

U.S. Municipal Bond Market

Importance of the Signal Hunt Intensifies as Market Sentiment Shifts

- Market expectations have moved from anticipating a December rate cut to questioning whether the Fed will act at all, as uneven inflation progress and doubt adds to the fog leftover from the federal government shutdown.
- For municipal investors, volatility and uncertainty define the current environment, and while this may be temporary, more data is needed before markets and municipal yields settle into a new range.

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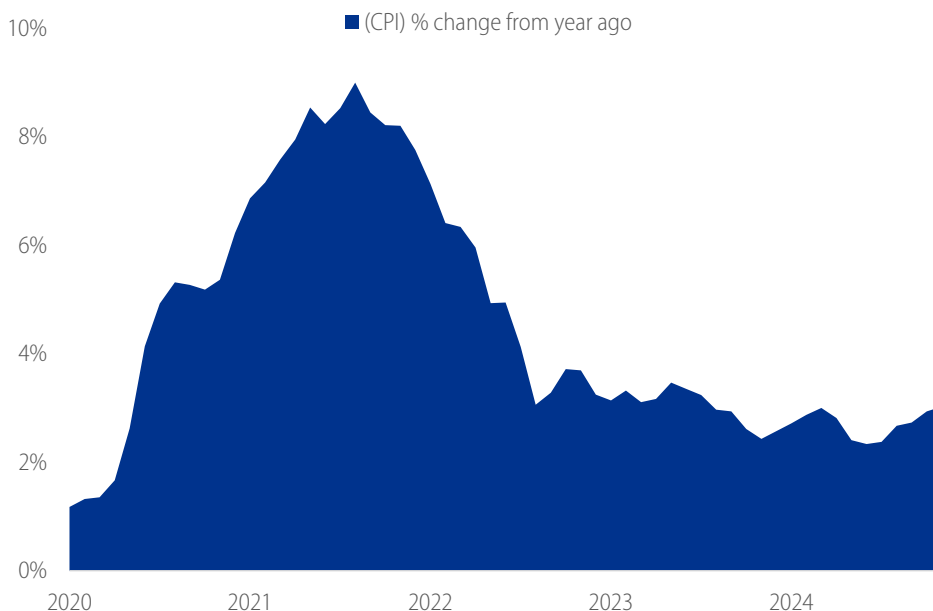
Searching for Direction

There has been a significant and noticeable shift in sentiment since mid-last week. What looked like a December rate cut penciled in on the calendar now feels more like a question mark. The assumption that policymakers were ready to ease has given way to a harder question: **should they?**

Recent developments have not helped cut through the fog. The fog has thickened. Economic indicators have remained strong enough to keep the Federal Reserve cautious about lowering their target rate again on Dec. 10, inflation progress is uneven, and fiscal noise has returned to the conversation. Futures pricing and market commentary have **shifted from “when” to “whether”** and that kind of uncertainty is exactly what markets and investors dislike. Adding to the cautious tone, Atlanta Fed President Raphael Bostic said last week that he favors leaving interest rates where they are until there is clear evidence that inflation is moving lower.

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Sept. 2025 (CPI) at 3.0% is Highest Since Jan. 2025



Source: Bureau of Labor Statistics, U.S. Dept. of Labor and HilltopSecurities.

For municipal investors, this means we're back in a true signal hunt. Every data release, every speech, every revision matters because any one of them could tip the Fed toward staying put longer than expected. The next move down in rates may still come, but it potentially could arrive later and in a choppy market environment than many had hoped, and even later than we thought as early as the beginning of last week.

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Last week, in [The Shutdown Ends and the Signal Hunt Begins](#), we described the Fed and markets as navigating an economic fog: the path ahead is clearing, but visibility is limited and over-steering is dangerous. That picture still holds, partially. A shift in market sentiment, has added ambiguity about how quickly the Fed can pivot without reawakening inflation risks. Uncertainty, or the fog about when and what data is likely to come out of Washington remains. We are expecting to see a September non-farm payrolls number Thursday of this week, but we still do not know if a October non-farm payroll or CPI number will materialize.

The market is still searching for direction, and more data is needed before a new trading range can take shape. At this point, there's a better-than-even chance the Fed will hold rates steady in December. If economic indicators remain stable, yields could rise rather than fall. Investors should weigh that possibility carefully and maintain flexibility in case a buying opportunity emerges, rather than assume the next move will be downward. **For U.S. municipal bond investors, this shift in sentiment defines the environment for now, though it may be temporary.** We will know more when the fog lifts and additional data comes in. Until then, patience and discipline matter more than ever.

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- [Mayor-Elect Mamdani at the AI Crossroads Navigating Between Disruption & Opportunity](#), November 5, 2025
- [AI is Racing Ahead and Energy Infrastructure Needs to Catch Up](#), November 5, 2025
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