September 2023 Muni MOment: A Steepening Yield Curve Across Fixed Income Markets

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Treasuries experienced another curve-steepening in August similar to what took place in July. Yields on longer-dated bonds moved up 15-20 bps. In the front end, yields were little-changed – and this makes some sense, as it's widely anticipated that the Fed will hold rates steady at their upcoming September meeting. In fact, as inflation continues to improve (albeit very slowly) and economic releases show evidence of a cooling labor market (one even hears the phrase "rapidly cooling labor market" more frequently now), fixed income investors are now wrestling with the question of whether we've reached the terminal fed funds rate. The fed funds futures market is currently forecasting that the Fed is done (technically, it is showing a 39% probability of one more hike) and that the Fed will begin cutting rates in the spring of 2024. On the other hand, it was not too long ago that the same fed funds futures market was forecasting rate cuts *this* year. As Warren Buffett says: "Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future."

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