

October Consumer Prices Ease Slightly

Today the Bureau of Labor Statistics released the consumer-price index (CPI) for October. The data provided some evidence that inflation is softening, but one month's inflation report doesn't necessarily make a trend.

October's CPI shows a seasonally adjusted monthly increase of 0.4%, the same as the previous month, and an increase of 7.7% over the past year as compared to 8.2% in September. The index for shelter, which includes a rent index and an owners' equivalent rent index, accounted for over half of the CPI's increase. Changes in shelter costs tend to lag the measured CPI and as such, could continue to move the index higher even after shelter costs move lower.

The so-called core CPI, which excludes energy and food prices, rose 0.3% on a month-over-month basis, down significantly from September's 0.6% increase. On an annual basis the core CPI gained 6.3% versus last month's 6.6% increase. The increases in CPI and core CPI were less than consensus expectations.

U.S. financial markets responded to the pre-market release of October's CPI data by ripping higher. The S&P 500 moved up approximately 4.00%, and bond yields fell across the curve with the largest decrease in yield of approximately 0.30% occurring with the 2-year note (rates down, prices up).

December's FOMC Meeting

As expected, the Federal Reserve (the Fed) increased its overnight rate last week by 0.75%, bringing the fed funds rate range to 3.75%-4.00%. Chair Jerome Powell's press conference was generally viewed as hawkish and the market reacted by sending yields higher. The Fed has its next regularly scheduled Federal Open Market Committee (FOMC) meeting on December 13-14, 2022. The November CPI report is scheduled to be released pre-market on December 13. Markets are currently expecting a 0.50% increase in the overnight rate as a result of the December FOMC meeting.

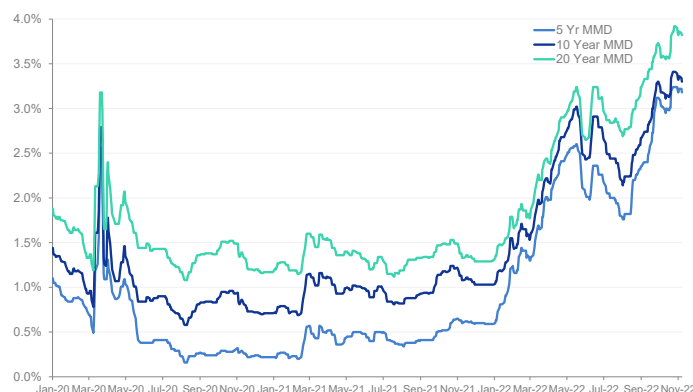
US Housing Market

While much of the U.S. economy has proved resilient in the face of Fed rate increases there are interest rate sensitive sectors of the market such as housing that have experienced a notable slowdown. The annual rate of new single-family home sales for September was 603,000, and the average over the last six months was 608,000. In contrast, new home sales in September 2021 and September 2020 were 732,000 and 991,000, respectively. Much of the decrease in new home sales is attributed to an increase in borrowing rates. The average rate on a 30-year fixed mortgage continues to hover near 7.00% according to Freddie Mac's Primary Mortgage Market Survey released last week. This is actually down from the previous week's results that had average rates above 7.00%, which had not been seen in 20 years. Mortgage rates have approximately doubled in the past year. To put this rate increase in perspective, the dollar change in a monthly loan payment when the 30-year rate goes from 3.50% to 7.00% is approximately a 48% increase.

Municipal Market Update

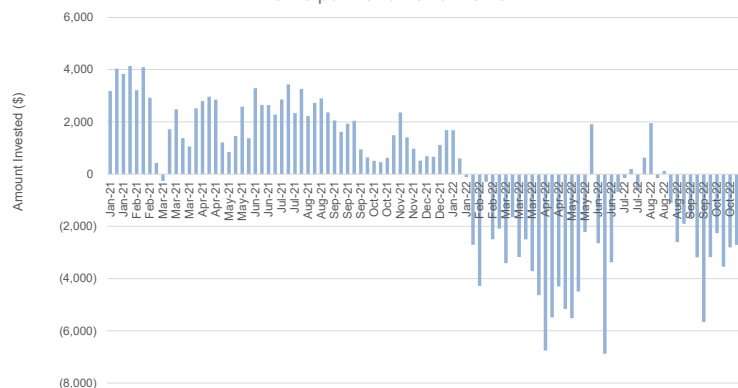
Interest rates on municipal bonds continue to exhibit volatility after steadily moving higher during the first five months of the year. This is illustrated by the following chart which provides Municipal Market Data (MMD) AAA yields since the start of 2020 for 5-year, 10-year, and 20-year maturities. Rates have generally increased since the first week in August, largely in sympathy with U.S. Treasuries.

MMD Bond Index January 2020 - Current



Despite the occasional week of net purchases that tend to coincide with a falling rate environment, investors continue to sell municipal bonds with net municipal bond outflows occurring in 37 of the past 42 weeks.

Municipal Bond Fund Flows



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