CapitalMarketsAdvisors,LLC

Capital Markets News

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Falling Rates and Callable 5% Coupons Point to More Refundings in 2026

In mid-December, the Federal Reserve made its third interest rate cut in as many meetings. This most recent vote by the seven-member board resulted in "no" votes from two governors who pointed to persistent inflation as their reason to give a thumbs down on the latest reduction. A third governor favored a 0.50% point cut rather than the approved 0.25% move. With this trend of reduced rates expected to continue into the new year, and with a new dovish chair predicted to lead the Fed at the end of Chairman Powell's term, expectations are high that 2026 will see increases in both new money borrowings and bond refundings.

Multiple factors, including declining interest rates, will influence 2026 bond issuance, along with relentless infrastructure needs, inflated by rising costs. According to a recent article in *The Bond Buyer*, municipal bond supply projections for 2026 range from a high of $750+ billion to a low of $520 billion, with most firms polled expecting issuance this year to be at least $600 billion, easily surpassing 2025's record. Refundings are also expected to be up in 2026, due to lower interest rates and an avalanche of callable 5% coupons. BofA strategists predict "the depletion of federal COVID stimulus funding; an insatiable demand for public infrastructure; a booming economy and labor market; and sticky inflation," will result in an increase in issuance. They go on to say, "The pool of refundable candidates for 2026 is roughly 13% larger than for 2025, but the backlog of bonds that are eligible for refunding and remain unrefunded is 24% larger than the backlog for 2025." Municipal Markets Analytics commented that if inflation remains elevated, project costs will increase faster than available revenues, leading to more borrowing, while the potential volatility of the November mid-terms may cause state and local governments to get ahead of that by front-loading issuance… and/or accelerating 2027 issues into 2026".

If the administration is successful in gaining Senate confirmation of a new Fed nomination, further rate cuts are likely in 2026 regardless of inflation concerns. In the same article, strategists at FHN Financial are quoted as seeing issuance essentially flat in 2026. They note that "most of the surge of recent issuance has come from new projects and has been driven by "strong credit conditions, pent-up demand after years of deferring projects, and the spend down of stimulus funds that had supported infrastructure investment up until 2024". The impact of these conditions, though, is "fading," indicating that new money debt issuance could fall in 2026, which FHN predicts will decrease 7% to $399 billion. Refundings, though, are expected to rise 16% year-over-year. "With tax-exempt advance refundings still off the table and rates still too high to bring much taxable advance refunding supply, most of 2026 refinancing activity will continue to come from current refundings," said FHN.

Contact your financial advisor at CMA if you would like a thorough analysis of your jurisdiction's outstanding debt for attractive refunding opportunities.

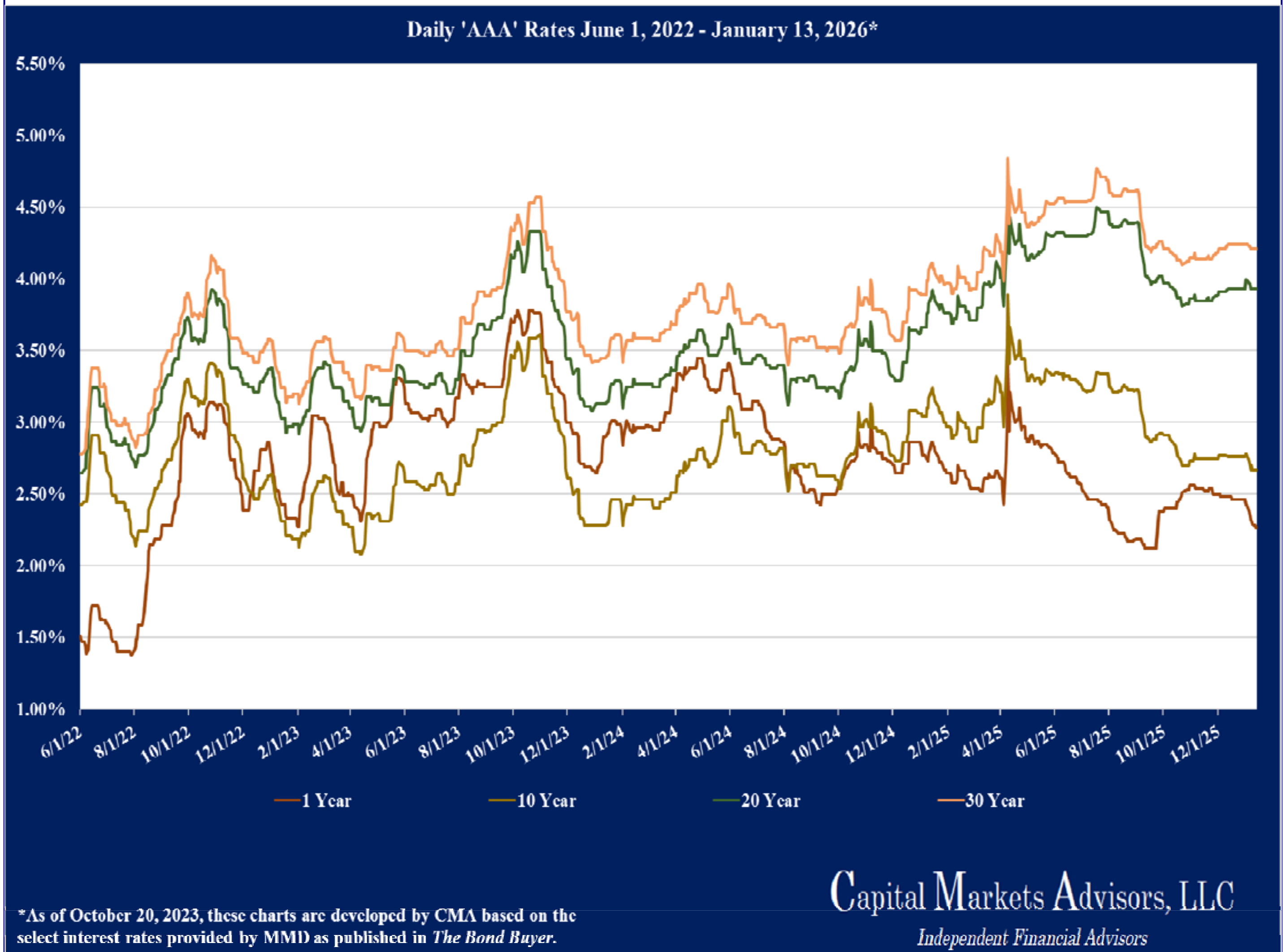
Recent CMA Client Sale Results

Issuer (Rating)	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
Mount Vernon City SD (N/A)	TAN	$ 17,000,000	19 – Dec	6 mos.	3.71%	JP Morgan Chase Bank
Orchard Park CSD (Aa2)	Ref. Bonds	9,515,000	11 – Dec	7 yrs.	2.27%	FHN Financial Capital Markets
Suffolk County (AA-)	TAN	390,000,000	10 – Dec	7 mos.	2.53%	JP Morgan Securities LLC
Tarrytown UFSD (Aa2)	Bonds	32,405,000	9 – Dec	20 yrs.	3.51%	FHN Financial Capital Markets
Erie County IDA (Aa2)	Ref. Rev. Bonds	74,150,000	Negotiated	4 yrs.	2.62%	Ramirez & Co., Loop Capital
Colombia County (Aa3)	Ref. Bonds	9,455,000	2 – Dec	12 yrs.	2.45%	Loop Capital Markets
Smithtown CSD (Aa2)	Bonds	51,055,000	2 – Dec	15 yrs.	3.13%	Janney Montgomery Scott

General Obligation Tax-Exempt Interest Rates

	January 2, 2026					December 1, 2025					1 Year Ago - January 2, 2025				
Term	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	2.43%	2.46%	2.52%	2.50%	2.88%	2.50%	2.53%	2.59%	2.57%	2.95%	2.83%	2.86%	2.94%	2.92%	3.30%
5	2.40	2.44	2.54	2.58	2.97	2.41	2.45	2.55	2.59	2.98	2.86	2.90	3.02	3.06	3.45
10	2.78	2.89	3.00	3.10	3.58	2.75	2.86	2.97	3.07	3.55	3.06	3.17	3.31	3.40	3.89
20	4.00	4.21	4.29	4.38	4.84	3.89	4.10	4.18	4.27	4.73	3.66	3.87	4.02	4.10	4.54
30	4.25	4.47	4.55	4.64	5.12	4.19	4.41	4.49	4.58	5.06	3.89	4.11	4.26	4.34	4.79

Interest Rate Chart



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