

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.

Municipal Market Update

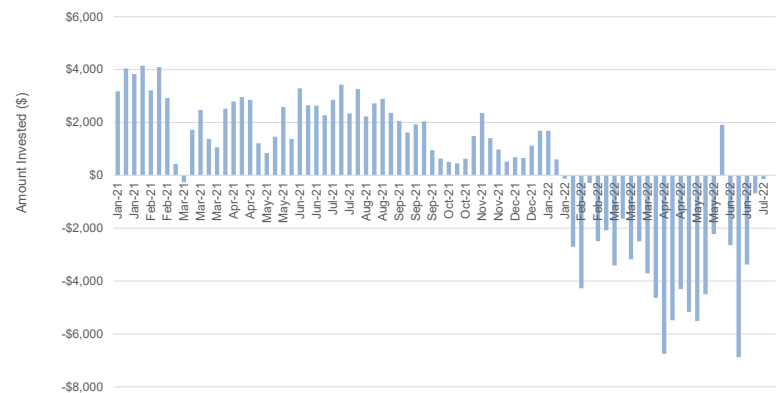
Interest rates on municipal bonds continue to exhibit volatility after steadily moving higher during the first five months of the year as illustrated by the following chart which provides Municipal Market Data (MMD) AAA yields since the start of 2020 for 5-year, 10-year, and 20-year maturities. Since 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.



Michele Wiberg
SVP, Chief Sales & Marketing Officer
PMA Securities



Erik Kass
Director, Public Finance
PMA Securities



Brian Della
Director, Public Finance
PMA Securities



This document was prepared by PMA Securities, LLC for clients of the firm and its affiliated PMA entities, as defined below. It is being provided for informational and/or educational purposes only without regard to any particular user's investment objectives, financial situation or means. The content of this document is not to be construed as a recommendation, solicitation or offer to buy or sell any security, financial product or instrument, or to participate in any particular trading strategy in any jurisdiction in which such an offer or solicitation, or trading strategy would be illegal. Nor does it constitute any legal, tax, accounting or investment advice of services regarding the suitability or profitability of any security or investment. Although the information contained in this document has been obtained from third-party sources believed to be reliable, PMA cannot guarantee the accuracy or completeness of such information. It is understood that PMA is not responsible for any errors or omissions in the content in this document and the information is being provided to you on an "as is" basis without warranties or representations of any kind. The analysis or information presented may also contain hypothetical projections and/or past performance that have certain limitations. Past performance does not guarantee future results and no representation is made that the results are accurate or complete or that any results will be achieved.

Securities, public finance services and institutional brokerage services are offered through PMA Securities, LLC. PMA Securities, LLC is a broker-dealer and municipal advisor registered with the SEC and MSRB, and is a member of FINRA and SIPC. PMA Asset Management, LLC, an SEC registered investment adviser, provides investment advisory services to local government investment pools and separate accounts. All other products and services are provided by PMA Financial Network, LLC. PMA Financial Network, LLC, PMA Securities, LLC and PMA Asset Management, LLC (collectively "PMA") are under common ownership.

Securities and public finance services offered through PMA Securities, LLC are available in CA, CO, FL, IL, IN, IA, MI, MN, MO, NE, NY, OH, OK, PA, SD, TX and WI. This document is not an offer of services available in any state other than those listed above, has been prepared for informational and educational purposes and does not constitute a solicitation to purchase or sell securities, which may be done only after client suitability is reviewed and determined. All investments mentioned herein may have varying levels of risk, and may not be suitable for every investor. PMA and its employees do not offer tax or legal advice. Individuals and organizations should consult with their own tax and/or legal advisors before making any tax or legal related investment decisions. Additional information is available upon request.

©2022 PMA Securities, LLC