PMA®

OCTOBER 1, 2021

Interest Rates On the Rise

As we enter the final quarter of the year, inflation is still headlining the news as economists and financial experts determine in which direction our economy is headed. Fed Chairman, Jerome Powell delivered a speech to the Senate Banking Committee on Tuesday, September 28, indicating that inflation concerns might last longer than he originally expected, but that he still expects inflation to come back down to the Federal Reserve's long-term target of 2%. Furthermore, Chairman Powell's comments from the last Federal Open Market Committee meeting indicated that the Fed is prepared to begin tapering its asset-purchasing program, a process that would last through the middle of 2022. However, no definitive plan to do so was reached.

As the economy and the financial markets digest these developments at the Fed level, news on the congressional front have also been concerning. Our last market update reviewed the potential impact of a failure by Congress to suspend or raise the federal debt limit by October 18. There has still been no action by Congress to do so, and as each day passes without action, the threat of a US default weighs heavier on the minds of investors.

All of these factors have played a critical role in the recent movement in tax-exempt interest rates, as measured by the Bloomberg AAA Municipal Curve (BVAL). Since the beginning of September, interest rates have increased by as much as 0.19%, or 19 basis points (bps), depending on the term. For example, the 8-year BVAL closed at 0.76% on September 1st and closed at 0.95% on September 29th. In fact, on Tuesday, September 28th alone, the BVAL increased by as much as 7 bps.

On a more favorable note, there has been progress made regarding proposed legislation that would benefit the municipal bond market. The White House Administration's proposed $3.5 trillion infrastructure package includes municipal provisions such as the restoration of tax-exempt advance refundings, an increase of the bank-qualified limit from $10 million to $30 million, and a new direct-pay bond program like the Build America Bond program from 2009 and 2010. The package also includes an increase to the top corporate tax bracket to 26.5%, which would further enhance investor appetite for tax-exempt bonds. All these provisions would serve to either increase issuer access to the market or create downward pressure on tax-exempt interest rates, both of which are positive developments for municipal bond issuers.

Despite the recent increase in tax-exempt interest rates, there is still reason to be optimistic about the municipal bond market. Interest rates are still incredibly low from a historical perspective, federal legislation is favorable for the municipal bond market, and investors are still incentivized to generate demand for tax-exempt bonds. If you have any questions about the municipal bond market in general or your specific bond issue, please feel free to contact a PMA advisor below.


Bob Lewis
Senior Vice President, Managing Director
PMA Securities


Andrew Kim
Director, Public Finance
PMA Securities


Tammie Beckwith Schallmo
Senior Vice President, Managing Director
PMA Securities


Stephen Adams
Director, Public Finance
PMA Securities

PMA®