

U.S. Municipal Bond Market

Navigating the Trump Trade War: Strategies for Municipal Investors Amid Macroeconomic Uncertainty

- **Skyrocketing policy uncertainty:** Significant increase in policy uncertainty due to President Trump's protectionist policies, leading to increased fears of a looming recession.
- **Economic and geopolitical costs:** Immense economic and geopolitical costs of a trade war, initially underestimated, are posing challenges for business and government planning.
- **Economists' warnings and municipal sector resilience:** Leading economists warn of a potential recession, but municipal credit has historically remained resilient during downturns.
- **Municipal bond buying opportunity:** Despite economic and policy uncertainty, municipal investors can take advantage of generationally attractive tax-exempt yields and compelling relative value indicators.

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

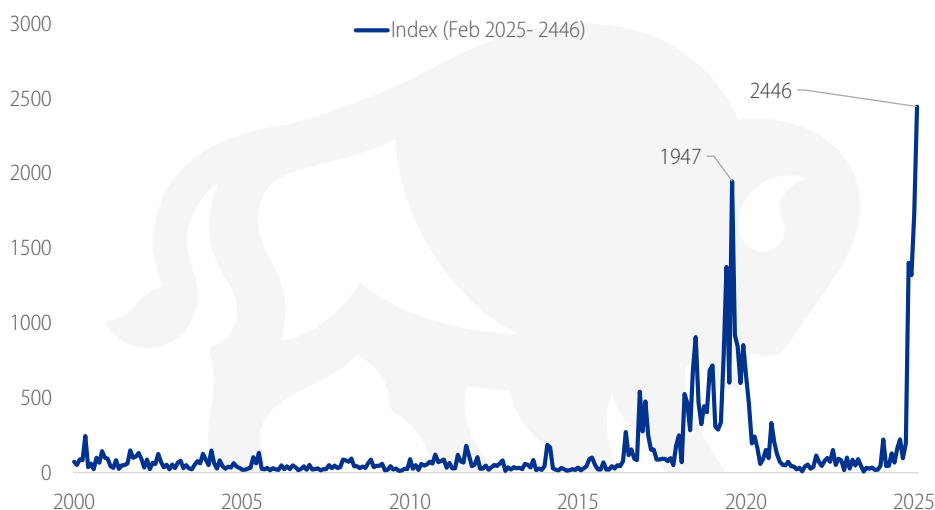
Costs Seem Immeasurable

No one wins a trade war. Policy uncertainty has skyrocketed. The chances of a recession for the U.S. economy have increased in recent weeks. However, despite the uncertainty, municipal investors can now take advantage of generationally attractive tax-exempt yields and compelling relative value indicators. This could be one of the best opportunities to add to municipal holdings that we have seen in quite some time

The economic and geopolitical costs of a trade war are too immense to fully comprehend for some, which is why many initially believed President Trump's tariff threats were merely saber-rattling. However, policy uncertainty has skyrocketed due to the President's protectionist policies. Perhaps this uncertain reaction is unwarranted, as President Trump has consistently expressed his desire to increase tariffs.

Despite economic and policy uncertainty, municipal investors can take advantage of generationally attractive tax-exempt yields and compelling relative value indicators.

Trade Policy Uncertainty Index Skyrocketed



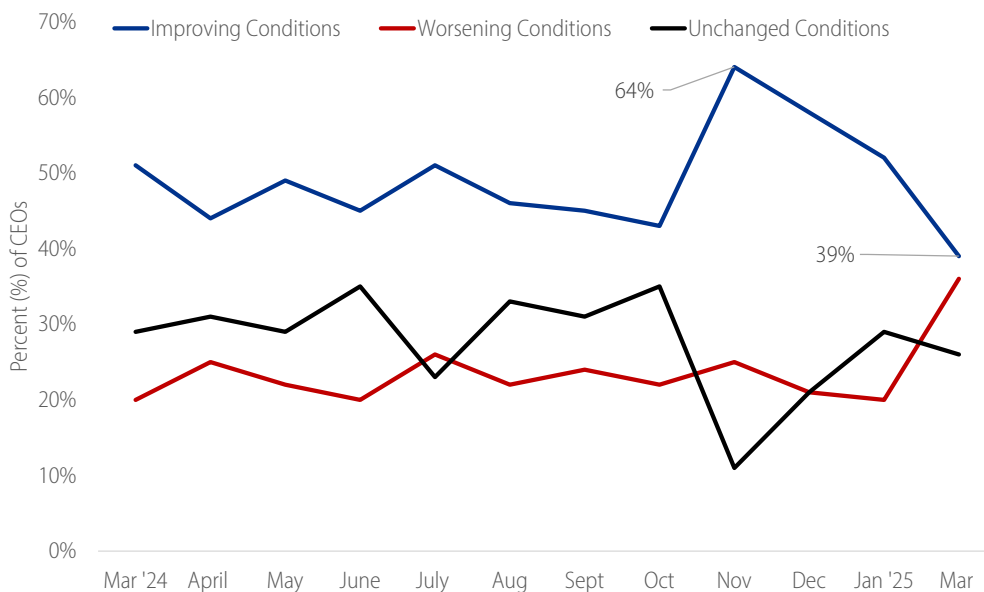
Source: Scott Baker, Nick Bloom, Stephen Davis and HilltopSecurities.

President Trump is following through on some of his campaign promises. Observers and financial markets should not be as surprised as they seem to be. This protectionist behavior appears erratic and has made it more challenging for business and government leaders to plan, however.

Many anticipated that November's 'Red Wave,' or the Republican takeover of Washington, would unleash the animal spirits of the U.S. economy.

Many anticipated that November's 'Red Wave,' or the Republican takeover of Washington, would unleash the animal spirits of the U.S. economy. This optimism was reflected in a CEO outlook, which jumped to 64% for improving conditions right after the election. However, it has since plummeted to 39% due to recent policy and economic uncertainty. This mayor in Michigan expects tariff policy will negatively impact the U.S. auto industry and his city's financial standing as described in [Republican Mayor Braces for Tariffs: 'We Didn't Budget for This'](#). This could be a common sentiment shared across the country.

CEO Outlook for Business 12 Months Out



As economic uncertainty looms, the fear of a looming recession is intensifying.

Source: Chief Executive and HilltopSecurities.

A Hard Landing May Be in the Cards for the U.S. Economy After All

As economic uncertainty looms, the fear of a looming recession is intensifying. Renowned economist Mohamed El-Erian has raised alarms, [estimating the probability of a recession at a concerning 25%-30%](#). Meanwhile, former Treasury Secretary Larry Summers has [likened the chances to a coin flip](#), underscoring the precariousness of the current economic landscape. Moody's Analytics has expected a short, but mild recession in 2025 as a result of The President's tariff policy, as indicated in their October 2024 analysis [The Macroeconomic Fallout of Trump's Tariff Proposals](#). With such stark warnings from leading experts, the threat of a recession is becoming increasingly palpable, leaving many to brace for potential economic turbulence ahead.

The Trump administration has downplayed the recent stock market weakness. "We are in a period of economic transition. We are in a period of transition from the mess that was created under Joe Biden and the previous administration," said White House Press Sec. Karoline Leavitt [during a briefing last week](#).

Moody's Analytics has expected a short, but mild recession in 2025 as a result of The President's tariff policy, as indicated in their October 2024 analysis The Macroeconomic Fallout of Trump's Tariff Proposals.

Investors and other observers are trying to make sense of these recent policies.

"It just doesn't make sense ... I hear it. But, then I think of the politics of it, and I think of the economics of it, and it just doesn't wash," said Prof. Jeremy Siegel, Wharton School of Business and author of Stocks for the Long Run during an interview.

Investors will need to brace themselves. We are merely approaching the second month of the forty-eight-month span of Trump's second administration.

Investors will need to brace themselves. We are merely approaching the second month of the forty-eight-month span of Trump's second administration.

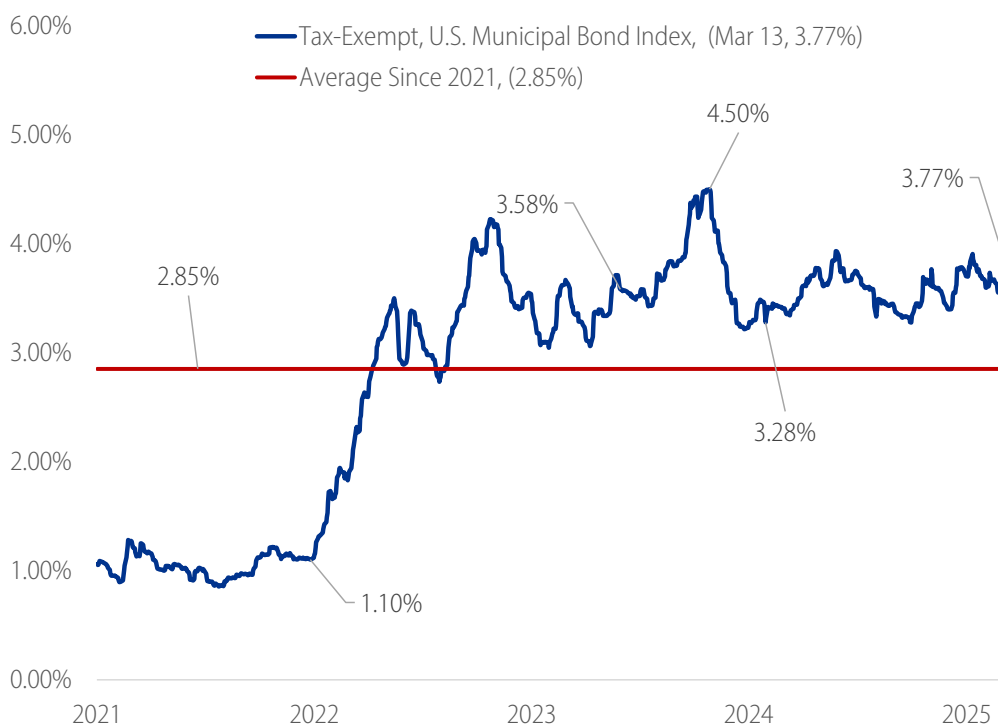
Municipal Bond Opportunity- Investable Yields and Attractive Relative Value

The current circumstances are presenting a buying opportunity for municipal investors—one of the best we've seen in quite some time. While credit weakness may increase due to reduced federal funding in certain sectors and macroeconomic softness may spread nationwide, municipal credit has historically remained resilient during previous downturns. We expect the same resilience as we navigate today's policy and macroeconomic uncertainty.

Additionally, and perhaps more importantly, municipal yields remain near generationally attractive levels. The Bloomberg Municipal Bond Index was at 3.77% near the end of last week. While we are cautiously optimistic about relative value indicators, they are starting to look borderline compelling to outright compelling, depending on the maturity. Municipal primary market issuance is expected to remain heavy, but macroeconomic factors could cause yields to drop in the coming months. Therefore, this opportunity should not be overlooked.

The current circumstances are presenting a buying opportunity for municipal investors—one of the best we've seen in quite some time.

Municipal Yields Remain Investable



Source: Bloomberg and HilltopSecurities.

Municipal primary market issuance is expected to remain heavy, but macroeconomic factors could cause yields to drop in the coming months.

Recent HilltopSecurities Municipal Commentary

- [The Municipal Market in 2025, Hilltop's Sector Credit Outlooks, Jan. 30, 2025](#)
- [Growing Support for SALT Cap Expansion, Backing for Tax-Exemption Needed, Jan. 9, 2025](#)
- [Building America's Infrastructure with Municipal Bonds: A 2024 Overview, Dec. 23, 2024](#)
- [Forecasting \\$745 Billion in Municipal Bond Issuance for 2025 Amid Potential Tax-Exemption Elimination, Nov. 24, 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