Nurturing the next generation of municipal bond buyers

[CNBC Brand Studio, July 2026] – Interest rates, economic uncertainty and a desire for diversification may be contributing to renewed interest from retail investors in the market that finances much of America's public infrastructure.

There's plenty of supply to meet that robust demand: New-issue bond volume surged more than 50% from 2023 to 2025, reaching $580 billion.

"Municipal bonds are an underestimated asset class with a lot of ramp to grow," says Eric Kazatsky, managing director and client portfolio manager at MacKay Shields, a global investment firm.

So far in 2026, the municipal market is on pace to set a third consecutive record for annual new-issue bond sales, demonstrating strong "new money" investment in essential infrastructure by states, cities, counties, school districts and other local borrowers. As of June 2026, the S&P Muni Bond Index has returned 6.61% over the past year and currently yields 3.99%.

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RBC WEALTH MANAGEMENT

While municipal bonds have historically remained the purview of older, high-net-worth investors, some younger investors are increasingly interested in these investments, thanks to investor education, digital trading platforms and the expansion of more accessible exchange-traded municipal bond funds.

That interest is likely to deepen over time. "As younger investors shift into higher tax brackets and seek principal preservation strategies, municipal bonds likely will come into focus as a straightforward solution," says Jim Mann, U.S. fixed-income strategies head at RBC Wealth Management.

Retail demand continues to build

Individual retail investors own about half of the $4.5 trillion municipal bond market, according to the Federal Reserve, with retail-focused mutual funds accounting for another 25%. Their embrace of muni bonds reflects a desire for tax-exempt income, strong fundamentals and portfolio diversification.

Retail investors could also be responding to elevated interest rates, explains Phil Moos, BAM Mutual vice president, capital markets.

"Municipal bonds have always had the highest retail participation of all the fixed-income asset classes," Moos says. "But if you can get a 4% to 5% return on a 10- to 20-year bond, you're going to get even higher retail participation."

Meanwhile, data shows that year-to-date municipal bond inflows are nearly double the $14.6 billion seen the previous year.
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"The muni bond fund inflows likely reflect the diversification and ease-of-use benefits for small account sizes," RBC's Mann says. "An investor can diversify their bond portfolio with a relatively small investment, compared to purchasing individual bonds, and the fund manager vets the securities and structures."

The market may have also benefited from the rise of exchange-traded funds (ETFs) and separately managed accounts, which could allow for more personalized portfolios tailored to the future cash flow needs of each individual investor, explains Morgan Fahy, vice president of capital markets at BAM Mutual.

MacKay Shields' Kazatsky says these commingled vehicles have made it easier for younger investors to gain exposure to the asset class. "They have been transformational as far as getting newer buyers off the sidelines and into our space," he says.

The role of insurance

One important tool that portfolio managers use to introduce new investors to the asset class is insurance. By mitigating credit risk and adding a layer of liquidity, insured bonds help provide the comfort and stability that market participants need to confidently navigate the tax-exempt fixed-income space.

For investors new to the market, bond insurance can help simplify the credit evaluation process by providing an additional layer of independent analysis. "Bond insurers offer a separate check and balance," Kazatsky says.

That's particularly true for smaller issuers who may not have the same name recognition as larger municipalities, BAM's Moos says.

Insurance can also help enhance portfolio value. "We've seen insurance evolve from being not only used as protection against credit concerns, but also as a portfolio diversification tool, or a relative value opportunity," BAM's Fahy says. "That increased demand becomes extremely apparent during times of market volatility or dislocation, where retail-focused investors will be willing to pay a premium for additional protection, surveillance and liquidity that's offered by insured bonds."

Elucidating muni bonds

Education remains one of the industry's biggest hurdles, and greatest opportunities, for attracting new investors.

While advisors and portfolio managers are looking to help their clients understand how munis might fit into their portfolios and help them meet their goals, platforms are adopting electronic trading and improved data transparency tools designed to help demystify municipal pricing, boosting liquidity and retail confidence in a traditionally opaque, over-the-counter market.

"The easier it becomes for investors to understand what they own and how they own it, the more confidence they're going to have in the asset class, long term," Kazatsky says.

For those unfamiliar with municipal bonds, such education can be a challenge. After all, while there are around 3,900 publicly traded companies in the United States as of July 2026, there are more than 50,000 separate municipal borrowers, who sell more than 9,000 different bond issues every year.

"It's almost like thinking about processing 10,000 or 11,000 different IPOs every year," says Michael Stanton, head of strategy and communications at BAM. "So, there is a lot of work that has to get done on an ongoing basis."

As part of its investor education efforts, BAM releases weekly capital markets updates highlighting market trends, performance and notable transactions. "Explaining the credit analysis process definitely helps to further educate investors and drive additional interest," Fahy says.

Beyond yield

One message should remain clear to investors and their clients: municipal bonds finance essential infrastructure, BAM's Stanton says.

"These are tangible assets: roads, schools, bridges in local communities that people can see that are extremely long lasting. They match the term of the bonds and are also very important for economic development," he says.

Mann adds that some younger investors are more socially and environmentally conscious, so bonds that fund transportation, affordable housing, or water and sewer projects, may hold additional appeal.

Muni bonds can also give retail investors a stake in something tangible they might see, use and appreciate in their own community. "If you're buying individual bonds or buying a bond fund that holds a local school district, then you have a sense of ownership in that," says Kazatsky.