PMA®

Municipal Market Update
November 19, 2021

Low Rates Remain Amidst Swirl of Inflation Speculation

Despite constant news reports and speculation around inflationary pressures in the current economic landscape, municipal bond rates showed a steady trend over the last two weeks. A report released by the US Department of Labor on November 10 showed a 6.2% increase in the consumer price index over a one-year period ending in October 2021. This represents the highest level of inflation in more than 30 years according to that metric. The higher-than-expected inflation report has only increased the speculation from every corner of the bond market around the policy path the Federal Reserve is expected to take in the coming months.

As an immediate reaction to the inflation report we saw US Treasury rates across the yield curve increase. The largest movement was seen in the five-year treasury with an increase of .15% from November 9 to November 10. However, since then Treasury rates have held a mostly steady tone over the last week. Municipal bond rates did not see the same immediate changes as a result of this Department of Labor CPI report. Municipal bond rate indices have seen small shifts down and then back up over the last two weeks but overall the market does not seem to be buying the idea of upward rate pressure that could come from persistent elevated inflation.

In taking a step back to look at the overall condition of the municipal bond market through the lens of a bond issuer, the market has remained remarkably steady through all of calendar year 2021. There is significant debate amongst economists about the path forward for the market, but we continue to see strong results in our bond sales for clients with many interested bidders. This is partly a result of the continued inflow of funds into municipal bond mutual funds and exchange traded funds (ETFs). The Investment Company Institute reported combined inflows of $2.36 billion for the week of November 10. This strong inflow number follows a trend that has been steady throughout calendar year 2021.

The passage of the $1 trillion Infrastructure Investment and Jobs Act this past week in Washington is generally seen as a positive development for local governments. This level of investment is sure to present opportunities for local governments to complete much needed infrastructure projects as the funding is administered. We will be following this closely and will share our thoughts and ideas as more details emerge.

Municipal issuers continue to enjoy a low interest rate environment but the speculation about how long it will last only continues to increase. 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.

As we quickly approach the holiday week, we are grateful for the trust our clients place in the PMA Public Finance team to continue to do meaningful work for their communities. We hope you have a Happy Thanksgiving!


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