MSRB
Municipal Securities Rulemaking Board

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2024 Municipal Market Year in Review

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Municipal Securities Rulemaking Board

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Introduction[1]

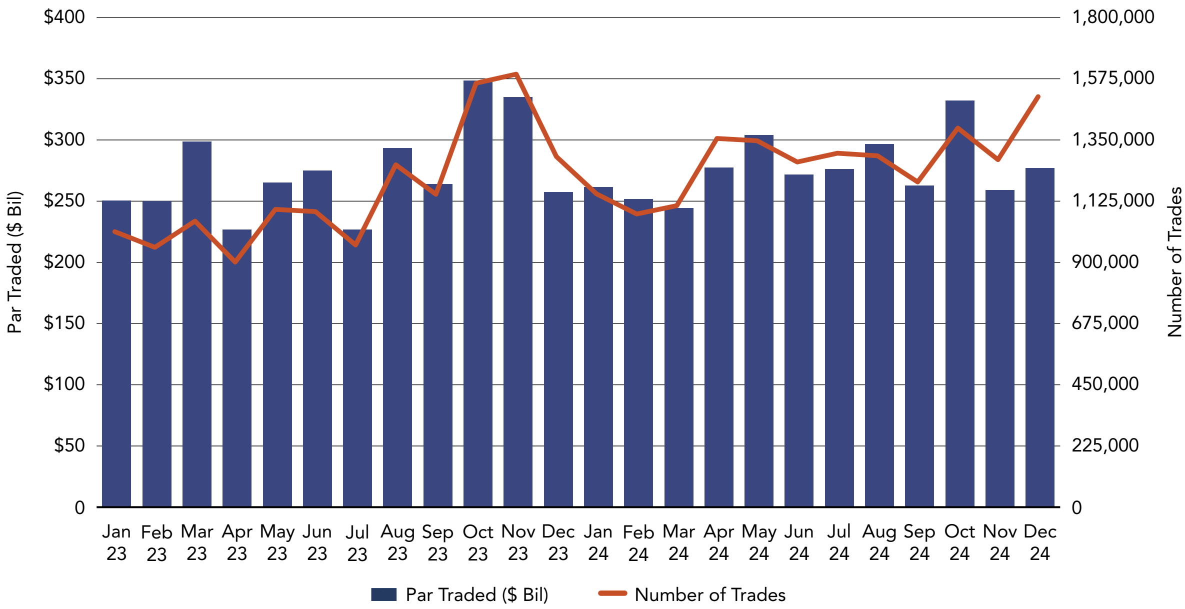
The year 2024 was another interesting one in the municipal securities market, characterized by significantly higher new issue volume, record trade count, rising interest rates and a return to strong net inflows to mutual funds. New issue volume in 2024 totaled $508 billion, up 32% compared to 2023. This was the third consecutive year for record trade count, likely due to continued strong demand from individual investors. Tax-exempt benchmark yields rose steadily in the first half of the year and then fluctuated in the second half. Finally, tax-exempt mutual funds and exchange traded funds (ETFs) had significant net inflows for the year. In addition, the Federal Reserve (Fed) changed from a tightening to a loosening cycle, decreasing short-term rates for the first time since the onset of the pandemic in 2020.

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.

Trading Volume

Another year, another record for municipal securities trades. For the third consecutive year, trade count reached record highs following the record low registered in 2021. Trade count for 2024 surpassed 14 million for the first time, reaching 14.5 million trades, up 10% from the previous record in 2023 and up 89% compared to 2021. Figure 1 shows that for the first time, there were more than 1 million trades in each month of the year. These elevated levels were likely due, among other factors, to continued strong demand from individual investors buying directly and through Separately Managed Accounts (SMAs).

Figure 1. Monthly Municipal Market Activity, January 2023–December 2024



Although trade count and new issue volume reached new records, par value traded increased by less than 1% in 2024 compared to 2023. As Figure 2 clearly shows, the significantly higher trade count in 2024, coupled with minor increases in par traded, has led to significantly lower average trade size, down 36% since 2020.

A Fundamental Shift in the Municipal Securities Market?

To get a sense of the significance and magnitude of the trading activity in the last two years, it helps to compare it to trading activity prior to 2022. Between 2005 and April 2022, there were only eight months with 1 million or more trades executed. Previous MSRB analysis found that these eight months were associated with some type of market event or dislocation, such as the onset of the COVID-19 pandemic in March 2020. Starting in April 2022, 27 of the past 33 months, including the last 17 in a row, have had more than 1 million trades. In fact, monthly trade count in excess of 1 million trades, something that was unusual prior to 2022, has now become a normal occurrence.[2]

Figure 2 shows the number of trades, par amount traded and average trade size for the past 15 years. A number of trends are apparent. Between 2010 and 2013, the number of trades reported to the MSRB was fairly stable and averaged slightly above 10 million in that period. From 2014 to 2018, there was a consistent but significant increase in the number of trades. From 2018 to 2021, there was a significant decline in trade count, down 25%, culminating in a record low trade count in 2021. With this significant decline in trade count, market participants likely did not anticipate the rapid turnaround in trading volumes in the subsequent years.

Starting in 2022, there was a dramatic increase in trade count leading to three consecutive years of record activity. Incredibly, trade count rose 66% from 2021 to 2022 and 89% from 2021 to 2024. The year 2022 was the first with 12 million trades, 2023 the first with 13 million trades and 2024 the first with 14 million trades.

Higher yields and volatility in 2022 through 2024 likely impacted the increase in the number of trades. However, the authors believe that another significant change in market structure has also caused heightened trade count. The significant growth in SMAs in the municipal securities market has led to significantly more trading of odd-lots (trades of $100,000 or less) by institutional investors, which helped to drive trade count higher. This change in investing behavior coupled with enhanced technology, which has likely made it cost effective for institutional investors to trade odd lots, is consistent with a market that has seen huge increases in trade count but more modest increases in par amount traded. While trade count is up 89% since 2021, par amount traded is up 49% for the same time period, leading to a consistent decline in average trade size.

Figure 2 also shows the dramatic decrease in average trade size from a high of about 357,000 in 2020 to 229,000 in 2024. The consistent and significant decrease in average trade size likely reflects enhanced demand from individual investors, directly and through SMAs.

2 To see municipal securities trading volume visit the Overall Trading Patterns in the Market Statistics section of EMMA. https://emma.msrb.org/MunicipalTradeStatistics/ByTradeCharacteristic.aspx.

Figure 2. Overall Municipal Securities Trading Volume, 2010–2024

Year	Number of Trades (Millions)	Year-Over-Year Percentage Change	Par Volume ($ Billions)	Year-Over-Year Percentage Change	Average Trade Size
2010	10.4	–	$3,359	–	$323,662
2011	10.3	–0.8%	$2,851	–15.1%	$276,849
2012	9.6	–6.3%	$2,838	–0.4%	$294,226
2013	10.6	9.7%	$2,818	–0.7%	$266,185
2014	8.9	–16.3%	$2,476	–12.1%	$279,317
2015	9.2	4.1%	$2,170	–12.4%	$235,281
2016	9.3	1.0%	$2,797	28.9%	$300,203
2017	9.8	5.7%	$2,705	–3.3%	$274,667
2018	10.1	3.0%	$2,924	8.1%	$288,234
2019	8.7	–13.9%	$2,896	–0.9%	$331,595
2020	8.5	–2.9%	$3,030	4.6%	$357,169
2021	7.6	–10.0%	$2,224	–26.6%	$291,044
2022	12.7	66.1%	$3,537	59.1%	$278,734
2023	13.1	3.3%	$3,290	–7.0%	$251,108
2024	14.5	10.4%	$3,315	0.8%	$229,086

Investor Demand

While demand from individual investors was strong in 2024, demand from institutions was a mixed bag. Helping demand were the strong net inflows from tax-exempt mutual funds and exchange traded funds (ETF) and the rapid growth in SMAs. Net inflows into tax-exempt mutual funds likely benefited the long end of the municipal bond market, as mutual funds tend to buy longer dated bonds than individual investors. On the other hand, the fact that banks and insurance companies continued to reduce their holdings of municipal bonds through September 2024 likely didn't help.

According to the Investment Company Institute, through December 24, 2024, tax-exempt mutual funds saw net inflows of $29.3 billion and ETFs saw net inflows of $16.4 billion. Mutual fund net inflows in 2024 compared to net outflows of $17 billion in 2023 and $148 billion in 2022. ETFs, meanwhile, had their 11th consecutive year of net inflows, with ETF net inflows up slightly from $14.6 billion in inflows in 2023.

According to data from the Fed,[3] banks reduced their holdings of municipal bonds by more than $35 billion through the first three quarters of 2024, a decrease of 6%. Insurance companies also continued to reduce their holdings of municipal bonds, with the value held dropping by $14 billion through September, a 3% reduction. Combined, banks and insurance companies reduced their holdings of municipal bonds by $49 billion, or 5%, in just nine months, so they had very limited demand for municipal bonds during the year.

Typically, the municipal bond market has less depth than other fixed income securities when it comes to types of investors because of the tax-exemption and the corresponding lower yields. Investors such as foreign investors and tax deferred accounts get little to no benefit from the tax-exemption, so they are likely to invest in taxable fixed income, which typically has higher yields than tax-exempt bonds. In 2024, the significant reduction in holdings by banks and insurance companies continued to be a challenge, as the market is dependent on demand from a limited pool of investors.

[3] Financial Accounts of the United States, Board of Governors of the Federal Reserve System, December 7, 2023.

Yields

As Figure 3 below shows, 10-year benchmark tax-exempt yields were volatile in 2024, although not nearly as volatile as in 2023. We saw significant periods of upward and downward movement in yields. Benchmark 10-year yields rose consistently from the beginning of the year through the end of May, rising from 2.27% to 3.09%. Yields on 10-year securities then dropped 60 basis points from the beginning of June to early August, but that decline was reversed from early August to early November. Yields declined through November, but those gains were wiped out as yields then rose swiftly at the end of the year, closing at 3.11 on December 31, near the high for the year.

Figure 3. Bloomberg BVAL 10-Year Callable Yields, January 2024–December 2024

Source: Bloomberg Financial L.P.

Figure 4 shows that at the end of the year, 10-year benchmark yields were above 3%, levels we saw in 2022 and 2023. However, prior to 2022, you would have to go back nearly a decade to September 2013 to see 10-year benchmark yields at 3% or higher. Certainly, one of the reasons for the heightened demand for municipal securities in the last three years could be how attractive tax-exempt yields are relative to the prior nine years.

Figure 4. Bloomberg BVAL 10-Year Callable Yields, 2011–2024

Source: Bloomberg Financial L.P.

Figure 5 shows the changes in benchmark tax-exempt yields and Treasury yields. Treasury bonds have significantly outperformed tax-exempt bonds except for the long end of the market. The outperformance is most noticeable on the short-end, where 1-year Treasury yields are lower by 63 basis points, while 1-year tax-exempt yields are actually 38 basis points higher. The 1-year Treasury yield rally is likely because of the Fed's fiscal policy going from a tightening to a loosening cycle. In fact, the Fed lowered short-term interest rates three times in 2024, 50 basis points in September, 25 basis points in November and 25 basis points in December.

You can also see that the Municipal to Treasury ratios (Muni/TYS) rose in 2024 in all but the 30-year maturity. For example the 1-year Muni/TSY ratio closed 2023 at 58% but ended 2024 at 68%.

Figure 5. Bloomberg BVAL® AAA Callable and U.S. Treasury Yields

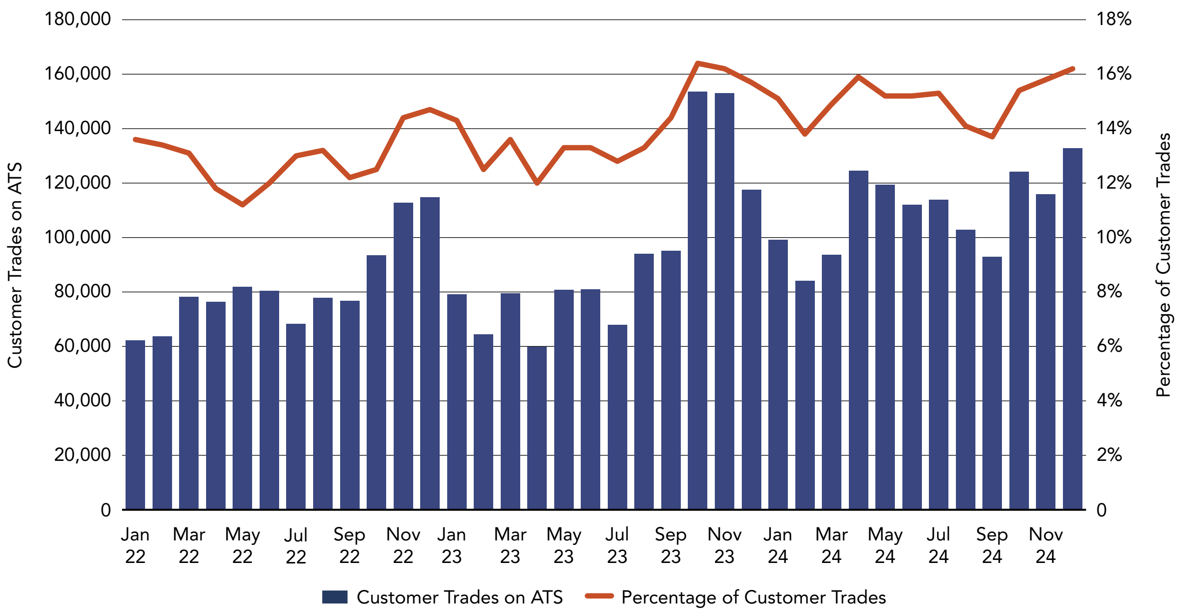
Year	BVAL Callable 12/31/2024	TSY 12/31/24	BVAL YTD Change in BPS	TSY YTD Change in BPS	Muni/TSY Ratio 12/31/2024	Muni/TSY Ratio 12/31/2023
1	2.947	4.160	38	–63	71%	54%
2	2.802	4.250	32	2	66%	59%
3	2.814	4.270	48	26	66%	58%
5	2.878	4.380	69	54	66%	57%
10	3.110	4.580	86	70	68%	58%
20	3.588	4.860	50	66	74%	73%
30	3.817	4.780	48	75	80%	83%

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

Trading on Alternative Trading Systems

Figure 6 shows the number of customer trades executed with the dealer of an alternative trading system (ATS) as well as the percentage of customer trades executed with the dealers of ATSs compared to all customer trades. Additionally, the percentage of interdealer trades executed over an ATS in 2024 was extremely steady this year, hovering between 55%–57% each month, down slightly from 2023. Meanwhile, ATSs continue to increase their presence in trading with institutional customers. In 2023, the percentage of customer trades executed with the dealer of an ATS was 14.3%. In 2024, it rose to 15.1%, meaning one of every seven customer trades were executed with the dealer of an ATS. The number of offerings on ATSs also increased substantially throughout the year, as did the number of bid-wanteds[4] on ATS platforms.

Figure 6. Customer Trades Executed on ATS, January 2022–December 2024



4 Bid-wanteds also known as requests for quotes, is a common market protocol for investors and dealers to sell securities. A bid-wanted alerts market participants that a participant is interested in selling a specified quantity of a certain bond for a period of time and allows them to enter the yield/price they are willing to pay for the security.

New Issue Volume

New issue volume reached record levels in 2024, exceeding $500 million for the first time.[5] The increase in new issue volume was likely aided by an end to COVID relief money for some issuers, a continued high level of tender offers[6] in the market and some large tax-exempt deals that refunded outstanding Build America Bonds. Overall volume was up 32% in 2024, with tax-exempt issuance up 36%, but taxable volume was lower by 11% for the year. New money volume climbed 19%, while refunding volume soared to $85 billion, up 64% compared to 2023.

Issuance in 2024 was $508 billion, up 5% from the $483 billion issued in 2020. The record issuance in 2024 was fueled by the issuance of tax-exempt debt, where 2020 issuance was largely impacted by a surge in taxable issuance to refund outstanding debt in a period of record low yields. For example, in 2024, tax-exempt issuance was $447 billion, up 36% compared to $330 billion issued in 2020. On the other hand, taxable issuance in 2024 was only $36 billion compared to $146 billion in 2020. Taxable issuance was only 7% of the market in 2024, in line with many other years, but was 30% of the market in 2020.

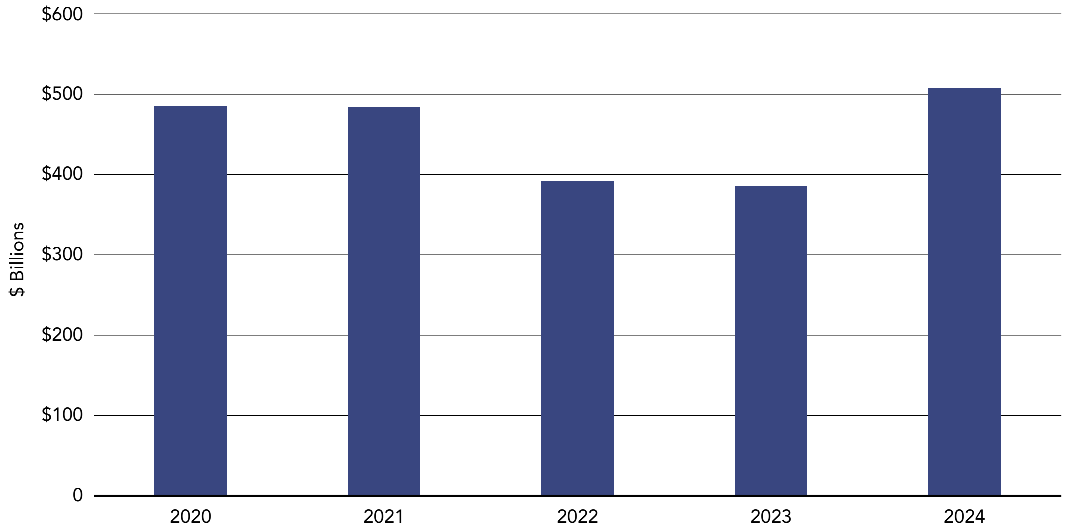
Negotiated volume rose 40% and competitive volume rose 20% compared to 2023, but private placements declined by 45%. In terms of issuance as a percentage of the entire market, negotiated volume was 81%, up from 76% in 2023. Competitive volume fell slightly from 19% in 2023 to 17% in 2024, but private placement volume plunged from 6% of the market in 2023 to only 2% in 2024.

For the third consecutive presidential election, we saw new issue volume drop dramatically in November and December compared to September and October. In 2024, new issue volume in the last two months of the year was $57, down 51% compared to the previous two months. In 2020, new issue volume was 56% lower in November and December than it was in the previous two months of the year, and in 2016, it was 43% lower. In non-presidential election years, new issue volumes have mostly been similar in September and October to what they were in November and December.

5 All issuance data according to LSEG

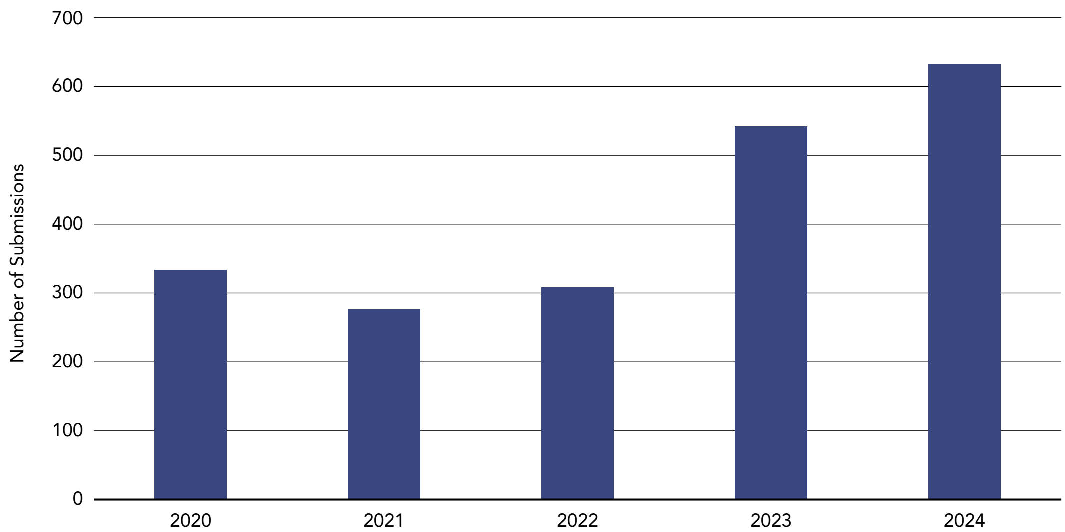
6 The MSRB does not have data on the number of par amount of tender offers executed, however, the number of continuing disclosures related to tender offers remained at a high level in 2024, see Figure 5.

Figure 7. Annual Municipal Market Issuance, 2020–2024



Source: LSEG

Figure 8. Number of Continuing Disclosures Related to Tender Offers, 2020–2024



Dealer Departures

In last year's market summary, we mentioned the closing of Citi's municipal securities group as well as UBS' departure from negotiated underwriting and the potential impact these moves could have. Based on the market's performance and conversations MSRB staff have had with market participants, it seems that the dealer community collectively has stepped up to fill any void in both the primary and secondary markets. However, it should be noted that 2024 was a relatively calm year from a market volatility perspective, with few to no market disruptions. So, although the market handled these departures well, it will be important to assess any potential gap during periods of market disruption to fully assess the impact of these departures.

Conclusions

The municipal bond market was quite eventful in 2024, and we saw some fundamental shifts in the market. Highlights include:

- A third consecutive year of record trade count, up 10% from the previous record, indicating continued strong and consistent demand from individual investors directly and through SMAs.
- An overall rise in yields, with 10-year Municipal-to-Treasury ratios closing at 68% at year-end up from 58% at the end of 2023.
- Three rate cuts by the Fed, with the September rate cut being the first since March 2020.
- A significant increase in new issue volume to $508 billion, up 32% compared to 2023, with new issue volume in September and October dwarfing volume in November and December for the third consecutive presidential election, as issuers sought to avoid any potential uncertainty surrounding the election.
- Positive net inflows into tax-exempt mutual funds for the first time since 2021 and continued growth of tax-exempt ETFs, offset by a continued reduction in holdings by banks and insurance companies.

In 2025, we expect another year of robust issuance, trade counts to remain elevated and yields to be heavily influenced by the trend in inflation. We expect much of the focus in the market to be on the new tax bill and the potential impact it could have on the municipal securities market.

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) protects and strengthens the municipal bond market, enabling access to capital, economic growth, and societal progress in tens of thousands of communities across the country. MSRB fulfills this mission by creating trust in our market through informed regulation of dealers and municipal advisors that protects investors, issuers and the public interest; building technology systems that power our market and provide transparency for issuers, institutions, and the investing public; and serving as the steward of market data that empowers better decisions and fuels innovation for the future. MSRB is a self-regulatory organization governed by a board of directors that has a majority of public members, in addition to representatives of regulated entities. MSRB is overseen by the Securities and Exchange Commission and Congress.

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