The Fed Tightens – Inflation Persists

The Federal Reserve's (the Fed) Federal Open Market Committee (FOMC) met on May 3-4, 2022. As was widely expected by the market, the Fed increased its overnight rate by 0.50%, bringing the range to 0.75%-1.00%, and provided guidance on how the Fed would begin to reduce the size of its nearly $9.0 trillion balance sheet. At the May 4 news conference Fed Chairman Jerome Powell noted that additional 0.50% increases could be warranted at the June and July FMOC meetings given current economic conditions. The Fed's tightening, which started meekly in November 2021, is picking up steam.

FMOC Meeting Statements

	Federal Funds Rate		Balance Sheet (Monthly)	
Date	Increase	Target Range	Reduction	Target
prior		0.00% - 0.25%		$120 billion
Nov 3, 2021	--	0.00% - 0.25%	($15 billion)	$105 billion
Dec 15, 2021	--	0.00% - 0.25%	($45 billion)	$60 billion
Jan 26, 2022	--	0.00% - 0.25%	($40 billion)	$20 billion
Mar 16, 2022	0.25%	0.25% - 0.50%	($20 billion)	--
May 4, 2022	0.50%	0.75% - 1.00%	($48 billion)	($48 billion)
Jun 15, 2022*	0.50%	1.25% - 1.50%	--	($48 billion)
Jul 27, 2022*	0.50%	1.75% - 2.00%	--	($48 billion)

* Projected based on May 4, 2022 statement and comments by Chair Powell

Initially, the capital markets seemed receptive to the Fed's statements and Chairman Powell's comments on May 4. Treasury yields moved lower and the S&P rallied, ending the day up 2.85%. However, the following day saw a reversal of those gains. Rates moved higher (higher rates, lower prices), and the S&P index dropped 2.89%, and continued edging lower the next three trading sessions.

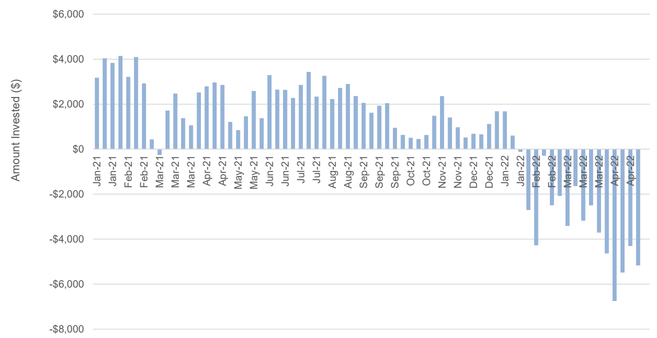
On the morning of May 11, the Labor Department released its consumer price index (i.e., what consumers pay for goods and services) for April and it was little changed from the previous month. April's year over year increase was 8.3%, slightly lower than March's 8.5% reading. The slight decrease in April's CPI was primarily attributed to lower gasoline prices in April, but gasoline has since reached a new nominal high earlier this week. Additionally, a measure of the CPI that excludes the impact of volatile food and energy prices increased month over month by 0.6%, which doubled March's 0.3% increase. For those looking for near-term inflation relief, more patience will be required.

Broadly speaking, equities and fixed income ended mixed on May 11, but what this week might someday be remembered for was the unraveling of speculative bubbles in certain cryptocurrencies, including so-called stablecoins.

Municipal Market Update

Investors continue to sell municipal bonds as rates rise and value decline. As the following chart indicates, we have now experienced 16 consecutive weeks of net municipal bond outflows with the week ended May 4, 2022.

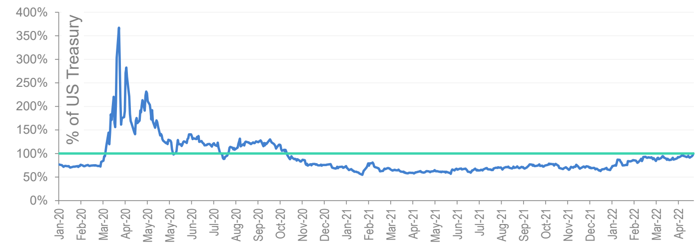
Municipal Bond Fund Flows



The ratio of the 10-year Aaa tax-exempt municipal and the 10-year U.S. Treasury has been over 90% since April 19, 2022 and ended May 11 at 99.3%, showing a continued weakness for the value of tax-exemption for issuers.

Interest rates on municipal bonds continue to edge higher across the yield curve. This is represented by the following chart which provides Municipal Market Data (MMD) AAA yields since the start of 2020 for 5-year, 10-year, and 20-year maturities.

10-Year MMD vs. 10-Year US Treasury



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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