

U.S. Municipal Bond Market

Finishing 2025 with Patience, “Range-bound” Until New Signals Arrive

- The labor market is still bending or softening, not breaking, with October payrolls down 105,000 and November up 64,000, and without clearer macro-weakness the Fed is likely to hold steady and not lower its target rate at its Jan. 27-28, 2026 meeting.
- Last week, the Fed cut its target rate again by 25 basis points to a range of 3.50% to 3.75%. The move was the third straight cut and amounted to 175 basis points of easing over 15 months. The dot plot points to a slower path and a split committee, and the Fed’s language signals data dependence and the option to pause.
- Municipal yields did not drop on command because last week’s cut was priced in ahead of time. Tax-exempt yields have been range bound since mid-October, and that range could persist. **In fact, it is now our base case.**
- Fed leadership speculation, including whispers about Kevin Hassett & Kevin Warsh both now at the top of the list, can affect messaging, credibility, and the market’s political risk premium.
- **The mindset to finish 2025 and enter 2026 is simple:** stay humble on timing, be rigorous about cause and effect, and in municipals, focus on steady tax-exempt income while signal hunting.

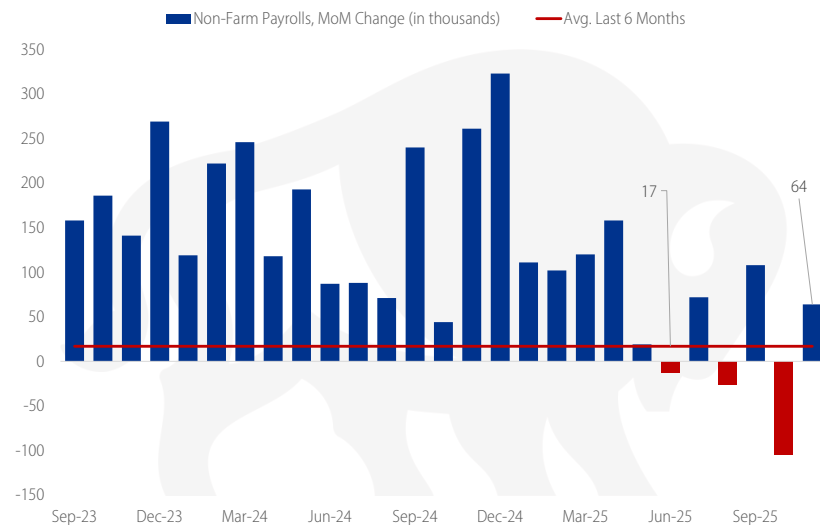
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The Story of 2025

If history is a story, 2025 gave the storyteller plenty of material. From Liberation Day and the Big Beautiful Bill to the record U.S. federal government shutdown, stubborn inflation, a cooling labor market, and the accelerating march toward Artificial General Intelligence, this year could be remembered as a turning point—where policy, economics, and accelerating tech-change collided in ways that will likely shape the future for months or even years.

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The Signal Hunt Continued Today



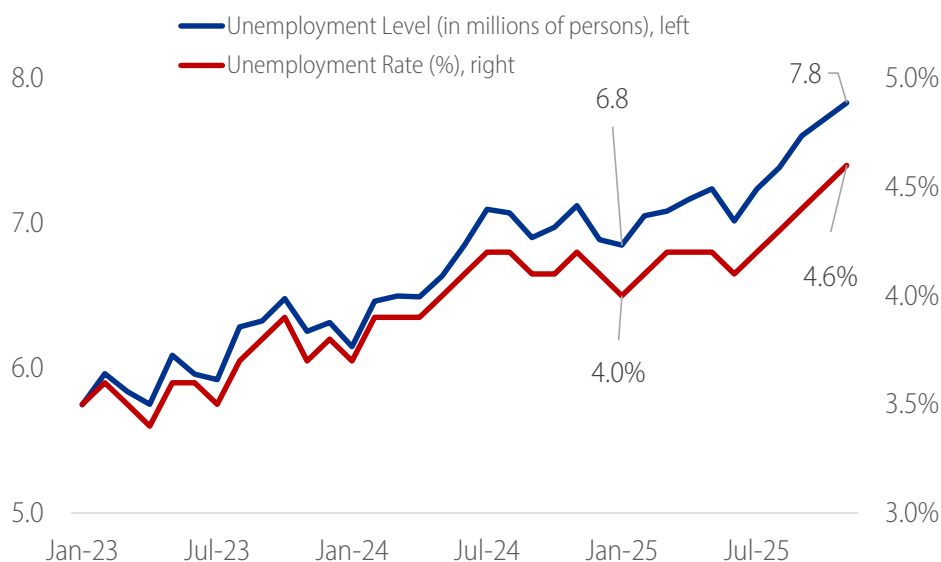
Source: Bureau of Labor Statistics & HilltopSecurities.

We are still confronting the impact from the recent federal government shutdown, which delayed and complicated the employment data. The signal hunt continues. October nonfarm payrolls fell by 105,000, then November added 64,000, a pattern that suggests a labor market that is softening rather than breaking. The unemployment rate rose to 4.6% in November. The number of unemployed increased from 6.8 million in January to 7.8 million in November, a rise of about 1 million.

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The Federal Open Market Committee meets next on Jan. 27-28, 2026, and without clearer macro-weakness the Fed is likely to hold steady and not lower its target rate at its Jan. 27-28, 2026 meeting.

Labor Market Continues to Soften to End 2025



The Fed has now eased by a combined 175 basis points over the past 15 months.

Source: Bureau of Labor Statistics & HilltopSecurities.

What the Fed Did Last Week and Why It Matters

The Federal Reserve cut rates again, back on Dec. 10. They lowered the federal funds target range by 25 basis points to a range between 3.50%–3.75%. The vote was 9–3, which is the Fed’s way of illustrating that the consensus is thinner than it used to be. This was also the third straight meeting with a rate cut. The Fed has now eased by a combined 175 basis points over the past 15 months.

The key Dec. 10 headline was that the Fed moved lower again. The sharper message is that the Fed is trying to slow expectations for additional near-term cuts. Municipal investors and public entities should not miss this. The Fed is no longer projecting a quick slide in rates.

The committee’s “dot plot,” still shows a single 25-basis-point cut ahead in 2026. But participants are divided: seven favor no change next year, and eight call for two or more cuts. That matters because the view changes the likely speed of how fast market yields can drift lower from here. It doesn’t mean rates can’t fall faster. It means the Fed likely will not choose to accelerate near-term cuts unless the results from our signal hunt force them.

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The Fed's own language supports this interpretation. [The Fed's December statement](#) emphasized that future decisions will depend on "the extent and timing of additional adjustments" and on incoming data and the balance of risks. That is central-bank policymaker speak for: "We can pause. Don't assume a smooth, predictable staircase downward unless the data warrants it." The [HilltopSecurities post-meeting note](#) by Scott McIntyre, Greg Warner and Matt Harris framed the December 10 decision as "fully expected" and focused attention on the forward path, not the quarter-point itself.

In our Dec. 9 report [Why the Fed's Likely Dec. 10 Move Matters for Municipal Investors](#) we noted: the economy looks like it's bending, not breaking.

Where Do We Go From Here?

So, what would cause the Fed to speed up cuts again? More aggressive or clear macro-economic weakness most likely. A clear break in hiring, for example. Or a sustained cooling in inflation that gives the committee room to move without risking credibility. In our Dec. 9 report [Why the Fed's Likely Dec. 10 Move Matters for Municipal Investors](#) we noted: the economy looks like it's bending, not breaking. That's not a setup for rapid cuts. That's a setup calling for patience, and for a market that must wait for proof.

Why Did We Not See Municipal Yields Drop After the Fed Cut Last Week?

Some may be wondering: "If the Fed cut the rate target on Dec. 10, why didn't our potential tax-exempt borrowing rates drop?" Big picture: The bond market is typically forward looking. It moves when it expects something to happen, not necessarily when the expected action finally happens.

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This is why municipal yields did not fall on command after the Dec. 10 quarter-point cut. The move was priced in well in advance. We noted on Dec. 9 that tax-exempt yields had stayed "range-bound since mid-October." In other words, the market already did most of its adjusting. By Dec. 10, the Fed was confirming what investors had been trading around for weeks. And that trading range is likely to remain "range-bound," unless the economic data, or other outside factors give the market a reason to move lower (or higher).

It is also worth pointing out that a "range-bound" market can stay "range-bound" longer than people think. In fact, it already has to a degree.

Kevin Hassett Could be a Bridge Candidate for the Fed Chair in 2026

Now the subplot, because the Federal Reserve doesn't operate in a vacuum and markets typically do not pretend it does. [Kevin Hassett](#) is the director of the White House's National Economic Council and considered one of President Trump's top economic advisers. He is also being discussed publicly as a potential next Fed Chair, and the reason municipal investors should care isn't resume. It's messaging, institutional credibility, and volatility.

Hassett's public positioning, based on recent reporting, has two parts. First, he is explicitly conditional on inflation. [In a widely circulated example](#), he said that if inflation moved from 2.5% to 4%, cutting rates would not be appropriate. Second, [he has also said](#) there is "plenty of room" to cut rates, while acknowledging that rising inflation would change the calculation. In other words: cuts could be on the table, but only if inflation behaves.

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The more important point for markets could be institutional. In a recent interview, Hassett emphasized the Fed is a voting committee and the President's view would have "no weight" if the data does not support it. That's the kind of sentence that potentially impacts the "political risk premium" investors quietly embed into the market.

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Here is the **bridge** argument. A Fed Chair who can speak credibly to the political demand for easier money while still anchoring decisions to inflation and committee process may steady expectations, not destabilize them. The market can live with different names. It cannot live with unclear rules.

However, pay attention regularly because President Trump says, "The two Kevins are great." Now, former Fed Governor Kevin Warsh had moved to the top of the Fed candidates list, alongside Hassett.

Looking Forward to 2026

The cleanest way to think about 2026, after Dec. 10, is that "range-bound" is no longer just a description of the last two months. It's a reasonable base case. We noted on Dec. 9 that tax-exempt municipal yields have been range bound since mid-October, trading in a relatively narrow band. With the Fed signaling a slower path and the cut potentially already priced in, the next decisive move likely needs a fresh, material signal big enough to change the expected path.

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Recent HilltopSecurities Municipal Commentary

- Why the Fed's Likely Dec. 10 Move Matters for Municipal Investors, December 9, 2025
- Rate Cut Expectations Surge, Could Mean Renewed Momentum for Municipals, December 1, 2025
- Markets Swing and Fed Expectations Shift While Municipals Hold Steady, November 24, 2025
- September Jobs Data Clears One Cloud, But the Forecast Stays Gray and Unclear, November 20, 2025
- Importance of the Signal Hunt Intensifies as Market Sentiment Shifts, November 17, 2025

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

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