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Short-Dated Municipal Bonds Soar on Weak Inflation, Rate Cut Expectations.

- **Yields dropped as much as 8 basis points on Thursday**
- **Strong performance may help boost flows into municipal funds**

Short-dated municipal bonds posted their best day in five months after signs of slowing inflation fueled speculation the Federal Reserve will be able to cut rates as soon as September.

Shorter-dated securities extended a rally on Friday afternoon after state and local government bond yields dropped as much as 8 basis points on Thursday, further boosting prices. The biggest gains came at the front of the yield curve with top-rated benchmark bonds maturing in one and two years posting their best daily gains since early February.

“We’ve gone through several false starts in the first and second quarter, hence the market was going in a little cautious,” said James Pruskowski, chief investment officer at 16Rock Asset Management, referencing inflation data that had been stubborn until recently. “I think this seals the fate as the Fed is laying the groundwork for a pivot.”

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