U.S. Municipal Bond Market

Labor Pains, Rate Gains, and Why Muni Investors Can't Wait

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- August payrolls rose by only 22,000, far below the 75,000 forecast, signaling a sharp labor market slowdown.
- The economy could be "on the edge of recession," and a "jobs recession is already underway."
- A major policy shift by the Fed is imminent: Aggressive cuts by year-end could send municipal yields sharply lower—Friday alone saw a 10+ basis point drop. Investors should strongly consider locking-in generationally attractive yields before they vanish.

Our Conviction Is Strong

Friday's August jobs report confirmed what we've been anticipating: the labor market is cracking, and the macro-economic outlook is deteriorating fast. This is not just a slowdown. This data is an unmistakable warning sign and part of a clear downward trend.

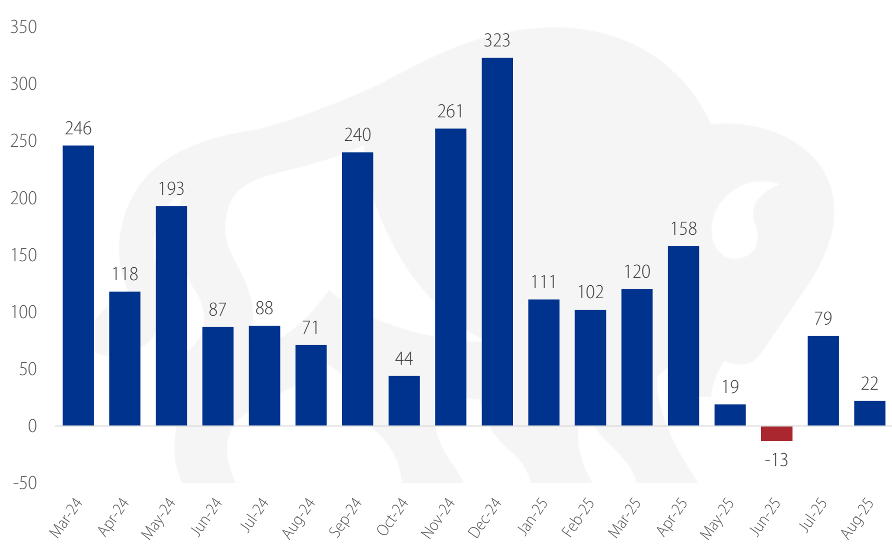
Labor Pains

- August nonfarm payrolls: 22,000, vs 75,000 forecast.
- June revision: -13,000, the first negative monthly change since December 2020.
- Four-month trend: Only 27,000 jobs per month on average, compared to 167,000 in 2024.

Investors should strongly consider locking-in generationally attractive yields before they vanish.

Moody's Analytics Chief Economist Mark Zandi says the economy is on the edge of recession. The U.S. has effectively entered a jobs recession. This backdrop sets the stage for a major policy shift by the Federal Reserve, we think.

Non-Farm Payrolls Total Change (in thousands)



Source: Bureau of Labor Statistics & HilltopSecurities.

Rate Gains

A severe dovish pivot is coming. If the Fed cuts 50 basis points in September, followed by a 25 basis points cut in October and another 25 cut in December the FOMC target rate could be 100 basis points lower by the end of this year alone. When rates fall, municipal bond prices rise. Investors ***can capture gains and generationally attractive yields*** before they disappear.

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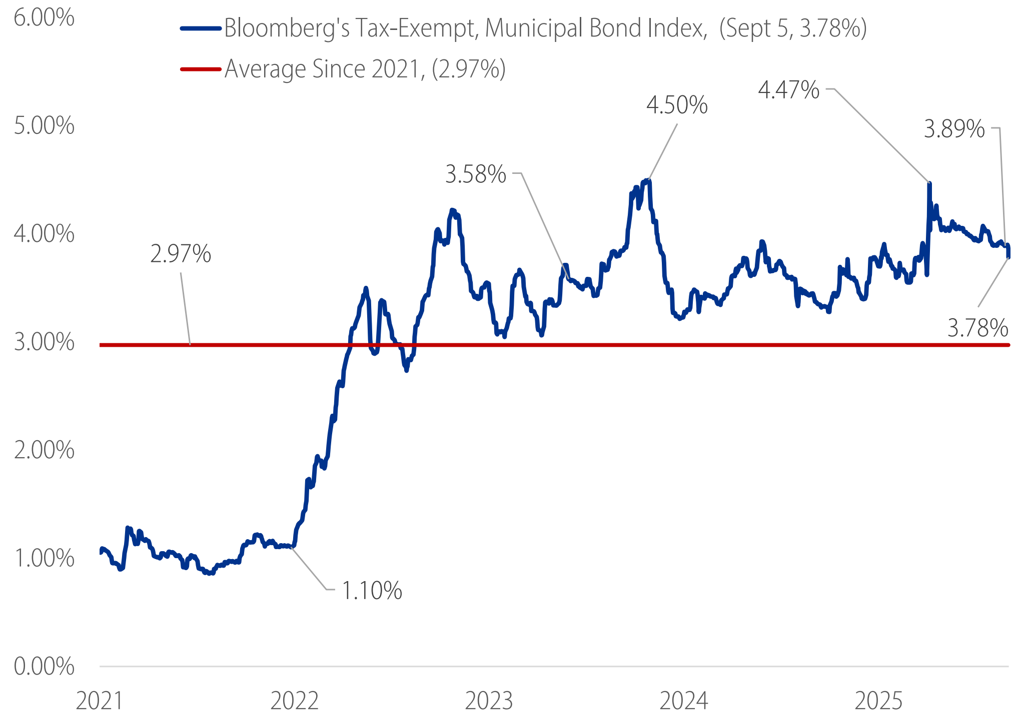
Municipal Yields Fell 10+ Basis Alone on Friday Alone



Source: Bloomberg and HilltopSecurities.

This is an optimal situation for those holding and looking to add positions, but waiting could mean missing the opportunity to lock in favorable yields or to reposition portfolios before the market fully prices in this shift in policy expectations.

Why Muni Investors Can't Wait

Municipal yields fell by ***10+ basis points on Friday alone***. The near-term pressures could push yields even lower in October and December. This is an optimal situation for those holding and looking to add positions, but waiting could mean missing the opportunity to lock in favorable yields or to reposition portfolios before the market fully prices in this shift in policy expectations.

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