closed below 3% at the end of 2025.

New Issue Volume

New issue volume reached record levels for a second consecutive year in 2025. Total volume in 2025 was $580 billion, up 13% compared to 2024 and up 20% compared to 2021. Figure 7 shows new issue volume from 2020 to 2025, with new issue volume exceeding $500 million for the first time in 2024 and repeating that in 2025.[5] The graph also shows the large volumes in 2020 and 2021. Interestingly, the new issue volumes in 2024 and 2025 were driven by new money and tax-exempt issuance. Taxable issuance was only about $33 billion in 2025, which was less than 6% of total issuance. In 2021, taxable issuance was $121 billion, or 25% of total issuance. Taxable issuance was so much larger in 2021 because issuers took advantage of historically low rates to refund tax-exempt deals with taxable deals. Issuers often took the savings up front in order to reduce the uncertainly around future revenue and expenses due to the COVID-19 pandemic. Relatedly, refunding volume was 23% of the overall market in 2021 but only 12% in 2025.

Negotiated volume rose 14% and competitive volume rose 18% compared to 2024, but private placements issuance was about half the level of 2024. Compared to 2021, negotiated volume rose by 31% while competitive issuance only rose by 2%. Private placements in 2025 were about one-third the level we saw in 2021. In terms of issuance as a percentage of the entire market, negotiated volume was 81%, up from 74% in 2021. Competitive volume fell slightly from 21% in 2021 to 18% in 2025. In 2025, private placement volume plunged to less than 2% of all issuance.

Figure 7. Annual Municipal Market Issuance, 2020–2025



Source: LSEG

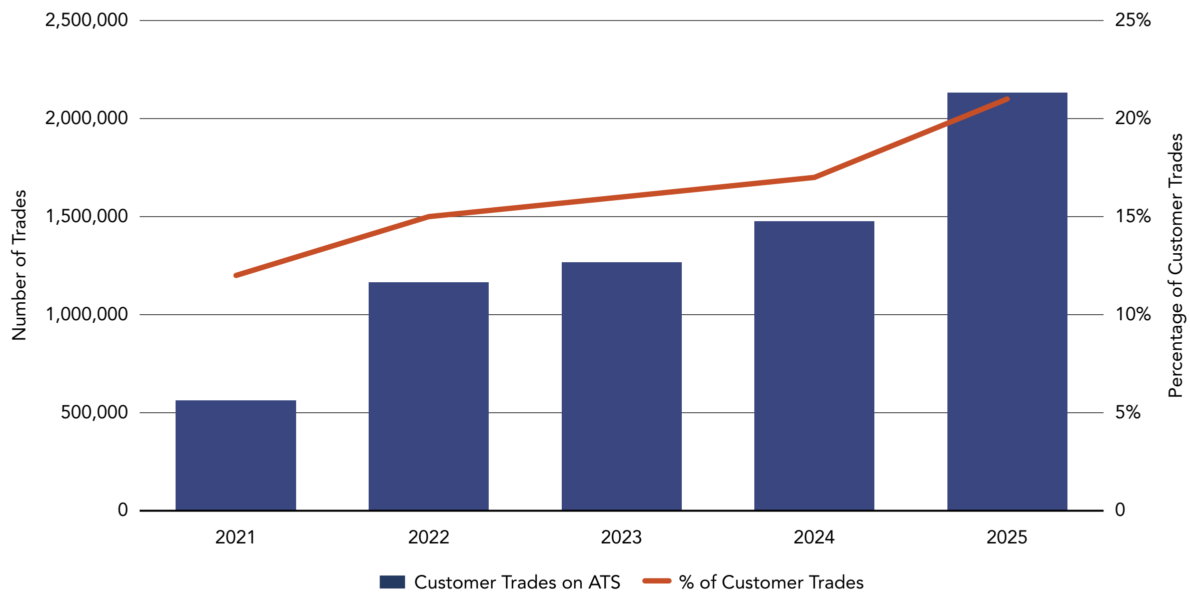
[5] All issuance data according to LSEG.

Trading on Alternative Trading Systems

ATSs continue to be a significant factor in the municipal securities market. The percentage of interdealer trades executed on an ATS compared to all interdealer trades has remained fairly constant over the past five years, ranging from 55% to 58%.

Figure 8 shows the number of customer trades executed with the dealer of an ATS, as well as the percentage of customer trades with the dealers of ATSs compared to all customer trades. Clearly, ATSs continue to increase their presence in trades with institutional customers. In the past five years, the number of customer trades on an ATS increased 279% from about 560,000 in 2021 to 2.1 million in 2025. At the same time, the total number of customer trades rose by only 120%. Similarly, the percentage of customer trades executed on an ATS has risen from 12% in 2021 to 21% in 2025, or more than one in five customer trades.

Figure 8. Customer Trades Executed on ATS, 2021–2025



As much as trading volumes, especially customer trading volumes, have increased on ATSs, there has been far greater growth in terms of live quotes and bid-wanted on an ATS. Since 2021, the number of offerings on an ATS has grown more than two-and-a-half times and the number of bid-wanteds have nearly quadrupled on an average day. In just the past year, live quotes have risen by more than 25% and the number of bid-wanteds has grown by about 85%.

Conclusions

Almost any way you look at it, 2025 was an extraordinary year in the municipal securities market. Consider that it was the fourth consecutive year of record trade count, the second consecutive year of record new issue volume and a record year for par amount traded in fixed-rate securities. Consider also that 2025 saw a continued substantial growth in SMAs and ETFs, with ETFs seeing record inflows, and a significant increase in offerings and bid-wanteds on ATSs, with ATSs executing more than one in five customer trades. Finally, early April 2025 saw a dramatic increase in volatility, yields and ETF volume, with volatility reaching levels not seen since March 2020. Yields remained elevated for several months before returning to pre-April levels, which contributed to the record trade count.

In 2026, we expect another year of record or near-record issuance. We are far less confident about another trade-count record. After the amazing increase in the past five years, it seems that trade count could decline somewhat, depending on where interest rates go in 2026.

If you are interested in discussing any portion of this paper with the authors, please contact 800-838-1330.

ABOUT MSRB

The Municipal Securities Rulemaking Board (MSRB) was established by Congress in 1975 with the mission to protect investors, issuers and the public interest and to promote efficiency, competition and capital formation. MSRB is a private, self-regulatory organization governed by an independent board of directors with market knowledge and expertise. MSRB does not receive federal appropriations and is funded primarily through fees paid by regulated entities. MSRB is overseen by Congress and the Securities and Exchange Commission.

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