

## U.S. Municipal Bond Market

# Municipal Bonds on the Other Side of Election 2024

- The results from Election 2024 will significantly impact economic policies, regulatory frameworks, and fiscal strategies, ultimately shaping the U.S. economy and municipal finance landscape.
- Despite the uncertainties and volatility surrounding the elections and Federal Reserve decisions, the current environment still presents an appealing opportunity for municipal investors, particularly with the recent rise in municipal bond yields.
- Drawing parallels between the tumultuous events of 1968 and 2024, we emphasize the potential for hope and progress. We encourage investors to remain optimistic, while also advising them to be prepared for changes on the other side of Election 2024.

Tom Kozlik

Head of Public Policy and

Municipal Strategy

214.859.9439

tom.kozlik@hilltopsecurities.com

## Parallels Between 1968 and 2024

As election day 2024 approaches, the nation finds itself gripped by a palpable sense of stress, anxiety and even fear. The lead up to Nov. 5 has been marked by a near-unprecedented set of events. The Democrats made an unexpected and un-surprising move by replacing their candidate- who is currently finishing his first term in the White House. We have seen two assassination attempts on the Republican candidate. International conflicts, and the looming threat of post-election violence in the U.S. is creating a pressure cooker atmosphere that seems ready to burst.

Political analysts and commentators are drawing striking parallels between the lead-up to the November 5th elections and the tumultuous events of 1968. That year, also referred to as the "year that shattered America," was marked by significant upheaval and conflict. The Cold War with Russia heightened the overall tension, while the assassination of Dr. Martin Luther King Jr. and other violent incidents related to the Presidential election added to the chaos. As we approach Election Day 2024, the echoes of 1968 resonate strongly, reminding us of a time when the nation was similarly on edge.

*Despite the uncertainties and volatility surrounding the elections and Federal Reserve decisions, the current environment still presents an appealing opportunity for municipal investors, particularly with the recent rise in municipal bond yields.*

## Select Important Upcoming Financial and Political Dates

Date	Event	Note
Nov 5	Election Day in U.S.	White House is a coin-toss
Nov 6-7	U.S. FOMC Meeting	Data, outlook, risks to be considered
Dec 6	Nonfarm Payrolls	+12k in Oct. 2024
Dec 17-18	U.S. FOMC Meeting	Data, outlook, risks to be considered
Dec 20	Fed. Budget Funding Expires	Will need to be renewed
Jan 1, 2025	End of debt limit suspension	Extraordinary measures can last a few months
Jan 6, 2025	Congress to certify election results	In Washington D.C.
Jan 20, 2025	60th Presidential Inauguration	In Washington D.C.

Source: HilltopSecurities.

Please see disclosure starting on page 4.

The 1968 Presidential election is considered one of the most volatile in U.S. history to some. Senator Robert F. Kennedy, a prominent candidate, and Senator from New York, was assassinated while campaigning. As summer ended, the Democratic National Convention in Chicago was marred by violent clashes between police and anti-Vietnam War protesters, which were broadcast on national television. The images of police brutality and chaos further polarized the American public and highlighted the deep divisions within the country.

*The 1968 Presidential election is considered one of the most volatile in U.S. history to some.*

As 1968 ended, NASA's Apollo 8 mission made history by taking humans beyond Earth's orbit for the first time. Just before the spacecraft disappeared behind the Moon, and just before losing radio contact with Mission Control, astronaut Jim Lovell famously said, "We'll see you on the other side." This phrase has taken on a symbolic meaning, often used to signify a journey through challenging times with the hope of emerging renewed and transformed. The notion embodies the spirit of perseverance and the promise of new beginnings.

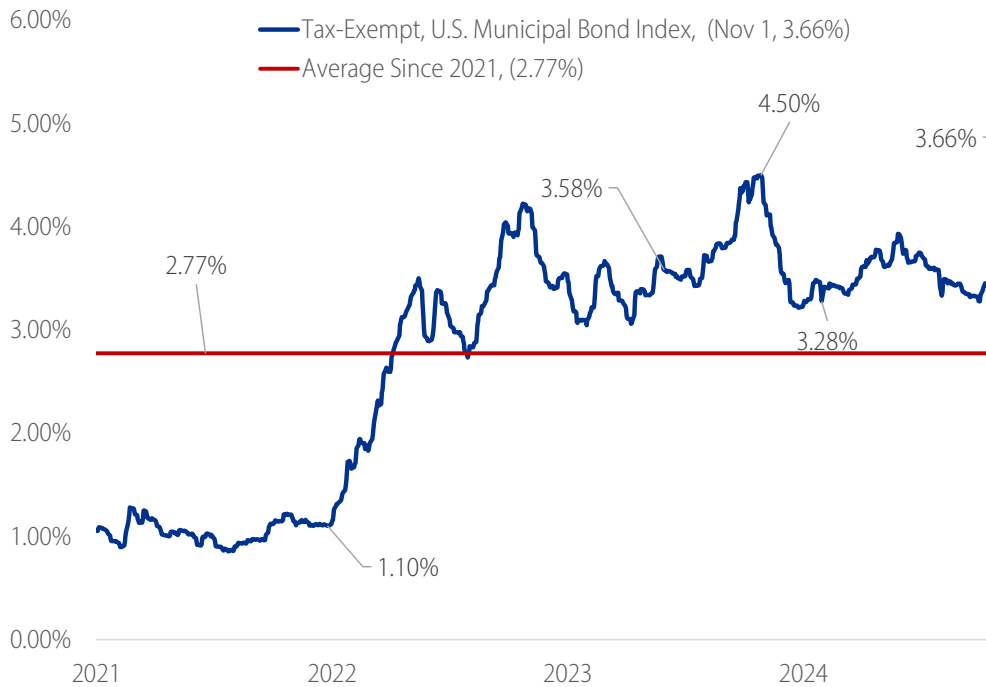
We aim to provide insights into the future of the municipal bond market and the viability of municipal investments in the aftermath (or on the other side) of what has the potential to be one of the most impactful U.S. Presidential elections in modern history. The results from the 2024 Presidential and Congressional elections will significantly impact economic policies, regulatory frameworks, and fiscal strategies, shaping the U.S. economy and municipal finance landscape.

## **We Still Favor Municipals Despite the Election & Fed Uncertainty**

Economic, market, and election volatility have significantly impacted decision-making since the Federal Reserve lowered its target rate by 50 basis points in September. Contrary to our initial expectations of falling yields, these circumstances have presented what we believe to be the best opportunity of the year for municipal investors. The Bloomberg Municipal Bond Index, which stood at 3.32% on Sept. 18, rose by 34 basis points to 3.66% by the end of last week. Even so, investors should be preparing their portfolios for a lower interest rate environment. Municipal investors should maintain a positive outlook. This increase has been a pleasant surprise, and we encourage investors to capitalize on the elevated municipal yields observed since the Fed's rate adjustment.

*Economic, market, and election volatility have significantly impacted decision-making since the Federal Reserve lowered its target rate by 50 basis points in September.*

## Election & Bond Market Volatility Still Offer an Opportunity for Municipal Investors



Source: Bloomberg and HilltopSecurities.

Investors should brace themselves for potential continued volatility, as uncertainty is likely to persist. Adding to the election uncertainty is the upcoming Nov. 6-7 meeting of the U.S. Federal Reserve, where the next steps for the path of monetary policy will be announced. There is a possibility that the Fed may lower its target rate again, but it could also decide to pause (very small chance of a pause).

Last week's data releases were relatively weaker than anticipated. The initial estimate for U.S. third-quarter GDP came in at slightly below expectations at +2.8%, driven primarily by consumer spending. On Friday, nonfarm payroll data reignited concerns about the labor market with an increase of only +12k reported, significantly below the +112k median forecast. The Fed will remain data-dependent through this process, and we should not expect a different approach this week.

### On the Other Side

On Wednesday Nov. 6, or whenever the results of the Nov. 5 elections are finally known, we may awaken to a vastly different political and economic landscape. Despite the uncertainties, there are reasons for investors to remain optimistic. Reflecting on the parallels between 1968 and 2024, we draw inspiration from another example from the Apollo 8 mission at the close of 1968.

NASA's Mission Control waited anxiously for contact from the Apollo 8 astronauts as they prepared to leave lunar orbit. Just after the spacecraft reappeared from behind the moon, Mission Control inquired, "How did it go?" Astronaut Jim Lovell responded with a memorable and reassuring message: "Roger, please be informed there is a Santa Claus."

There are numerous symbolic themes we can explore here, related to communication,

*Investors should brace themselves for potential continued volatility, as uncertainty is likely to persist.*

*Last week's data releases were relatively weaker than anticipated. The initial estimate for U.S. third-quarter GDP came in a slightly below expectations at +2.8%, driven primarily by consumer spending.*

*On Wednesday Nov. 6, or whenever the results of the Nov. 5 elections are finally known, we may awaken to a vastly different political and economic landscape.*

technology, and the overall political state of the country in 1968, which mirrors our current times. Lovell's response not only symbolized the successful completion of a critical maneuver during a record-breaking mission but also served to confirm to Mission Control that the engine burn to leave lunar orbit had been successful, ensuring the crew's safe return to Earth. Lovell's response brought a sense of relief and joy, akin to the magic and happiness associated with Santa Claus - something that was sorely needed during the 1968 holiday season.

Moreover, Lovell's response symbolizes the hope and progress that can emerge at the end of one of the most politically and socially tumultuous years in the country's history. Lovell's response can also serve as a beacon of hope for investors and the nation in 2024 as well.

### Additional 2024 Election Related Analysis:

Please see [As the 2024 Elections Loom, America's Infrastructure Challenges Persist & Threaten to Deepen](#) (Oct. 29, 2024), [Market Volatility Equals What Could Be The Best Opportunity of the Year for Municipal Investors](#) (Oct. 15, 2024), [Our 2024 Election Preview: We Could See an Unprecedented Threat to U.S. Municipals from Potential Tax Policy Changes](#) (Sept. 11, 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), and [Save the Tax-Exemption, A Call to Action for U.S. Public Finance](#) (August 17, 2023) for additional relevant analysis.

### Recent HilltopSecurities Municipal Commentary

- [As the 2024 Elections Loom, America's Infrastructure Challenges Persist & Threaten to Deepen](#), October 29, 2024
- [The Risk of Unexpended Proceeds Calls Remains Low: The Effect of Declining Rates on Single Family Mortgage Revenue Bonds](#), October 21, 2024
- [Market Volatility Equals What Could Be The Best Opportunity of the Year for Municipal Investors](#), October 15, 2024
- [Higher Education in Crisis, Systemic Pressures Buck the Golden Age Trend](#), September 25, 2024
- [Our 2024 Election Preview: We Could See an Unprecedented Threat to U.S. Municipals from Potential Tax Policy Changes](#), September 11, 2024

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

*The paper/commentary was prepared by HilltopSecurities (HTS). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS as of the date of the document and may differ from the views of other divisions/departments of affiliate Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.*

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS is a wholly owned subsidiary of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP