

Inflation Drives Upward Trend in Rates

Over the last few weeks municipal bond rates have continued their trend upward that has so far defined the market in 2022. The rise in rates across bond markets was fueled again by the report out from the US Bureau of Labor Statistics on February 10 showing a 7.5% year-over-year increase to the Consumer Price Index. This eclipses the 7% CPI number that came a month earlier marking the highest inflation since 1981. The continued rise in interest rates can be seen across bond markets and it notably caused the 10-year US Treasury to exceed a 2% yield for the first time since mid-2019.

The bond market will be carefully watching how the Federal Reserve reacts to the increased inflation. For the last few weeks, the market has expected the Federal Reserve to take action to increase rates by .25% at their upcoming meeting in March. The CPI print from February 10 shifted market expectations to a 90% probability of a .50% rate hike in March according to the CME Group's FedWatch tool.

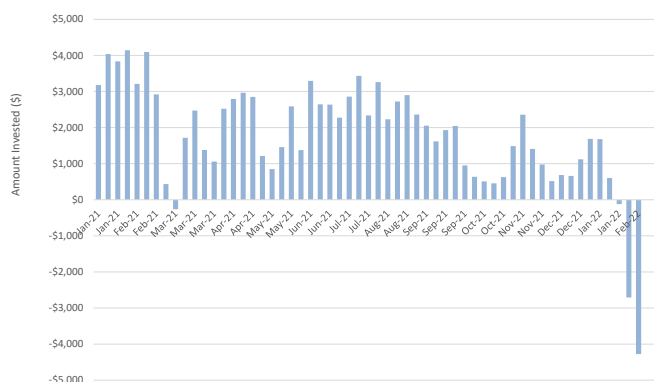
Interest rates on municipal bonds have increased this year by more than .50% across the yield curve as measured by the Municipal Market Data (MMD) Index. The chart below illustrates the movement in municipal bond rates over the past two years.

MMD Bond Index January 2020 - Current



Recent weeks have also seen a new trend in the demand for municipal bonds as fund flows have turned negative. After a long stretch of many months of funds flowing into municipal bond mutual funds and ETFs, the last three weeks have seen outflows from municipal bond funds including net outflow of \$4.276 billion in the week ended February 2 as reported by The Investment Company Institute (ICI). The chart below illustrates this reversal in fund flows.

Municipal Bond Fund Flows



On a broader historical basis interest rates continue to remain favorable even as they rise off historically low levels. The market continues to provide low-cost financing for municipal issuers. In this unpredictable environment, it will be important for issuers to be nimble and strategic as they approach the market.

PMA is dedicated to staying up to date on market trends and will be ready to guide you through a dynamic and evolving market. 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.



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