



The Top Five

2022 Muni Market Outlook

What does 2022 have in store for the municipal market? Here are our top five takeaways from our conversation with Tom Tzitzouris, Strategas' Head of Fixed Income Research.

Takeaway No. 1: The fate of the Build Back Better bill is unclear.

President Biden's signature legislation addressing social policy, healthcare and climate could have a considerable impact on the municipal market – if it ever makes it through Congress. It didn't have enough votes to pass through the Senate in December 2021, and it will likely need significant revisions for it to pass in 2022.

Takeaway No. 2: Individual provisions within Build Back Better could still see the light of day.

An expansion of the SALT deductions, advanced refundings, an increase of bank qualified debt and a direct-pay bond program all had some congressional support and existed in previous drafts of the bill. Even if Build Back Better doesn't pass, those individual provisions might still get enacted, either as individual legislation or part of a broader package.

Takeaway No. 3: Expect a far less accommodative Fed in 2022.

At this time we're forecasting four rate hikes, though Federal Reserve policy has been known to evolve with conditions

on the ground. We're also looking for the Fed to end its bond-buying program by mid-March and – potentially – even start exploring a balance sheet reduction. Municipal borrowers might only have the first quarter of 2022 to take advantage of low interest rates.

Takeaway No. 4: The November 2022 midterms should cause a spike in volatility.

Midterm elections in November mean candidates will start campaigning in July. Any legislation affecting the muni market, including Build Back Better, will have to happen in early 2022 or not at all. As the political environment gets more volatile, borrowing costs will begin to rise across the curve.

Takeaway No. 5: Taxes are likely going up.

While the Build Back Better bill didn't pass in 2021, were similar legislation to pass in 2022, it would likely be accompanied by an increase in tax rates, retroactive to the start of the year. The latest version of Build Back Better imposed surtaxes on single taxpayers making \$5 million or more. It also sought to impose a corporate minimum tax rate, which if enacted could dampen corporate demand for tax-exempt bonds.

For the latest perspective on what's moving the muni market, including the full version of Strategas' 2022 Muni Market Outlook, be sure to visit Baird Public Finance's News & Insights page.

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