

U.S. Municipal Bond Market

Voters Want Normalcy - This is Not It - More Political Change is Likely

- No meaningful change is likely to come from the President's inflation related policy proposals or meeting with Fed Chair Powell.
- In fact, the results will likely not be positive for Democrats in November. The political implications will likely result in more gridlock. The policy implications could threaten municipal bonds after 2024. And the financial implications are most likely that rates will continue to rise as the Fed has communicated.

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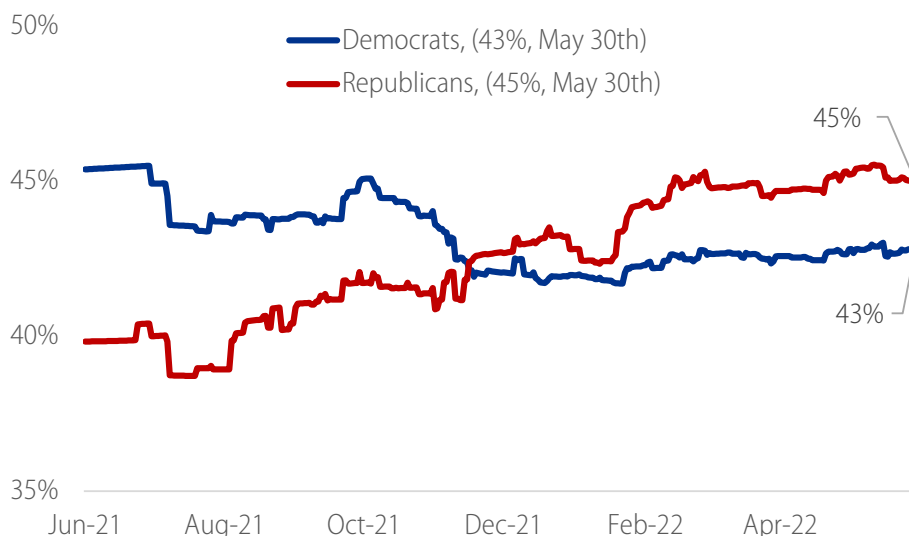
Results of 2022 Mid-Terms Will Have Widespread Implications

In November of 2020 voters voted for normalcy. In November 2021 voters voted for normalcy. And in November 2022 voters again are largely going to choose candidates based on their desire for a return to normalcy. A range of mostly unforeseen circumstances have contributed to President Joe Biden's and the Democratic party's lack of popularity in 2022. We are illustrating the lack of popularity with the below data from [FiveThirtyEight](#). This average of polls shows that voters have been and are still leaning toward Republicans in 2022. For now, no financial topic is more important than inflation going into the November mid-terms.

The President tried to make his case to the American people, investors and the public finance community in an op-ed in Tuesday's Wall Street Journal, titled [My Plan for Fighting Inflation](#). Two themes were stressed in the President's plan: 1) leave the Fed alone, and 2) more fiscal (and tax) policy. The first the President is supposed to do anyway, and details related to the second theme were mostly a reintroduction of policies that are still unlikely to become law.

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Do Voters Want Democrats or Republicans in Congress?



Source: Average of Five-Thirty Eight polling and HilltopSecurities.

The President also meet with Fed Chair Jerome Powell on Tuesday to discuss his inflation policies and most likely to reiterate to the Fed Chair that the White House would allow the Fed to take the steps necessary to combat inflation as needed. There is not likely going to be any shift in fiscal or monetary policy as a result of the meeting. It is most likely a political maneuver that illustrates to voters and investors that President Biden is paying attention to what is happening on the ground. Frankly, there is little power in the Executive branch to combat the forces causing elevated inflation currently.

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Likely Political, Policy and Financial Implications

What is more likely, even at this early stage about five months before the 2022 mid-terms, is that the stress on voters and consumer from higher inflation is likely to pressure voters to continue to vote for normalcy. The result will likely not be positive for Democrats in November. The political implications are likely going to either allow Republicans to take one or both chambers in Congress. Either way that means more gridlock in D.C. The policy implications of this gridlock will mean that it will be very difficult to see any meaningful laws enacted before the 2024 Presidential election(s). This makes it very unlikely that municipal bond friendly legislation is likely to be seriously considered, much less become the law of the land. We believe it is important for the public finance community to communicate to lawmakers about the importance of the municipal bond tax-exemption, it could be under threat after 2024. The financial implications are clear, as the Fed has been communicating in recent weeks: interest rates are most likely going to continue higher.

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