Are US municipal bonds the next tipping point?

Published: January 14, 2026, 8:28 am

I've been saying US municipal bonds may be the harbinger of the next banking crisis since the middle of last year.

I note the FT is on the theme today:

Warren Buffett has warned of difficulties ahead. So has hedge fund manager Jim Chanos and Meredith Whitney, who foresaw the problems at US banks ahead of the financial crisis.

If they are right, then the $3,000bn US municipal bond market could be on the verge of a crisis to rival that in the eurozone, as cash-strapped states and cities facing big budget and pension deficits struggle to pay their debts.

This may blow over.

Maybe the Feederal government will have to step in.

Maybe a way to balance the budgets of the local authorities in question can be found (but I suspect it will be painful).

But there remains reason to be concerned here. The problem arises because these authorities are meant by law to balance their budgets, and can't in current economic circumstances and so are at risk of default. And the problem is that the market is $3 trillion. And just some of that falling over won't help economic stability anywhere.

The point is that Bob Diamond is wrong to say that the time for recrimination on banks is over. This failure is another consequence of banking recklessness, and may require yet more bail outs. We're a long way from being out of the woods yet.