August 2023 Muni Minute: Fixed Income Confronts "Higher for Longer"

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For the second consecutive month, yields on treasuries and municipals moved in opposite directions. In the treasury market, investors seem to be confronting the Fed's often-stated-but-rarely-believed resolve to keep rates high for an extended period of time in order to extinguish excess inflation. The Fed raised rates at this month's FOMC meeting, but that was widely expected and caused no real market impact. What does seem to be gradually dawning on the market is that the Fed will not pivot and cut rates this year but will instead keep rates high until core inflation returns to the Fed's 2% target level. As a result, the short end of the treasury curve barely moved, but yields in maturities 7+ years moved higher – reflecting the expectation that fed funds will remain higher for longer than previously anticipated.

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