U.S. MUNICIPAL BONDS
PRESIDENTIAL ELECTION UPDATE 2024
September 13, 2024

Buckle up—things are about to heat up in the muni space!

With the 2025 budget resolution looming, tax policy is set to take center stage. Regardless of the election outcome, significant shifts are expected as early as this year. The candidates offer dramatically different visions for the economy, which will undoubtedly create new opportunities in the market.

Trump is doubling down on his signature tax cuts for individuals and corporations, favoring deregulation and corporate incentives. His push for lower capital gains taxes aims to spur investment, while increased tariffs could significantly impact the tax receipts and credit spreads of trade-heavy states. If Trump prevails, expect a focus on traditional infrastructure—roads, bridges, energy pipelines—with an emphasis on public-private partnerships and rapid development. This could potentially revive a version of the Build America Bond financing vehicle and affect select sectors and issuer credit spreads within the market.

Harris, on the other hand, is advocating for a progressive tax agenda, aiming to reverse Trump-era tax cuts. She plans to close loopholes and increase taxes on corporations and wealthy individuals, using the funds to invest in healthcare, education, affordable housing, and climate-resilient infrastructure. Her vision prioritizes green energy, sustainable public transit, and addressing inequality through environmental justice. This is likely to further the divide between blue and red states and lead to a more customized focus on ESG-linked investing rather than broad issuance and acceptance.

For municipal bonds, these tax battles could lead to significant opportunities. If tax rates increase, demand for tax-exempt municipal bonds is likely to broaden and surge. Harris's progressive tax approach could revive corporate demand that left the asset class after the passage of the 2017 Tax Cuts and Jobs Act (TCJA).

Conversely, Trump's focus on lower tax rates and private funding for infrastructure investment could pose risks to the markets tax-exempt status. However, a financing vehicle like Build America Bonds would shift the opportunity set, drive demand from global institutional investors, and create technical perfection in the tax-exempt municipal market especially if the SALT write-off is restored.

Regardless of the approach, slashing tax rates faces significant obstacles over revenue offsets, while eliminating the exemption is set to spark intense political battles.

This clash between traditional development and an eco-minded future is shaping up to be a pivotal moment for municipal infrastructure financing and tax policy.

With other initiatives—like Harris's proposed Medicare surtax increase from 3.8% to 5.0% for high earners and Trump's plan to tax large private university endowments—the stakes are only getting higher for different parts of the municipal market.

A divided government has historically been viewed as favorable, as it increases the likelihood that the individual tax cut provisions of the TCJA will expire.

As tax rates rise, the demand for municipal bonds is expected to surge. Ten states and five cities have already raised tax rates since the passage of TCJA.

For taxable investors, the message is clear: the municipal asset class can no longer be ignored.

For opportunistic investors, stay flexible: volatility and even more opportunities are on the horizon.

About

16Rock is a full-service asset management firm specializing in U.S. Municipal Bonds with a global perspective. We cater to the modern needs of institutions and high-net-worth individuals around the world. Our passion is to help clients translate their desires and aspirations into sophisticated outcomes that exude order. Our team leverages decades of experience to construct highly curated portfolios. We offer tailored managed account solutions, transition management services, and through our alternative investment capabilities, products designed to deliver absolute return excellence.

16Rock Asset Management LLC
1 Rockefeller Plaza, Suite 2130
New York, NY 10020
Phone: (212) 332-1600
Email: info@16Rock.com
Web: www.16Rock.com