

Fed Holds Rates At January Meeting

As expected, the Federal Reserve Board opted to keep interest rates unchanged at its meeting held in late January. Market participants anticipated no change in interest rates by the Fed after three successive rate cuts in the second half of 2025. Fed Chair Jerome Powell commented that for now, the Fed is “on hold” and he believes the current Fed funds target is in a “broad range of neutral value”.

The Fed’s second meeting of 2026 will take place in March and, currently, expectations are low that another rate cut will occur at that time. Regardless of the timing, most market watchers seem to anticipate one or two rate cuts in 2026, but now expect that they may be more likely to come later in the year than was previously expected. D.A. Davidson’s co-chief investment officer was quoted in **The Bond Buyer** as saying “Tame inflation and surprisingly strong fourth quarter 2025 GDP will keep the Fed on hold”. In the same article, the CIO of SignatureFD commented that “rate cuts are more likely later in 2026 than additional hikes, especially if inflation continues to drift lower and unemployment edges higher.” The Fed has targeted ~2% as an acceptable inflation rate. The head of investment strategy at Edward Jones added that the Fed attempts to lower rates to a neutral level, typically “about 100 basis points above inflation.” The annual inflation rate in the United States was 2.7% for the 12 months ending in December. With the nomination of Kevin Warsh as new Fed Chair by President Trump at the end of January to replace the outgoing Chair in May, the direction of the Fed should become clearer in the weeks ahead.

Possible Budget Reconciliation Bill Could Target Muni Tax Exemption

With the possibility that President Trump may want a budget reconciliation bill in place prior to the end of the federal government’s current fiscal year and long before the November mid-term elections, concerns have risen that the tax-exempt status of municipal bonds could once again be in jeopardy. It has been estimated that eliminating the tax exemption on municipal bonds could save as much as \$250 billion while eliminating it on private activity bonds and Build America Bonds could save another \$114 billion. These savings could be used to make way to fund programs that are important to the Administration including home ownership, health care and energy independence, as identified by the House’s Republican Study Committee. Eliminating the tax break on municipal bonds is not a new topic. It was most recently considered last year, in connection with the drafting of the One Big Beautiful Bill Act, as a means to generate new revenues. Eliminating the exemption would, of course, significantly increase the cost of funding capital programs and cash flow needs of state and local governments. The current difference between tax exempt and taxable interest rates for municipal borrowers is approximately 180 to 200 basis points.

RECENT CMA CLIENT SALE RESULTS

Issuer (Rating)	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
Yonkers City (A2/A+)	Bonds	\$ 89,295,000	Negotiated	20 yrs.	3.83%	Raymond James & Assoc.
Hingham Town (Aaa)	Ref. Bonds	14,910,000	28 – Jan	7 yrs.	2.20%	Loop Capital Markets
Hingham Town (Aaa)	BAN	43,755,653	28 – Jan	7 mos.	2.29%	TD Financial Products LLC
West Seneca Town (Aa3)	BAN	19,327,315	22 – Jan	1 yr.	2.38%	Jefferies LLC
Holland CSD (A+)	BAN	11,365,000	8 – Jan	1 yr.	2.67%	Hilltop Securities
Islip Town (Aaa)	BAN	700,000	6 – Jan	1 yr.	3.62%	Oppenheimer & Co.
West Haverstraw Village (Aa3)	BAN	576,250	6 – Jan	1 yr.	3.37%	Oppenheimer & Co.

GENERAL OBLIGATION TAX-EXEMPT INTEREST RATES

	February 2, 2026					January 2, 2026					1 Year Ago - February 3, 2025				
Term	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	2.18%	2.21%	2.24%	2.22%	2.60%	2.43%	2.46%	2.52%	2.50%	2.88%	2.65%	2.68%	2.76%	2.74%	3.12%
5	2.24	2.28	2.38	2.42	2.81	2.40	2.44	2.54	2.58	2.97	2.77	2.81	2.93	2.97	3.36
10	2.64	2.75	2.83	2.93	3.41	2.78	2.89	3.00	3.10	3.58	2.97	3.08	3.22	3.32	3.80
20	3.97	4.18	4.23	4.32	4.78	4.00	4.21	4.29	4.38	4.84	3.76	3.97	4.12	4.20	4.64
30	4.29	4.51	4.56	4.65	5.13	4.25	4.47	4.55	4.64	5.12	3.97	4.19	4.34	4.42	4.87