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Short-Dated Muni Bonds Swoon as Fed Rate-Cut Bets Revised.

- **State-, local-debt market usually takes its cues from US bonds**
- **Uptick in muni supply expected ahead of presidential election**

The shortest-dated municipal bonds sold off after a blowout jobs report caused investors to recalibrate the odds of another big interest-rate cut from the Federal Reserve.

On Friday, yields on three-month AAA municipals shot up 29 basis points — the biggest one-day jump since 2022 — after labor data showed a still strong US economy. That puts yields on the ultra-short securities higher than AAA municipal bonds maturing in 16 years — deepening once again, an already pronounced inversion of the muni curve.

Short-term state and local debt yields have been elevated compared to longer term debt for over two years. The muni curve inverted after the Federal Reserve started on its rate hiking regime in 2022. That relationship was just starting to return to normal — until the too hot jobs data shook traders' conviction in the scope of the Fed's future policy easing.

Continue reading.

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By Lily Meier and Sri Taylor

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