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Munis Extend Rally as Jobs Miss Cements Path to Fed Rate Cut.

- **Yields on 10-year benchmark bonds fell 9 basis points to 2.6%**
- **Issuers expected to sell over $15 billion of bonds next week**

Municipal bonds extended their rally on Friday after a lackluster jobs number cemented expectations that the Federal Reserve will start cutting interest rates by the end of its next meeting in September.

Yields on 10-year benchmark securities fell 9 basis points to 2.6% on Friday, following yesterday's move that marked the largest rally in weeks. Investors in search of safer assets fueled the rally, piling $1.1 billion into municipal bond funds during the week ended Wednesday, the second largest weekly inflow of the year, while the market's biggest muni ETF saw its largest daily inflow in more than two years.

The moves cap an unusually busy week in the municipal bond market as investors sought to reposition portfolios out of fears that the US economy is at risk of moving toward a recession.

"What you're seeing is a strong move to quality in anticipation of yields falling, and you will continue to see a rotation to high quality," said Chip Hughey, managing director for fixed income at Truist Advisory Services. "This will probably improve muni to treasury ratios and create a bit more value on a relative basis."

More certainty about the path of rate cuts should help stabilize the market, but tax-exempt munis are still "vulnerable" because of a heavy supply calendar, according to a Friday research note by Barclays Plc. Issuers are expected to sell more than $15 billion of bonds next week, what would be one of the heaviest weeks of the year.

Year to date, muni supply is up about 36% compared to the same period last year, according to data compiled by Bloomberg. Hughey said he expects clarity around the path of interest rates could compel some issuers to move forward with financing plans, driving continued strength in supply going forward.

BlackRock's flagship muni ETF, the biggest in the market, saw its largest inflow since late April 2022, according to data compiled by Bloomberg. The iShares National Muni Bond ETF took in $418.5 million on Thursday.

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