

U.S. Municipal Bond Market

October's Municipal "Moment" Continues to Unfold Amid Market Uncertainty

- U.S. municipal bonds remain a compelling haven for investors, offering stability, tax-exempt benefits, and resilience amid the federal shutdown, trade-war threats, and broader market uncertainty.
- Municipal bonds continue to attract strong investor demand, with nearly \$9 billion in inflows since late August, as volatility and tensions escalate.
- Tax-exempt yields have declined by roughly seven basis points since Sept. 26, underscoring the urgency for investors to secure attractive rates before potential Federal Reserve rate cuts in October and December and anticipated municipal bond supply reductions in November and December.

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Boiling Point: Investors Should Lean into U.S. Municipals

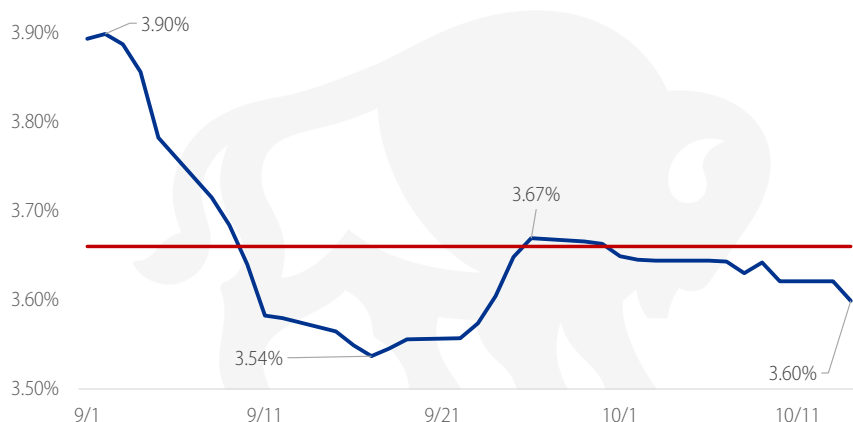
Uncertainty and volatility have reigned supreme throughout 2025. From Liberation Day to escalating tariff battles, immigration policy shifts, and a series of geopolitical tensions, the stress on markets and investors has been relentless. It seems as though this period has lasted forever, and there is still no clear end in sight. The pressures weighing on markets are now boiling over. **Fortunately for investors, the municipal bond "moment" is not over yet.**

The October municipal supply and demand dynamic has unfolded as we anticipated, so far. Investors are voting with their dollars. According to Lipper, nearly \$1 billion flowed into municipal mutual funds last week alone, bringing total inflows since late August to almost \$9 billion. This is not a coincidence. **Municipals remain a haven in uncertain times like these.** Issuance has been strong this month, and the Bloomberg Municipal Bond Index—a proxy for tax-exempt yields we commonly cite—finished lower yesterday Tuesday, Oct. 14, at 3.60%. The index has dropped 7 basis points since Sept. 26.

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Tax-Exempt Yields are Falling

4.00% — Bloomberg's Tax-Exempt, Municipal Bond Index, (Oct 14, 3.60%) — Average Since Sept 1, (3.66%)



Source: Bloomberg and HilltopSecurities.

Please see disclosure starting on page 3.

The Flight to Safety

There is no end in sight for the U.S. federal government shutdown. The standoff entered its 14th day with no near-term prospect for compromise. Military paychecks are being met, but strategic layoffs and heated rhetoric continue. Treasury Secretary Scott Bessent warned Monday that the shutdown is starting to impact the U.S. economy.

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The trade war threats heated up at the end of last week and it is continuing to drive news and headlines. Rhetoric intensified late last week and continues to dominate headlines. Secretary Bessent accused China of weakening the global economy by imposing export controls on critical tech resources. President Trump may impose 100% tariffs on China as early as Nov. 1, depending on Beijing's next move. U.S. Trade Representative Jamieson Greer told CNBC, "A lot depends on what the Chinese do. They are the ones who have chosen to make this major escalation." Equity markets fell Friday, rebounded Monday, and remain on edge.

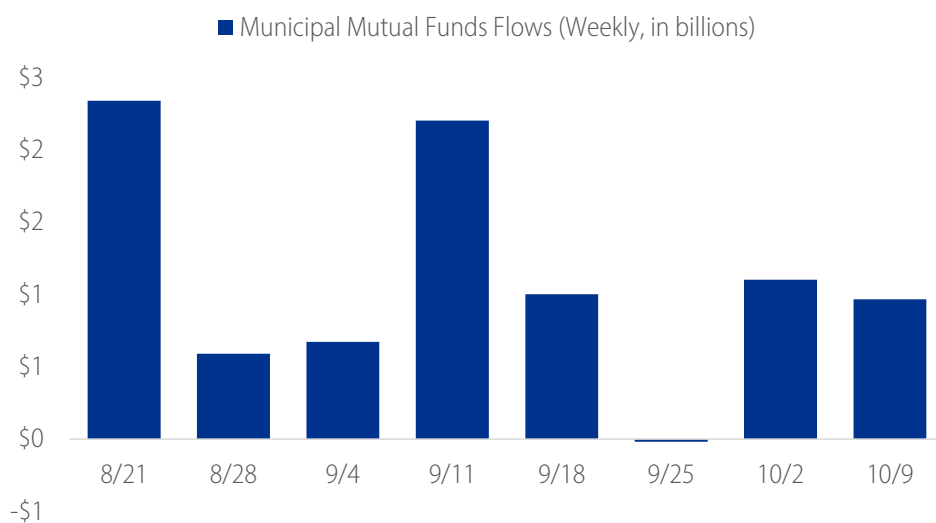
A flight to safety for some investors is a priority. Gold and silver values continue to rise. The 10-year Treasury yield briefly dipped below 4% as investors sought safety. This reinforces the appeal of municipals—but investors should act now to lock in near-generationally attractive tax-exempt yields before they fall further.

Our Municipal "Moment" Thesis Remains Intact

The thesis we outlined at the start of the month remains intact. We continue to believe that October represents the best municipal bond opportunity left in 2025. Issuance is strong now, but we expect a sharp decline in November and December. This means the current supply surge is likely to be short-lived.

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We've Seen Very Strong Demand for Municipals Since the End of the Summer



Source: Lipper and HilltopSecurities.

Investor demand for municipals is robust and could continue or even grow. Nearly \$9 billion has flowed into municipal mutual funds since late August, and this trend shows no sign of slowing. Demand may strengthen as investors anticipate the Federal Reserve's

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likely path of rate cuts, which would drive yields even lower. As the year progresses, the municipal bond supply-demand dynamic is likely to become less favorable for buyers. Investors who wait risk missing the opportunity to secure generationally attractive yields.

Now is the time to lock in yields before they move lower through the remainder of 2025.

For fixed income investors, the case for tax-exempt municipal bonds remains compelling. Volatility and uncertainty are not going away; in fact, they are accelerating. Municipals offer stability, tax-advantages, solid credit quality (with careful credit selection), and a proven track record of resilience in market downturns. Now is the time to lock in yields before they move lower through the remainder of 2025.

Recent HilltopSecurities Municipal Commentary

- [The Municipal Bond “Moment” Persists—But Cracks Are Forming](#), October 6, 2025
- [The Secret’s Out – Municipal Bonds Are Having a Moment](#), October 1, 2025
- [Intro to the New Era of AI, Infrastructure & Growth](#), September 18, 2025
- [From Budget Issues to Labor Challenges: Insights from the HilltopSecurities 2025 Public Finance Leaders Survey](#), September 15, 2025
- [Labor Pains, Rate Gains, and Why Muni Investors Can’t Wait](#), September 8, 2025

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