

U.S. Municipal Bond Market

Markets Swing and Fed Expectations Shift While Municipals Hold Steady

- Fed expectations have been swinging wildly and are likely to remain volatile ahead of the December 9-10th meeting, creating uncertainty across markets while municipal bonds trade steadily and likely remain range-bound.
- Heavier than expected municipal new-issue supply and cooling demand have ended the recent municipal "Moment," but still-attractive yields and strong credit fundamentals could present new opportunities for long-term investors.

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

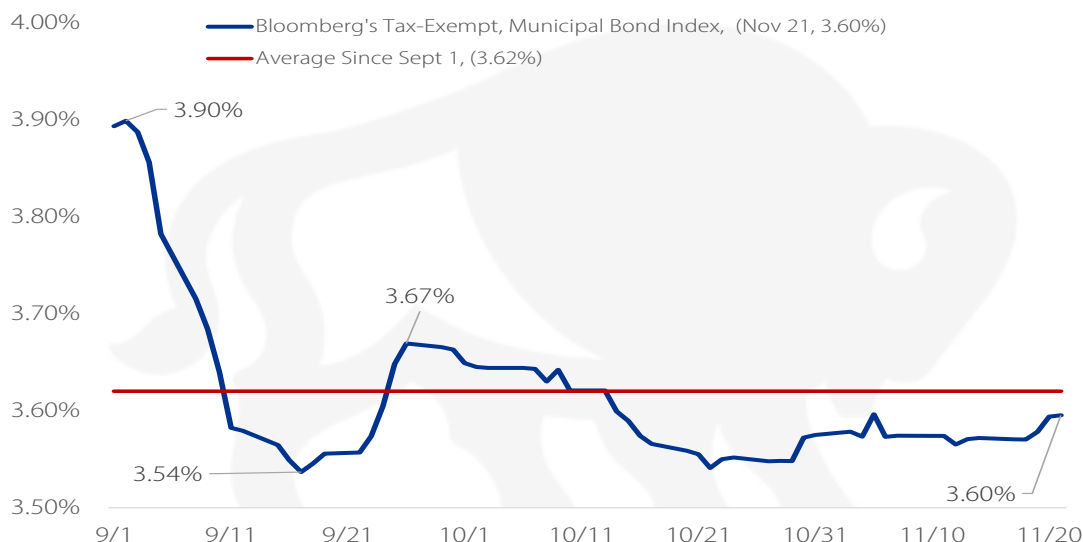
Heavy Supply, Cooling Demand and the Case for a Second Act

The week of Thanksgiving is usually when investors, issuers, and market observers try to catch their breath, enjoy family-time, eat comfort-food, and watch football. This year, though, many investors are still hunting for signals. Fed expectations have been swinging wildly. The odds of a December 10th rate cut were tossed around like a football at a family Thanksgiving game, dropping below one-in-three at one point and then jumping back above 60% after a dovish comment from New York Fed President John Williams about about "room for a near-term cut."

Meanwhile, equities and crypto just came through a jarring stretch, with sharp intra-day swings and growing chatter about an "AI bubble" as Bitcoin heads for its worst month since 2022. Through it all, municipal bonds have traded within a similar range compared to the middle of October, quietly staying out of the spotlight. The "Municipal Moment" we've been writing about since early October has passed, and that actually could strengthen the case for municipal buyers in some cases.

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Municipal Yields Remain Range-Bound

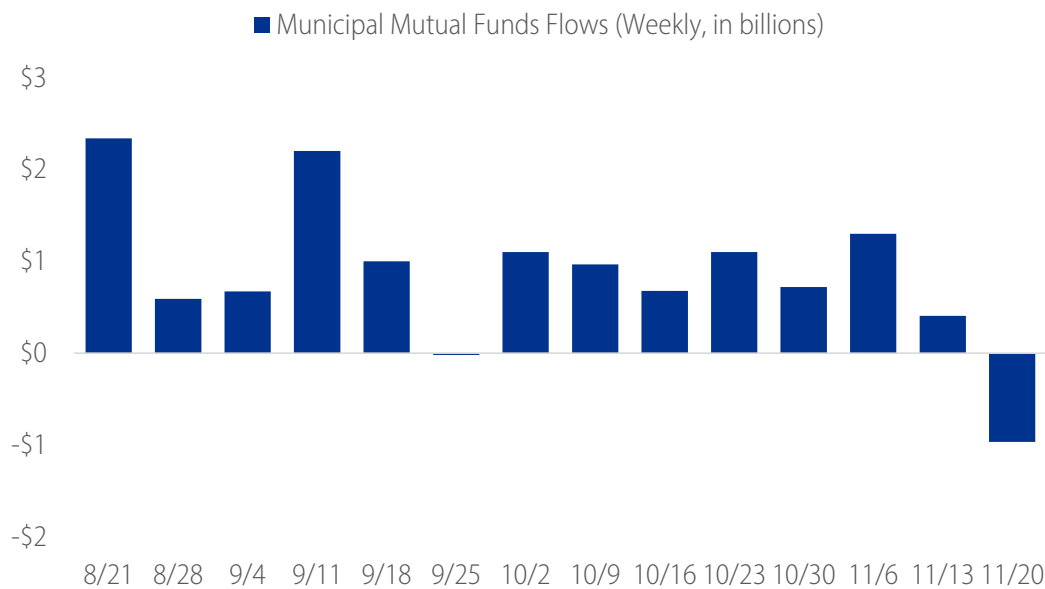


Source: Bloomberg and HilltopSecurities.

In early October we wrote “[The Secret’s Out. Municipal Bonds Are Having a Moment](#).” Strong returns, rising supply, and steady demand were the story and the expectation. Generationally attractive yields, solid credit fundamentals, and what we believed would be constrained November supply seemed ready to pull more fixed-income investors off the sidelines. Since then, the landscape has shifted. The new-issue calendar has been unusually heavy for the month of November. Demand hasn’t disappeared, but it feels less urgent, and some investors are pausing after a strong run while weighing what the Fed might do on December 10th. The “[Moment](#)” has passed. But heavier than usual supply and cooling demand could open the door to a new opportunity.

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Municipal Fund Flows Were Negative Last Week



Source: Lipper and HilltopSecurities.

Signal Hunting is the Key Issue, Still

The Federal Open Market Committee (FOMC) meets again on December 9th and 10th, and this remains the main focus for most fixed-income investors. The Fed has already cut rates twice this fall, most recently at its October 29th meeting, but officials have been deliberate about saying that a December move is “[not a foregone conclusion](#).” Williams’ comment about room for a near-term cut pushed futures markets back toward expecting another 25-basis-point reduction, even as other policymakers, including Boston Fed President Susan Collins, [publicly expressed hesitation](#) about moving again so quickly. Such a disagreement, especially while waiting for updated economic data, is exactly why markets keep swinging. Investors are trying to price not just the December decision, but the tone of the statement and then the potential 2026 path that comes as a result. There is much at issue in the next few weeks.

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The bigger picture here is that the end of the “moment” is not the end of the opportunity for municipal bond investors. Yields remain attractive, underlying municipal credit quality remains strong, state and local budgets are still supported by healthy reserves and resilient tax bases. For buy-and-hold investors, a market that

trades in a range while offering more opportunity at better valuations can be an even more attractive environment than a brief “moment” where supply seems scarce.

As we head into the Thanksgiving holiday, a few practical points. The U.S. bond market will be closed on Thursday, November 27th for Thanksgiving, and SIFMA's recommended schedule calls for an early close on Friday, November 28 at 2 p.m. Eastern. Between now and the December 10th Fed announcement, we continue to expect volatility in Fed expectations to stay high, especially as real and substitute data is contemplated, and comments circulate. For municipal buyers, that likely translates into more days where the headlines sound noisy, but the trading-range holds. For many municipal investors, especially those who remember the tech-bust, the Great Recession, and the COVID-19 shock, that setup should feel familiar: the headlines may be loud, but the real work gets done quietly, often one well-chosen bond at a time.

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- Municipal Market Holds Steady as Economic Crosscurrents Intensify, November 10, 2025
- Mayor-Elect Mamdani at the AI Crossroads Navigating Between Disruption & Opportunity, November 5, 2025
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