U.S. Municipal Bond Market

Preserve Wealth, Capture Yield with Municipal Bonds as Concern Mounts

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- Equity market risks are increasing as valuations climb and technology stocks dominate, prompting warnings about the possibility of a sharp correction.
- Municipal bonds remain a compelling choice for asset preservation, offering stability, tax-exempt income, and portfolio resilience. Municipal yields are still near generational highs, and strong demand continues to drive inflows.
- The October Municipal "Moment" continues, with the Bloomberg Municipal Bond Index down five basis points last week and over $9 billion flowing into municipal mutual funds since late August, signaling clear momentum for the asset class.

The Case for Asset Preservation

Some financial experts are signaling caution. Valuations and prices of various assets have far surpassed or are approaching peak levels, with some observers warning they may be overstretched. At the same time, concentration risk is rising, and respected voices are raising concerns about the potential for a sharp equity market correction. For investors—especially those nearing or in retirement—protecting and preserving assets is no longer optional; it is essential.

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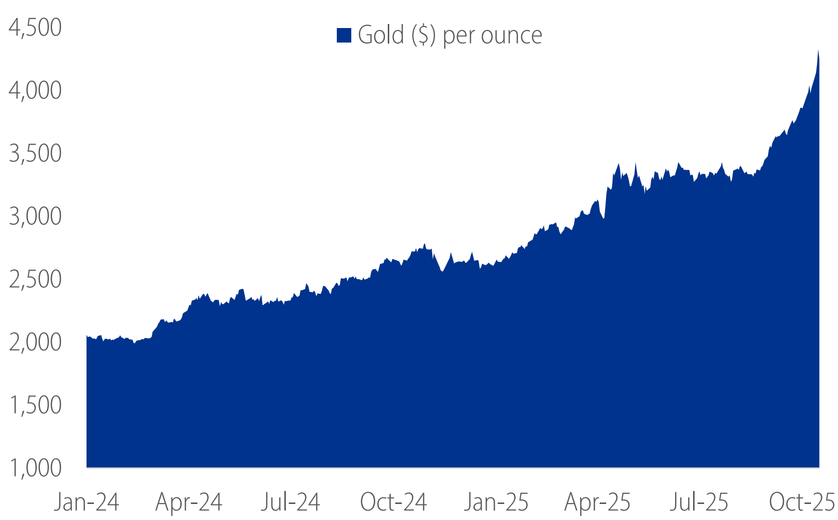
Recent developments have amplified the urgency. Concerns about asset bubbles and market complacency are being raised by respected institutions and economists. The International Monetary Fund (IMF) warns that concentration in equities creates systemic risk and raises the odds of a sudden, sharp correction. Gita Gopinath, Harvard economist

Gold's Climb to Record Levels



Source: Bloomberg and HilltopSecurities.

and former IMF Chief Economist, wrote in The Economist that while technological innovation is reshaping industries, the current rally may be setting the stage for another painful market correction with global consequences potentially worse than the dot-com crash.

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Central banks echo these warnings as well. The Bank of England recently flagged stretched valuations in AI-focused equities and cautioned of a "sharp market correction". Gold prices reaching $4,000 per ounce, up roughly 50% this year, signal that investors are already seeking safe havens amid growing policy and market instability.

Since early October, we have been emphasizing the unique opportunity unfolding in the municipal bond market. We have been indicating that municipals are having a "Moment." For more than two years, we have highlighted generationally attractive yields and consistently encouraged investors to act before this window begins to close.

Why Preservation Matters

Asset preservation is not only defensive. It is a strategic necessity. Equity markets can and do experience severe drawdowns. The master asset allocators, Warren Buffett and Charlie Munger, have repeatedly reminded investors that Berkshire Hathaway's value has fallen by half three times during major downturns. Their message is clear. **Volatility is inevitable and investment portfolio resilience requires planning**.

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For investors who are retirees and for those investors nearing retirement, this message is even more critical. Higher allocations to riskier assets may promise higher returns, but they also magnify short-term loss potential. Losses can derail retirement plans and force lifestyle compromises. Preserving principal becomes paramount when income needs are fixed, and time horizons are shorter.

Municipal Bonds: A Proven Tool for Stability

Municipal bonds offer a compelling solution for asset preservation:

- **Capital Protection**: High-quality municipal bonds historically exhibit low default rates, especially compared to corporate debt. Also see our sector credit outlooks.

- **Tax Advantages**: Interest income is often exempt from federal and, in many cases, state and local taxes, enhancing after-tax returns.

- **Portfolio Diversification**: Municipals provide stability and reduce correlation with equities, cushioning portfolios during market stress.

- **Attractive (Generationally) Yields**: Despite recent rate volatility, municipal yields remain historically elevated, creating an opportunity to lock in income at favorable levels.

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Safeguarding Wealth

Warnings about market complacency are not exaggerated. Buffett and Munger's decades of experience underscore that equity markets can halve in value without much warning. For investors approaching or in retirement, this is not theoretical; it is a real risk that demands proactive portfolio derisking.

The "Moment" for municipals is not just about yield; it is about safeguarding what investors have worked so hard to build.

In times like these, when asset bubbles loom and volatility threatens wealth, municipal bonds stand out as a disciplined choice for those who value stability, tax efficiency, and peace of mind. The "Moment" for municipals is not just about yield; it is about safeguarding what investors have worked so hard to build.

Update on The October 2025 Municipal "Moment"

Investor confidence in municipal bonds is surging as the safety trade gains momentum. The Bloomberg Municipal Bond Index slipped another five basis points to 3.57% last week, signaling firm demand and steady pricing. According to Lipper, municipal mutual funds attracted an additional $678 million in inflows, pushing the total since late August to over $9 billion. This trend reflects a clear shift toward stability and tax-exempt income as global uncertainty persists. With yields still at or near generationally attractive levels and supply expected to tighten in the coming months, investors have a limited window to lock in favorable rates. The October municipal bond moment is not fading. Conditions remain favorable, and investors have an opportunity to secure generationally attractive yields even as demand strengthens.

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Recent HilltopSecurities Municipal Commentary

- October's Municipal "Moment" Continues to Unfold Amid Market Uncertainty, October 15, 2025
- 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

Readers may view all of the HilltopSecurities Municipal Commentary here.