

## U.S. Municipal Bond Market

## Election 2024 Results Point Toward a “Red Wave,” Still Appealing Municipal Yields, and Potentially a Stronger Threat to Tax-Exemption than 2017

- Former President Donald Trump has been re-elected, with the Republican Party securing control of the U.S. Senate and aiming to gain control of the House. A “Red Wave” is highly possible, which could have significant economic, policy and municipal market implications.
- Municipal bonds have become increasingly attractive investments, with tax-exempt yields reaching generationally appealing levels, again. Despite uncertainties, a lower interest rate environment is still anticipated over the next six to twelve months.
- Tax policy will be a major focus in 2025, with potentially an even stronger threat to the municipal bond tax exemption compared to 2017, if a “Red Wave” in fact occurs.

*Tom Kozlik**Head of Public Policy and**Municipal Strategy**214.859.9439**tom.kozlik@hilltopsecurities.com*

### Results from Election 2024

Former President Donald Trump has once again become President-Elect. The Republican party secured control of the U.S. Senate and is aiming to complete the “Red Wave” by gaining control of the U.S. House of Representatives. Given the strong voter support for Republicans on Tuesday night, we believe a Red Wave is highly possible. Such an outcome would have significant macro-economic, investment, and municipal market implications, which we will explore in detail here and in coming weeks and months as specific policy developments unfold. Here are our current thoughts.

*Tax policy will be a major focus in 2025, with potentially an even stronger threat to the municipal bond tax exemption compared to 2017, if a “Red Wave” in fact occurs.*

### Investable and Generationally Attractive Municipal Yields, Again

Municipal bonds have become even more attractive investments today compared to just over two weeks ago when we highlighted the opportunity in our Oct. 15 piece, [Market Volatility Equals What Could Be The Best Opportunity of the Year for Municipal Investors](#). Tax-exempt municipal yields have returned to generationally attractive levels, though this may not last for long. As market and election uncertainties evolve into policy uncertainties, a lower interest rate environment is not necessarily imminent. However, it is likely that the FOMC will lower its target rate by 25 basis points during its Nov. 7 meeting. The Fed will remain data-dependent, making their actions on Dec. 17-18 uncertain. Nonetheless, we believe investors should prepare for a lower, rather than higher, interest rate scenario over the next six to twelve months.

### Implications of 2025 Tax Policy Action

Tax policy will be a major topic of discussion in 2025, with actions expected regardless of the House election outcome. Assuming a “Red Wave,” the threat to the municipal bond tax exemption will be even greater than it was in 2017. Throughout the campaign season, every proposal presented to the electorate competed with the tax-exemption expenditure. For example, the State and Local Tax (SALT) deduction cap garnered

attention on the campaign trail. It is important to recognize that this, along with other tax policies, could potentially crowd out spending, much like the municipal bond tax exemption expenditure. By this time next year, existing tax-exempt municipal bonds could become even more attractive to investors, as new issuance could be limited or eliminated as part of the 2025 tax policy changes.

## Recent HilltopSecurities Municipal Commentary

- [Municipal Bonds on the Other Side of Election 2024](#), November 4, 2024
- [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

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

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