

Tariff Turbulence Strikes Municipal Bonds [04-10-2025]

Since the announcement of President Trump’s Liberation Day tariffs, virtually every asset class experienced near record levels of price volatility. Price declines were both swift and decisive. In an unusual occurrence, the tax-exempt asset class did not provide a “port in the storm” as municipal bonds were also struck by spectacular turbulence.

In fact, this normally “sleepy” asset class experienced outsized price fluctuations. With investors panicking and attempting to squeeze through a relatively narrow window of liquidity, the broker/dealer community became overwhelmed and continuously dropped their bids as the selling pressure continued unabated. To put the amount of selling pressure into perspective, the volume of transactions rivaled the peak reached during the pandemic. Making matters worse was the extreme yield fluctuations, which caused investors to remain on the sidelines and sit on their investable cash.

Massive reversal

On the heels of President Trump’s pronouncement that the newly added tariffs (aside from China) will be paused for 90 days, the municipal market did a complete about face. Specifically, prior to the statement, yields on high quality municipal securities spiked by 35 to 40 basis points.

The pricing services captured that move in last night’s calculations. However, later in the day, yields reversed (prices soared) course and plummeted by approximately 40 basis points in a matter of hours.

While it is possible that the selling pressure witnessed yesterday morning could have signaled a crescendo and a peak in rates, we remain cautious. To that end, the statements communicated in RSW’s 2025 Outlook and Q1 commentaries remain in force. Namely, we anticipate maintaining a defensive posture with respect to both interest rate sensitivity (as measured by Duration) and by lending monies to only the most creditworthy municipal borrowers.

As always, we will continue to keep you updated on any meaningful new developments in our Intra-Quarterly commentaries.

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All performance referenced is historical and is no guarantee of future results.