

U.S. Municipal Bond Market

Money Moving Into Municipals as Yields Slip Again Last Week

- Flows are up and municipal yields are down. Roughly \$3.3 billion moved into municipal mutual funds over the last two weeks as supply stayed light, pushing yields about 15 bps lower year to date and below the fall 2025 range.
- The macro backdrop is relatively steady given how much is in the news. Risk appetite is calm. The FOMC meets Jan. 27–28 with no change expected after three 2025 cuts, and a Supreme Court tariff ruling could land soon, perhaps even today.

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Municipal Yields Slid Again Last Week

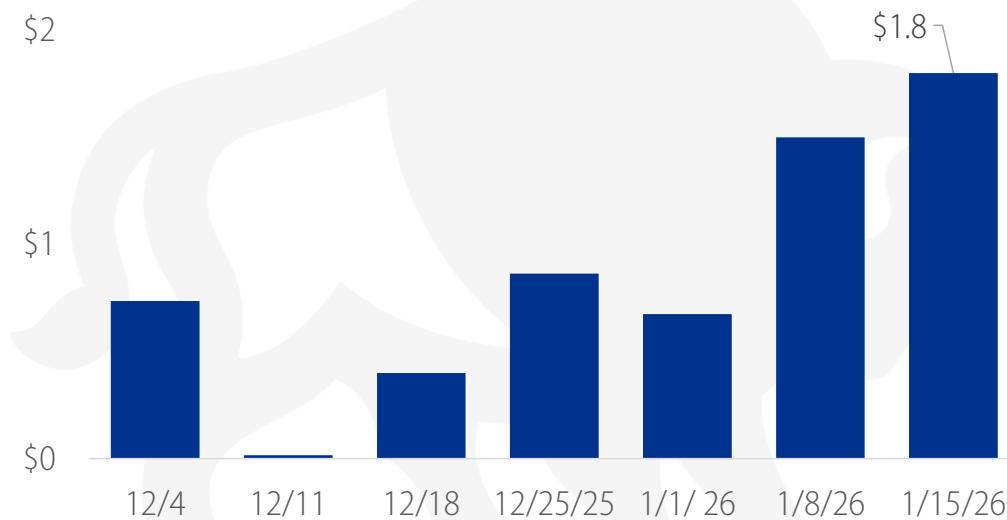
Risk appetite remains steady to begin this MLK holiday-shortened week, despite the Greenland chatter and the Fed-chair guessing game. The Supreme Court could issue opinions as early as today Tuesday, Jan. 20, with the challenge to the Trump administration's global tariffs still pending. Meanwhile, new work from the Kiel Institute finds that U.S. consumers and importers absorbed about 96% of last year's tariff costs, with foreign exporters bearing only around 4%.

The Federal Open Market Committee (FOMC) meets Jan. 27–28, and the current consensus is for no change after three straight cuts in September, October, and December that set the target range at 3.50%–3.75%. The broader view for 2026 still leans toward lower rates. The debate is timing, not direction as we have consistently reminded readers.

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Investment Dollars are Flowing into Municipal Mutual Funds

■ Municipal Mutual Funds Flows (Weekly, in billions)



Source: Lipper and HilltopSecurities.

Investors kept buying U.S. municipals last week, and **that persistent demand is the story to begin this week**. We wrote that investor mood is shifting from bracing to building [in our Jan. 12 report](#), and many investors have set their sights on bolstering municipal portfolios. Appetite for municipal bonds has stayed strong in January. Lipper data shows flows into municipal mutual funds rose to about \$1.8 billion for the week ended Jan. 15, after roughly \$1.5 billion the week before. On the supply side, the primary calendar is not overwhelming, and January 2026 issuance is on track for the lightest month since the \$37 billion we saw in January 2025.

Most importantly, yields are doing what they usually do when firm demand meets lighter supply: they are leaning lower. Municipal yields fell a few basis points last week. Since New Year's, they are down roughly 15 basis points, which puts levels below the band we tracked from mid-October through late December. Last week's move pushed municipals further beneath that range, a break we flagged in [our Jan. 12 report](#) after a roughly 10 basis point drop. For those watching the long end of the municipal curve it is important to note that the drop in yields has not been as significant in January. We have only seen the 30 year benchmark AAA yield fall by about four basis points since the start of the month.

This is why the persistent demand in the form of flows into municipal mutual funds story matters. It shows **other investors are not waiting**. In this case to the tune of \$3.3 billion of inflows over the last two weeks. Investors are strategically putting money to work even as headlines tug attention in various different directions. Some investors may still feel the instinct to hold back. But markets rarely hand out safety and value at the same time. Municipals in particular have a habit of improving quietly while investors are looking somewhere else.

Signals Over Noise

This is what we are seeing now. The risk tone remains steady, the Fed meets Jan. 27–28 with no change expected after three 2025 cuts, and the path for 2026 still leans lower. January's investment flows into municipal mutual funds strengthened while supply stayed light, and municipal yields are about 15 basis points lower year to date after breaking below the fall 2025 range. That mix is doing real work for buyers, which is why our message remains simple: **stay engaged**, average in for core tax-exempt income, focus on quality in this environment, set your targets ahead of time and execute when they're offered or available.

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Recent HilltopSecurities Municipal Commentary

- [The Fed's Independence and Credibility, Reinforced](#), January 13, 2026
- [Range Break in the Signal Hunt: Municipals Enter 2026 with Strength](#), January 12, 2026
- [Finishing 2025 with Patience, "Range-bound" Until New Signals Arrive](#), December 16, 2025
- [Why the Fed's Likely Dec. 10 Move Matters for Municipal Investors](#), December 9, 2025
- [Rate Cut Expectations Surge, Could Mean Renewed Momentum for Municipals](#), December 1, 2025

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

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