

U.S. Municipal Bond Market

Capital Chooses Stability & U.S. Infrastructure, The Municipal Market Story of 2026 So Far

- Municipal investors are leaning into stability and U.S. infrastructure at a time when equity investors are pulling back from domestic stock exposure.
- Investment capital flows are reinforcing this shift, with municipal mutual fund inflows exceeding \$12 billion year to date, marking 13 consecutive weeks of positive flows and no sustained outflows since tax time 2025.
- Ongoing policy uncertainty, including rapid changes in tariff policy and a Federal Reserve that remains in a wait-and-see posture ahead of the March FOMC meeting, is also helping to push investors toward less volatile assets.
- While budget reconciliation discussions have resurfaced in Washington, there is no defined legislative framework that would directly threaten the municipal bond tax-exemption at this stage, making it a developing signal to monitor rather than a risk that is currently being priced into the market, or impacting issuer behavior.

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Municipal Bond Fund Flows Continue to Build, Exceed \$12 Billion in 2026

For equity investors, the investment mood has shifted from “Buy America” to “Bye America,” as investors pull money from U.S. stock exposure. For the U.S. municipal bond market, the investment mood is the opposite. Investors are not trying to leave the U.S. story. They are trying to own the most durable part of it: U.S. infrastructure, financed with tax-exempt bonds that prioritize stability over spectacle and volatility. Municipal investor conviction can be seen in the numbers so far for the year.

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Early in 2026, the municipal bond market began to show a clear convergence between investor demand for stability and the need to finance future infrastructure. To start the year, flows into municipal mutual funds were consistent, noticeable, and strong. We even described them as loud. Since then, the growth in demand has been unmistakable. Another \$1.3 billion flowed into municipal mutual funds last week, bringing total inflows for 2026 to just over \$12 billion, per Lipper data. Flows have now been positive for 13 straight weeks, with no sustained period of outflows since around tax time in 2025. Municipal bond investors are sending a clear message amid everything happening around them: ***stability is what they are seeking***.

This is not a sudden shift. This push by municipal investors has been building over time. They have not been chasing; they have been watching, allocating, reallocating, and waiting for the right moment. For much of 2025, capital steadily moved toward tax-exempt bonds. In recent weeks, that trend has accelerated, driven by policy and market uncertainty, volatility, concern about falling yields, and, for some, simply the need to put money back to work. Policy remains a source of uncertainty, and when a lot of information hits the market at once, investors tend to simplify. That helps explain why demand for municipals has remained firm and why trading has felt deliberate rather than defensive. The appeal of fixed, tax-exempt income tied to U.S. infrastructure makes sense

on multiple levels in this environment. With interest rates still relatively high, investors can get paid to be defensive. The Bloomberg Municipal Bond Index on Friday ended the week near a 2026 low at a 3.33% yield, about 26 basis points below where it started the year. Meanwhile, the 10 Year Municipal Market Data (MMD) AAA benchmark yield ended last week at 2.52%, also about 26 basis points below where it began the year.

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Supreme Court Strikes Down Tariffs Friday, President Proposes to Raise Global Tariffs Saturday

The tariff headlines late last week captured that uncertainty in real time. On Friday, the U.S. Supreme Court struck down a significant portion of the administration's tariff framework. By Saturday, the President moved to reassert tariff policy through a new mechanism, including an increase in the global tariff rate. For markets, the message is not political. It is mechanical: when rules can change that fast, investors price in more uncertainty, and they lean harder into simplicity, liquidity, and credits they can understand quickly. That is part of why municipals have stayed well supported even as the broader narrative has been moving around.

Monetary Policy Outlook

The next Federal Open Market Committee (FOMC) meeting is coming soon, in March. The policy decision regarding interest rates will be announced on March 18. The market is mostly expecting the FOMC meeting result will be a hold, with the Fed still in a wait-and-see posture after pausing in January. Inflation has improved, but tariff uncertainty complicates the "last mile," which argues for patience rather than an immediate cut. Growth and demand look less firm at the margin, even as labor signals remain mixed, so the Fed will want more confirmation before acting most likely. The bigger March story that could develop could be the tone of the comments and potential internal views. It is likely that the Fed is drifting toward cuts later in spring or even the summer rather than committing now.

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Potential for a 2nd Reconciliation Package

President Trump has publicly dismissed the need for a 2026 reconciliation package, pointing instead to the size and scope of the 2025 "One Big Beautiful Bill" in a recent media appearance. That said, a small group of Republican lawmakers continue to discuss the possibility of another reconciliation effort this year, even as there is little agreement on its purpose, timing, or contents.

At this stage, it is unclear whether those discussions will translate into a formal legislative push. What matters for municipal investors is not the existence of conversation, but whether those conversations evolve into a credible policy framework with identified offsets or revenue targets. Until that happens, it would be premature to conclude that the municipal bond tax-exemption is directly at risk. For now, this remains a developing signal rather than a defined threat. Our radar is on, we are monitoring the dialogue in Washington closely, and we would expect materially clearer guidance before reassessing the risk to tax-exempt municipals.

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