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Tricky Times Ahead for Governments' Cash Managers.

Short-term interest rates are likely to continue ratcheting down, making it a challenge for state and local financiers to maximize income on investments. But there are a few opportunities here and there.

After resisting presidential pressure to cut interest rates until it became clear that the inflationary impact of tariffs would not be as severe as first expected, the Federal Reserve has begun what appears to be at least a short series of likely quarter-point reductions in its key federal funds rate.

Just how many of those cuts there will be and how deep they will go in early 2026 and beyond is still the big question in the money markets. Except for a few government treasurers and their external cash managers who've already locked up higher-yielding investments maturing late next year and into 2027, budget officers are now questioning whether their 2026 interest income projections will hold up.

Welcome to the next "new normal." Shorter-term rates are declining, but not so much for longer maturities. Although many keep expecting this trend toward easier money to quickly result in lower mortgage interest rates to help the housing market, that's not so obviously in the cards for now. The same is true for municipal bond issuers: Longer-term muni yields have held pretty steady despite Washington's spin about stable inflation and benign tariff impacts. Wary bond investors still expect a healthy premium for the risks of future inflation and ballooning federal deficits.

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