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Municipal Bonds and the Fed Rate-Cut Outlook in 2025: Strategic Entry Points for Investors.

Summary

– Fed’s 2025 rate-cut path (3 cuts by year-end) boosts municipal bond prices, especially long-duration instruments as yields fall.

– Investors advised to extend duration in high-quality municipal bonds, prioritize tax-exempt income, and leverage historical outperformance trends.

– Risks include inflation from tariffs undermining rate cuts and tightening credit spreads, requiring disciplined focus on high-credit-quality bonds.

The Federal Reserve’s anticipated easing cycle in 2025 has positioned municipal bonds as a compelling asset class for investors seeking strategic entry points. With the central bank poised to implement a 25-basis-point rate cut in September 2025, followed by further reductions in October and December, the municipal bond market is already pricing in a shift toward accommodative monetary policy. This environment, driven by a deteriorating labor market and inflationary pressures from tariffs, creates opportunities for investors to capitalize on yield advantages and duration positioning.

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Saturday, Sep 6, 2025 6:53 pm ET