

Investors Reward Muni CEFs, Preferred Equity Following Rate Cut

After the Fed's benchmark rate cut on September 17, 2025, investors moved quickly into municipal bond closed-end funds (CEFs), international bonds, and preferred equity: sectors that stood to gain swift relief from the quarter-point rate reduction.

And as the dust cleared by week's end, investors showed they were cautious on credit, putting pressure on the discounts of business development companies (BDCs) and senior loan funds. Net asset value total return (NAV TR) dropped -2% for debt-focused BDCs as of September 19, 2025, according to [CEFData.com](https://www.cefdata.com), which tracks CEF performance across multiple [indexes](#) developed by CEF Advisors.

The first interest rate cut of the year comes amid growing labor market worries, persistent tariff pressure on inflation, and a weakening dollar. Having lowered the target range for its federal funds rate to 4% to 4.25%, the Fed's mid-year rate reduction prompted a range of CEF discount movement that could serve as a bellwether for future market activity should interest rates continue to fall.

Let's dig deeper into the data (as of September 19, 2025):

Equity CEFs

NAV TR and Discounts

NAV TR results were mixed, with preferred equity (+1.6%) outperforming, while utilities/infrastructure lagged, falling -1.6%. Preferred equity saw discounts tighten (+1.1%) and utilities widen by -0.8%.

Takeaway

The Fed cut helped rate-sensitive preferreds, but not utilities/infrastructure. Investors seemed to reward structures that benefit directly from funding cost relief (preferreds), while remaining cautious on sectors tied to regulated cash flows and longer-term duration.

Taxable Bond CEFs

NAV TR and Discounts

NAV TR for international bonds (+1.3%) led,

driven by dollar weakness, while senior loans fell by -0.6%. International bonds saw significant discount tightening (+1.7%) while senior loans widened (-0.3%) as of September 19, 2025, and -1.7% quarter-to-date.

Takeaway

The rate cut plus the weaker dollar gave a strong boost to global bonds. Senior loans, being floating-rate, don't benefit much from lower Fed funds—investors likely see the move as a negative for loan coupons going forward, even with cheaper leverage.

Municipal CEFs

NAV TR and Discounts

NAVTRs muni CEFs were up slightly (+0.2%), while discounts tightened +0.2% (1W) and +1.0% quarter-to-date—a relative transformation after generating [pervasive discounts](#) in the second quarter.

Takeaway

Munis were one of the clearest winners. The cut lowers borrowing costs for leveraged muni CEFs while increasing demand for tax-exempt income. Discount tightening reinforces renewed confidence in the space.

BDCs

NAV TR and Discounts

Market prices for debt-focused BDCs weakened by -2.8% amid sharp widening by -1.9% QTD. Anticipating such an outcome,

Mitchel Penn, Managing Director of Equity Research for Oppenheimer & Co., [suggested](#) on a recent NAVigator Podcast that most of the return that investors will likely see amid rate cuts this year is going to be in the dividend.

Takeaway

Despite the Fed cut, investors remain cautious on credit spreads and the earnings impact from lower base rates. BDCs look pressured in the near term, as spread compression outweighs lower funding cost benefits.

Overall Outlook

Positive: International bonds and muni CEFs, where the Fed cut directly improves borrowing costs and demand for income.

Neutral/slightly positive: Preferreds and convertible bonds, which are rate-sensitive but tied to equity strength.

Negative: Senior loans and BDC equities, where lower base rates reduce income generation and spreads remain stubborn. The key here would be to review dividend coverage, manager credit experience, and relative pricing.

In short: The Fed cut signaled relief for duration and tax-sensitive CEFs, but credit markets are still grappling with spread pressure. The divergence between NAV TRs and discount moves shows investors

are selectively rewarding sectors that gain immediate funding relief while remaining skeptical on credit-heavy areas.

Learn more about CEF Advisors' [data coverage](#) at [CEFData.com](https://www.cefdata.com).

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