U.S. Municipal Bond Market

Fed Week: Heavy Flows Meet Light Supply, Powell in Focus (Jan. 27-28)

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- Nearly $5 billion has flowed into municipal mutual funds so far in January (including $994 million last week), colliding with a light primary calendar this week—so bonds may be scarce near term. Absolute yields remain near generationally attractive levels even though relative value is mixed.
- **Fed week playbook:** The FOMC (Jan. 27–28) is widely expected to hold steady, with future moves remaining data dependent; Powell's potential tone is likely to be the catalyst to watch. We see 2026 rates more likely drifting lower than higher, though the path could be uneven. Stay engaged and prioritize high-quality options.

A Review of Municipal Dynamics

Strong investor demand is colliding with a very manageable primary issuance calendar this week. Bonds could be scarce for those looking to put money to work. The calendar is likely to strengthen in February.

Last week Lipper reported that another $994 million was invested in U.S. municipal mutual funds. Nearly $5 billion has flowed into municipal mutual funds in January so far. This is the heaviest January since 2021, when almost $9 billion flowed into municipal mutual funds. Going forward we expect demand to remain steady-to-strong but sometimes demand drops off at the end of the first quarter, partially due to tax-time.

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Relative value indicators are not overly appealing, but absolute yields remain near generationally attractive levels despite January's retreat. The 10-year Municipal to Treasury Ratio (M/T Ratio) ended last week at 63% and the 30-year at 83%. Most AAA Municipal Market Data benchmark (MMD) yields were little changed last week. The shorter maturities edged a little lower. The Bloomberg Municipal Bond Index rose about 5 basis points to end last week, however.

2026 FOMC Meetings in First Half

Month	Dates
January	27-28
March	17-18
April	28-29
June	16-17

Source: Federal Reserve and HilltopSecurities.

This Week's Main Event

The big event for the week is the FOMC meeting on Jan. 27–28. It will have investors' full attention. We are not expecting a rate change, and most economists do not expect one either after three cuts late last year. Future moves are likely to be data dependent. The next scheduled meetings are March 17–18 and April 28–29, which are the next realistic windows if conditions warrant. **Powell's tone and signaling will matter most this week.** We have been signal hunting for months, and we will be watching closely.

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With flows positive and primary supply likely to remain contained near term, we see room for a continued grind in tax-exempt yields. Practically, that argues for staying engaged when cash is available. We expect this week could be a good time to stay engaged and prioritize high-quality paper; good bonds still move fast.

Who Could Be the Next Fed Chair

We will also be closely watching for signs or even an official announcement about who may follow Powell as chair. His term as chair ends May 15, 2026; he could legally remain on the Board as a governor until Jan. 31, 2028, which is an underappreciated continuity lever. The "who's next" options have been fluid, but Kevin Warsh is frequently cited as a leading contender right now, with Chris Waller also in the mix. Rick Rieder is now emerging as a top contender as well. The probabilities have shifted with each headline, and comment from the President. The key takeaway for markets is that leadership speculation can color expectations even if policy this week is unchanged.

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Bottom line for investors: the combination of fresh inflows, a lighter calendar, and a data-dependent Fed still supports constructive tax-exempt technicals. If Powell emphasizes patience and process, we think the "from bracing to building" mood we highlighted earlier in January can extend.

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- Money Moving Into Municipals as Yields Slip Again Last Week, January 20, 2026
- 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

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