

U.S. Municipal Bond Market

Why the Fed's Likely Dec. 10 Move Matters for Municipal Investors

- The U.S. FOMC is poised to ease, and futures markets signal an almost certain quarter-point rate cut at the Dec. 10 FOMC meeting, which would lower the federal funds target range to 3.50%–3.75%.
- The labor market is losing momentum. Headline data looks steady, but hiring has slowed, job searches are taking longer, and corporate plans show belt-tightening.
- **The outlook for municipal investors remains constructive** for December. Yields remain attractive. Expectations of lower rates and strong recent inflows into municipal funds are supporting demand for high-quality opportunities even as economic signals point to uneven deceleration.

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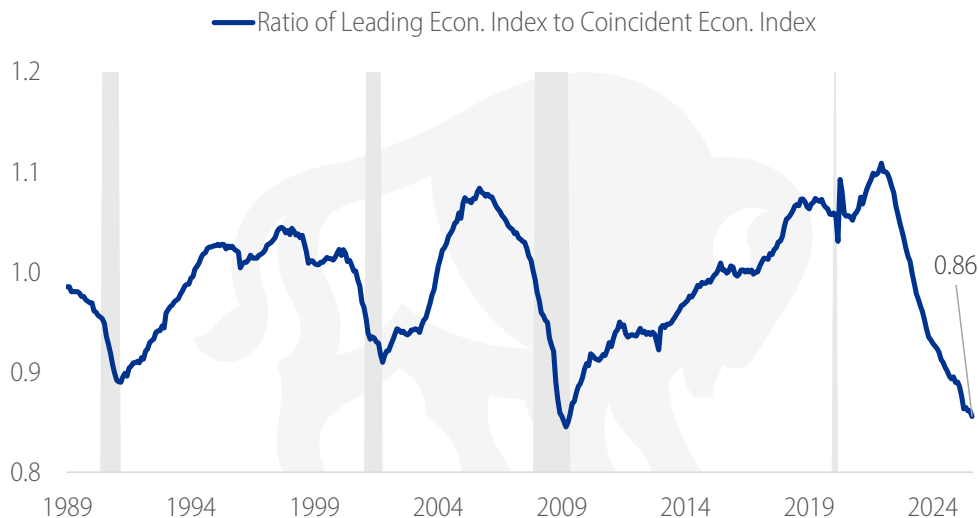
How Could They Not?

The conversation around the Dec. 10 Federal Open Market Committee (FOMC) meeting has shifted in recent weeks from “will they, or won’t they?” to “how could they not?” Since our Dec. 1 commentary, [Rate Cut Expectations Surge, Could Mean Renewed Momentum for Municipals](#), expectations stayed high. Futures markets now imply an almost certain quarter-point cut tomorrow.

The signal hunt continues. The committee appears split: five lean hawkish, five lean dovish. Chair Jerome Powell and New York Fed President John Williams could decide the outcome, and Williams has recently favored easing. If both support a cut, the federal funds target rate, which is the short-term benchmark for borrowing costs, would fall by 25 basis points to a range of 3.50% to 3.75%.

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We Might Really, Really Need a Rate Cut (Wrote Spencer Jakab, WSJ)



Source: The Conference Board, Spencer Jakab (WSJ) and HilltopSecurities.

For municipal investors and public entities, the question today is not only whether a cut is coming. It is what kind of economy the Fed believes it is cutting into. That is where our signal hunt has taken us this week.

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Labor Market Signals

On the surface, the labor market still looks steady, but cracks are forming. New unemployment claims fell to about 191,000 in the [latest weekly report](#), the lowest level in three years and well below expectations. Continuing claims, which measure the number of people still receiving benefits, [sits at 1.94 million](#). That is slightly below the prior week but noticeably higher than at the start of the year.

This is the definition of a late-cycle, “low-hire, low-fire” environment. Layoffs remain modest, but hiring has cooled, and it is taking longer for people to find new work. Stability at the headline level is masking a job market that is more fragile than it was earlier in the decade.

Look one layer deeper and the story becomes even more complicated. Companies announced just over [71,000 planned job cuts](#) in November, according to Challenger, Gray & Christmas, more than 50% below the October spike but still higher than a year ago. Year-to-date, announced cuts are now above 1.1 million, the highest level since the pandemic shock of 2020. At the same time, hiring plans have dropped to their lowest level since 2010. The signal here is not mass layoffs in real time but a corporate sector that is quietly tightening belts, slowing replacement hiring and trimming future headcount in response to higher borrowing costs, slower demand and, in select sectors, **the early impact of automation and artificial intelligence (AI)**. When you add in a recent private-sector payroll report showing an [outright decline in jobs, led by small businesses](#), you get a picture of a labor market that is “stable enough” today but clearly losing momentum.

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What the Dashboard Says

The chart on the cover page of our report underscores that point. It plots the ratio of the Conference Board’s Leading Economic Index to its Coincident Index, a simple way to compare what forward-looking data say with what is happening now. That ratio has slipped to levels historically seen only on the eve of recessions or early in downturns. Coincident indicators are still grinding forward, but the leading side has rolled over. Equity markets driven by AI spending, buoyed by rate-cut hopes, are the main outlier. This divergence between “how things feel today” and “what the dashboard says about tomorrow” is why many market watchers argue **we might genuinely need a rate cut** rather than merely welcome one.

Spencer Jakab highlighted this potential “need” for a cut in the Wall Street Journal last week, in his commentary titled, [We Might Really, Really Need a Rate Cut](#), where he wrote, “The LEI to CEI ratio dipped below one just before the last two sharp recessions, in late 2000 and late 2007. The latest readings, which were for August, formed one of the lowest ratios ever. Going back to the late 1980s, the only three times it was lower was at the bottom of the financial-crisis bear market: February through April 2009.”

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The Data Fog and Market Impact

The data vacuum because of the recent federal shutdown only intensified our signal hunt. Key official releases, including the November jobs report and new inflation readings, have been pushed into mid-December. In their absence, the Fed is looking at the same patchwork we are seeing. The picture the available data paints is not of an economy in crisis, but of one that is decelerating unevenly, with risks tilting more toward the labor side of the Fed's dual mandate than at any time since the cutting cycle began.

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For municipal investors, this backdrop is oddly constructive. In our [commentary last week](#), we noted that the odds of a December cut had surged and that expectations of lower rates historically tend to pull more buyers into the tax-exempt market. Attractive yields have remained for now. They have been range-bound since mid-October. But, this may not be the case after Chair Powell's guidance Wednesday, or the market reaction in coming days and weeks.

For now, the constructive dynamic is still in place. Heavy primary issuance in October and November has left dealers with ample inventory, and secondary spreads have remained orderly even as Treasury volatility picked up. As the probability of a cut has firmed, we are already seeing signs that buyers are willing to activate again and that the market's appetite for high-quality, long-duration income is rebuilding. Flows into municipal funds have rebound in the last two weeks after almost \$1 billion flowed out in the week before Thanksgiving. We saw \$680 million investment dollars flow into municipal market mutual funds the week ending Nov. 28 and another \$736 million last week, the week ending Dec. 4 all according to Lipper.

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For investors, the hunt remains the same: track the real-time signals that will tell us whether the Fed's "just-in-case" cut is enough, or whether we are on the cusp of a more extended easing cycle. Weekly claims, Challenger announcements, the shape of the LEI-to-coincident ratio, credit spreads and mutual-fund flows into municipal funds are all part of that mosaic. Right now, **they point toward an economy that is bending, not breaking**, and a central bank that is more worried about losing the labor market than it is about a second inflation wave. In that world, the bias for municipal yields over the next several quarters still looks downward, even if the path from here to there is noisy.

Recent HilltopSecurities Municipal Commentary

- [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
- [The Shutdown Ends and the Signal Hunt Begins](#), November 13, 2025

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

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