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The Rate Cut Calculus Just Changed — What It Means for Muni Positioning

Before the ceasefire, markets had essentially given up on Federal Reserve rate cuts in 2026. The probability of at least one cut by year-end had collapsed to roughly 25%, crushed by an oil-driven inflation spike that made the Fed's job functionally impossible. With Brent crude above $100 and geopolitical risk premiums embedded across the yield curve, the narrative had shifted from "when will the Fed cut?" to "could the Fed hike?" The probability of a rate hike by year-end had climbed to nearly 25% on prediction markets — a remarkable shift from where expectations stood just months earlier.

The ceasefire changed that calculus sharply. Oil fell more than 16% on April 8. The 10-year Treasury yield dropped to around 4.30%, its lowest level in roughly three weeks. Fed cut probabilities by year-end jumped from 25% to over 43% in a single session, according to CME FedWatch data. The probability of a rate hike tumbled from nearly 25% to 14%. In the span of a few hours, the rate narrative had done a near-complete reversal — and the municipal bond market repriced accordingly.

For muni investors, the Fed's path matters enormously, but the relationship between rate expectations and muni valuations is more nuanced than simply "cuts are good, hikes are bad." Understanding where that nuance lives is what separates an advisor who manages muni duration strategically from one who simply reacts to whatever the Fed says next.

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