

September 2024 Muni MOment: The Sweet Smell of Fed Rate Cuts in the Air

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August delivered another round of encouraging news on the inflation front. PPI came in slightly below already-benign expectations, with the year-over-year figure dropping to 2.2%. CPI matched expectations and the year-over-year figure on that indicator dropped below 3% for the first time in over three years. Fed Chair Jerome Powell provided the strongest signal yet that the Fed is poised to lower rates in a Jackson Hole, WY speech: "The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend upon economic data, the evolving outlook, and the balance of risks."

If investors have learned anything about the Powell Fed, it's that they take great pains to ensure they don't surprise markets. Consequently, these Powell comments in late August served notice to markets that the Fed is ready to get started on rate cuts, barring any surprising developments before mid-September.

The market responded with a strong August rally. Fixed income yields dropped along the entire curve. Rate cut projections, measured by the fed funds futures market, responded by increasing the expected magnitude of rate cuts by year-end from 75 bps (where it stood at the end of last month) to 100 bps.

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