Municipal Market Update
July 15th, 2022

Accelerating Inflation Pressures Federal Reserve

Economic data released over the past week indicates continued inflationary pressures throughout the U.S. economy.

The Labor Department reported on Tuesday, July 13, that the consumer-price index (CPI) increased by 9.1% for the 12 months ended in June, which exceeded May's reading of 8.6%. While price increases were broad-based, gasoline, shelter, and food were the largest contributors, with the energy index contributing about half of June's overall increase.

On Wednesday, July 14, the producer-price index (PPI) for June was released and it was up 11.6% over the past 12 months, which marked the seventh straight month of double-digit gains for the index. On a month-over-month basis, producer prices increased by a seasonally adjusted 1.1% in June, as compared to 0.9% in May.

The June inflation readings come on the heels of a strong jobs report last Friday. The Labor Department reported for June that the U.S. economy added 372,000 jobs, the unemployment rate was 3.6%, and hourly earnings grew by 5.1% over the past year.

With that backdrop there is now increased speculation in the market that the Federal Reserve will increase its overnight rate by 1.00% at its July 26-27 Federal Open Market Committee (FOMC) meeting, instead of the recently expected 0.75% increase. The current fed-funds rate range is 1.50%-1.75%. Federal Reserve officials have indicated that restoring price stability is their primary objective and would err on the side of fiscal tightening even though that increases the likelihood of pushing the economy into recession. Markets seem to be taking the Fed at its word, and fears about a recession continue to loom large from main street to wall street.

Other market data of interest:

Yield Curve Inversion: While price volatility can temporarily change certain financial relationships, at least for the moment the yield curve for U.S. Treasuries is inverted. After the CPI release on Wednesday, the 2-year U.S. Treasury closed at 3.13%, while the 10-year ended at 2.91%.

Labor Force: While payrolls have been steadily increasing for the past two years, the U.S. is still below the number of jobs that existed in February 2020. The U.S. labor force fell by 353,000 in June pushing down the participation rate to 62.2%.

Oil Prices: After moving beyond $120 per barrel, oil prices have retreated with both Brent crude and U.S. crude futures ended Wednesday under $100 per barrel. Price declines can partially be attributed to softening demand and increased North American supply.

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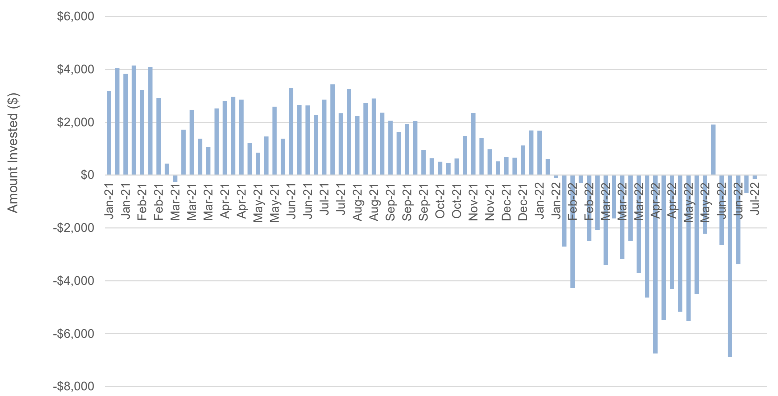
Interest rates on municipal bonds continue to exhibit volatility after steadily moving higher during the first five months of the year as illustrated by the following chart which provides Municipal Market Data (MMD) AAA yields since the start of 2020 for 5-year, 10-year, and 20-year maturities. Since June 21, 2022, the 10-year and 20-year MMD have decreased by 0.47% and 0.40%, respectively, which has been a positive trend for our public finance clients.

MMD Bond Index January 2020 - Current

Despite the recent improvement in municipal rates, investors continue to sell municipal bonds as evidenced by the fact that net municipal bond outflows have occurred in 24 of the past 25 weeks, although the magnitude of outflows has been smaller over the past two weeks.

Municipal Bond Fund Flows



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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