

U.S. Municipal Bond Market

The Time is Now

- “The time has come for policy to adjust,” said Fed Chair Jerome Powell while in Jackson Hole, WY last week. This is the clearest indicator to date that the U.S. Federal Reserve is near to calling for an end to its historic fight against inflation and is ready to begin to loosen monetary policy.
- The time is now for investors to seriously consider how this messaging from the Fed Chair will accelerate the allocation and reallocation of investment dollars.
- Tax-exempt municipal bonds could still be the investment landscape’s best kept secret. Although yields have continued to drop since the beginning of the summer, they are not as appealing as they once were this year, yet they remain near generationally attractive levels.
- Flows into municipal mutual funds continue to trickle-in but are still not close to the average amount we saw in 2021. The most important take-away here is municipal fund flows have been positive for eight straight weeks.

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“The Time has Come . . .”

The statement: “The time has come for policy to adjust,” is the clearest indicator to date that the U.S. Federal Reserve is near to calling for an end to its historic fight against inflation and is ready to begin to loosen monetary policy. This comment was one of the major take-aways from Federal Reserve Chairman Jerome Powell’s remarks from Jackson Hole, WY on Friday. It is one of the more transparent statements we have heard or read from the Fed Chair on this topic. The FOMC’s next meeting is Sept 17-18. It is very likely the Fed lowers its benchmark federal funds rate target by at least 25 basis points at that meeting. Labor market weakness is starting to become the Fed’s leading focus.

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In his Friday remarks Chair Powell also noted, “My confidence has grown that inflation is on a sustainable path back to 2 percent,” and he included, “. . . the pace of rate cuts will depend upon incoming data, the evolving outlook, and the balance of risks.” There are some important events and dates to watch in coming months, we listed them below.

Important Upcoming Financial and Political Dates

Date	Event	Note
Sept 6	Non-farm payrolls (Aug)	160k exp, 114k last
Sept 10	Presidential Debate in Philadelphia	Trump vs. Harris
Sept 11	Consumer Price Index	2.9%, 3.2% YoY last
Sept 17-18	U.S. FOMC Meeting	“The time has come . . .”
Sept 30	Federal Funding Deadline	Shutdown unlikely
Nov 5	Election Day in U.S.	WH is a toss-up
Nov 6-7	U.S. FOMC Meeting	Data, outlook, risks
Dec 17-18	U.S. FOMC Meeting	Data, outlook, risks

Source: Bloomberg and HilltopSecurities.

Please also see [Yields Creep Higher as Investors Anticipate Powell's Jackson Hole Speech](#) (August 22) and [Powell's Dovish Speech Sparks Rally to End the Week](#) (August 23) both by HilltopSecurities' Scott McIntyre and Greg Warner for more.

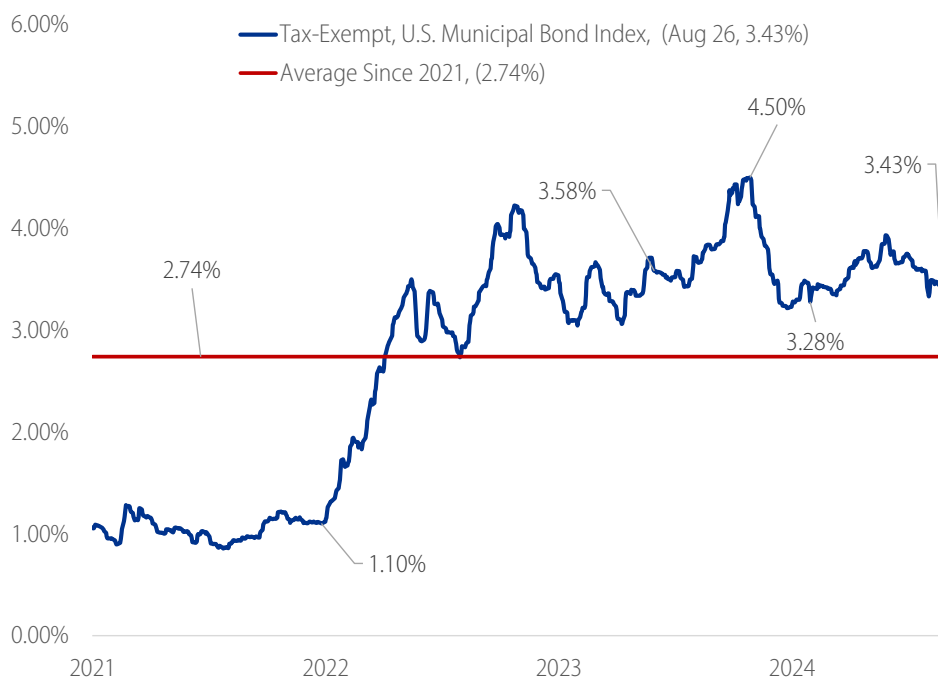
The Time is Now

The time is now for investors to seriously consider how this messaging from the Fed Chair will accelerate the allocation and reallocation of investment dollars. This is the signal investors have been waiting for. We expect this changing Fed landscape will strengthen the rotation of investable funds into fixed income, including tax-exempt municipal bonds in coming weeks and months.

Tax-Exempts Could Still be 2024's Best Kept Secret

At the middle of this summer we wrote, [Tax-Exempt Municipal Bonds Could Be 2024's Best-Kept Secret \(But Not for Long\), Mid-Year 2024 Update](#) (July 1) while highlighting the historically attractive (yes, still) yields we were seeing. At the end of July we [shared our optimism](#). The volatility that interrupted the beginning of August gave us another argument in favor of bonds, that they could be considered a fundamental defensive play in the face of market uncertainty. Please see [Bonds are Back](#) for more on this. Finally, the messaging from the Fed we have been waiting for since the beginning of 2022 has arrived.

Municipal Yields Have Dropped Since the Beginning of the Summer



Source: Bloomberg and Hilltop Securities.

Investment Dollars Continue to Trickle into Municipal Mutual Funds

Another \$500 million flowed into municipal mutual per Lipper data reported last week. That makes eight straight weeks of positive flows into municipal funds, although only one of those weeks included more than one billion dollars. In 2021, the year when fund flows into municipal were last consistent and very strong, the average weekly flow was over \$1 billion.

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Recent HilltopSecurities Municipal Commentary

- [Bonds Are Back](#), August 15, 2024
- [Our Optimism Endures from the Growth Surge, Record Housing Prices, Still Appealing Tax-Exempt Yields, & a Fed Poised to Communicate Rate Easing Progress](#), July 30, 2024
- [2024 Municipal Analyst Bond Survey](#), April 30, 2024
- [The Efficiency of the Municipal Bond Tax-Exemption was Called into Question and the Same Analysis Proposes to Eliminate the Tax-Exemption](#), March 26, 2024

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

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