

U.S. Municipal Bond Market

## Bonds are Back

- We remain very bullish on bonds, especially U.S. municipal bonds.
- The severe market volatility witnessed last week underscores the importance of bonds. Fixed income investments, such as municipal bonds, could be considered a fundamental defensive play in the face of further market uncertainty.
- Municipal yields have dropped slightly but remain generationally attractive and tax-backed credit quality remains relatively strong.
- Demand for U.S. municipal bonds, in the form of investment dollars flowing into municipal mutual funds, continued to intensify in the beginning of August.

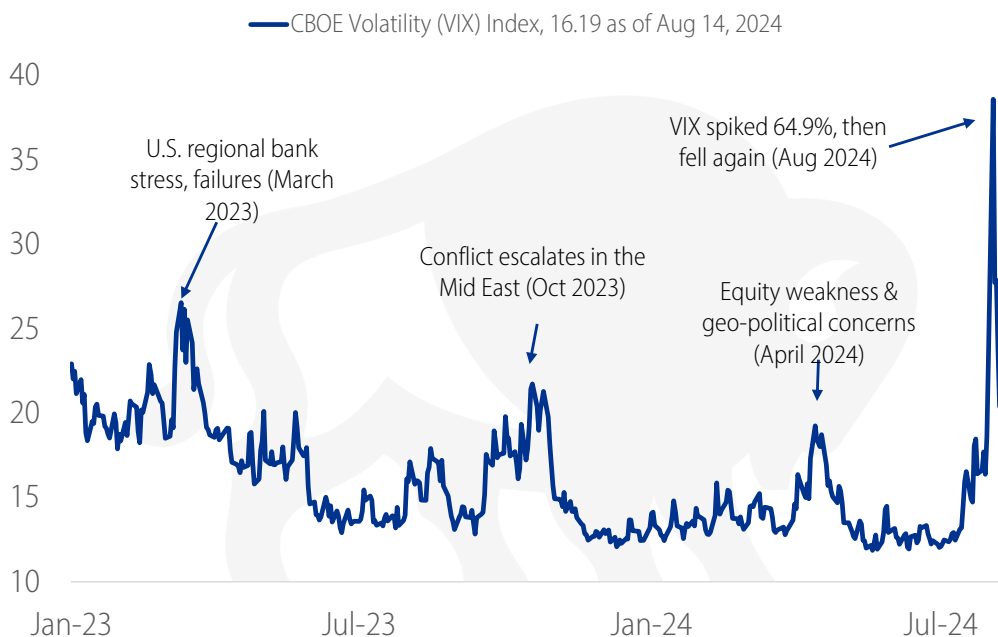
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### Very Bullish on Bonds

Economic data released this week was mixed. Inflation related data was softer, further making the case for the Fed to begin lowering their rate target in September. Meanwhile, retail sales and jobless claims were stronger than expected. As a reminder, The Federal Open Market Committee (FOMC meets) next on Sept. 17-18; then on Nov. 6-7 and finally on Dec. 17-18. The futures market is pricing a 100% likelihood of a 25-basis point rate cut when the FOMC meets in September. The current backdrop would give investors the opportunity to obtain attractive yields before the Fed’s easing campaign begins. We understand many investors are apprehensive because of the dynamic we have had to navigate since the beginning of 2022. This could be the time for investors to acknowledge the current market dynamic which includes generationally attractive fixed income yields and the potential for investment gains as well if, or when yields decline and prices rise.

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### The VIX Index Flashed a Warning-Sign Last Week, Then Fell Again



Source: Chicago Board Options Exchange and HilltopSecurities.

Please see disclosure starting on page 3.

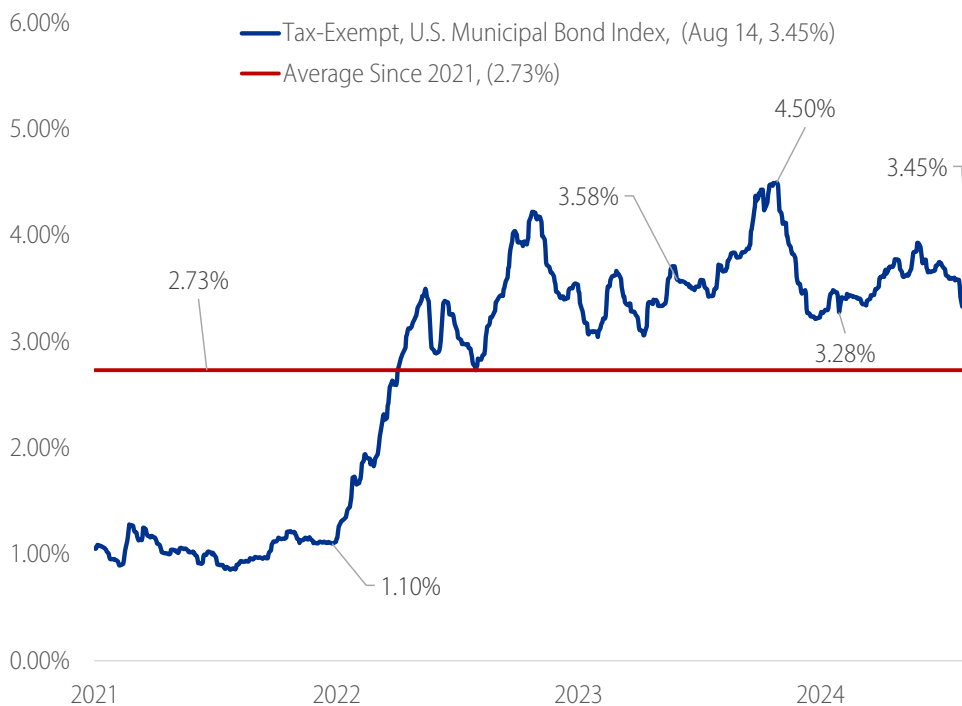
## Importance of Bonds Underscored by Last Week's Uncertainty

Last week's market uncertainty underscored the importance fixed income investments and especially the role municipal bonds can play in an investment portfolio. The week of August 5 was deemed, "a wild and crazy" period [by Barron's](#). The volatility of market sentiment is well-encapsulated in the magnitude of the quick rise, then drop of the Chicago Board Options Exchange Volatility Index (VIX). The VIX sharply rose by almost 65%, then dropped close to where it began the week in just days. See more about the market pressures of last week in [Bond Yields Rise as Market Nerves Steady](#) (Aug. 7, 2024) by HilltopSecurities' Scott McIntyre and Greg Warner.

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The market backdrop is sending the message that bonds are back. Bonds are appealing for those looking for attractive yields. The substance of our message about generationally attractive municipal bond yields still holds. In addition, municipal credit quality remains well above normal for tax-backed issues. Tax-backed credit will remain resilient in the event of a macro-economic downturn. Revenue bonds generally require more scrutiny. Municipal to Treasury (M/T ratios) ratios have still not recovered to attractive levels yet, however the above-mentioned pros outweigh this factor, especially for investors who value the tax-exemption. The premiere take-away for investors from last week's market fright could be that bonds, especially U.S. municipal bonds, could be considered a fundamental defensive play in the face of further market uncertainty.

## Municipal Yields are Lower Compared to July but Remain Generationally Attractive



*The premiere take-away for investors from last week's market fright could be that bonds, especially U.S. municipal bonds, could be considered a fundamental defensive play in the face of further market uncertainty.*

Source: Bloomberg and HilltopSecurities.

Investors are also sending the message that bonds are back. Demand for U.S. municipal bonds has continued to strengthen. A little over \$670 million flowed into municipal mutual funds per Lipper data reported last week. That was the sixth straight week of positive fund flows totaling almost \$5 billion going back to the beginning of July. Municipal fund flows have also been positive in nine of the last ten weeks going back to the beginning of June.

*Investors are also sending the message that bonds are back. Demand for U.S. municipal bonds has continued to strengthen.*

## Recent HilltopSecurities Municipal Commentary

- [Our Optimism Endures from the Growth Surge, Record Housing Prices, Still Appealing Tax-Exempt Yields, & a Fed Poised to Communicate Rate Easing Progress](#), July 30, 2024
- [2024 Municipal Analyst Bond Survey](#), April 30, 2024
- [The Efficiency of the Municipal Bond Tax-Exemption was Called into Question and the Same Analysis Proposes to Eliminate the Tax-Exemption](#), March 26, 2024
- [The Golden Age of Municipal Bonds is Not Over](#), March 25, 2024

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

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