PMA®

Municipal Market Update
December 15, 2022

Bond Market Data Indicates Confidence in Fed's Resolve

Over the past week there have been two generally positive inflation reports, and the Federal Reserve (the Fed) increased its overnight rate as expected and reiterated its commitment to keeping rates higher for a longer period of time in order to bring inflation down to a more reasonable level. The US Treasury (UST) market seems to be signaling its confidence in the Fed's resolve as evidenced by the yield on the 10-year UST being approximately 0.7%-0.8% lower than the yield on the 2-year UST (i.e., an inverted yield curve), during the past three weeks.

Inflation Measures

On Friday, December 9, the producer-price index (PPI) for November was released and it showed a seasonally adjusted increase of 0.3% over the previous month and an increase of 7.4% for the 12-month period ended in November. The 12-month change in the index has continued to move lower since peaking at 11.7% in March 2022.

On Tuesday, December 13, the November consumer-price index (CPI) was released showing a seasonally adjusted increase of 0.1% after rising 0.4% in October, and an increase of 7.1% over the past 12 months. This was the smallest annual increase since the period that ended December 2021. The so-called core CPI, which excludes energy and food prices, rose 0.2% on a month-over-month basis and on an annual basis gained 6.0%. The increases in CPI and core CPI were less than consensus expectations.

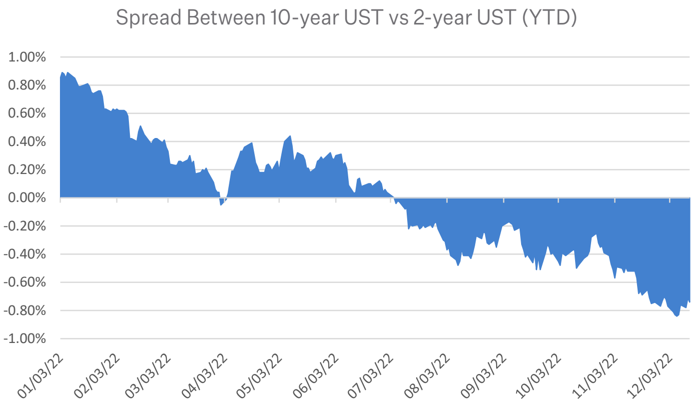
The Fed

At the conclusion of Wednesday's Federal Open Market Committee (FOMC) meeting, the Fed announced it would increase its overnight rate by the expected 0.50%, bringing the federal funds rate range to 4.25%-4.50%. The Fed also released its quarterly Summary of Economic Projections which includes a projection by FOMC participants on the target level for the federal funds rate. Most officials expect a top rate between 5.00%-5.50% during 2023, and then moving lower in 2024 and 2025. Investors seem to generally agree with the Fed's projections as the yield on the 1-year UST has been approximately 0.3%-0.4% higher than the yield on the 2-year UST over the past three weeks.

The FOMC has eight regularly scheduled meetings next year, with the next one concluding on February 1, 2023.

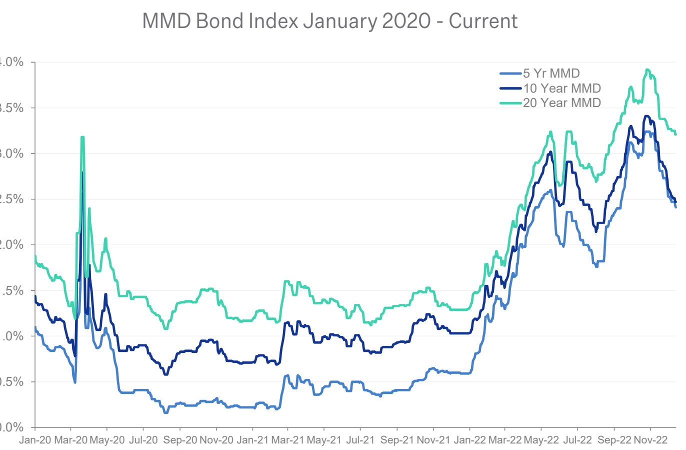
Yield Curve Inversion

The following chart illustrates the spread between the 10-year UST and the 2-year UST. Under most circumstances the yield on the 10-year is higher than the yield on the 2-year; however, when the opposite occurs it is known as an inverted yield curve. An inverted yield curve has often, but not always, preceded a recession. Prior to the current inversion, the most recent sustained inverted yield curves occurred in 2006-2007 (preceding the 2007-2009 recession), and in 2000 (preceding the 2001 recession).



Municipal Market Update

The following chart provides Municipal Market Data (MMD) AAA yields since the start of 2020 for 5-year, 10-year, and 20-year maturities. As illustrated, interest rates on municipal bonds have fallen since their year-to-date peak that occurred during the last week in October. For example, between October 28 and December 13, the 5-year is down 0.81%, the 10-year is down 0.94%, and the 20-year is down 0.71%.



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