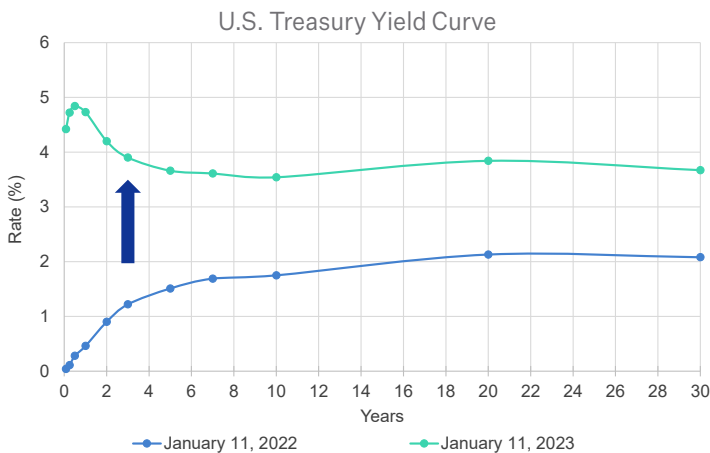


Looking Back at 2022 and Ahead to 2023

What a difference a year makes. In January 2022, the Federal Reserve (the Fed) kept its overnight rate at a range of zero to 0.25%, and was still committed to adding \$30 billion to its balance sheet in February with the goal of ending its quantitative easing program in early March. Over the next 11 months, the Fed increased its overnight rate seven times bringing the range to 4.25% - 4.50%, and has indicated its intention to raise rates further in 2023.

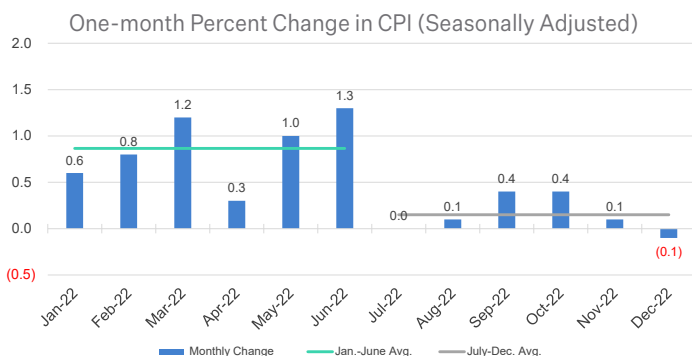


Labor Market

One of the Fed's desired effects from its rate increases is to reduce the demand for labor, and in turn lower the rate of wage gains. Fed officials worry that wage increases would be passed along by companies to consumers, further fueling inflation. On January 6 the Labor Department released the December jobs report and it shows gradually cooling labor conditions. Employers added 223,000 jobs in December and average hourly earnings were up 4.6%. Both measurements are strong by most historical standards, but less than any other monthly value from 2022.

Consumer Price Data

On Thursday, January 12, the December consumer-price index (CPI) was released showing a seasonally adjusted monthly decrease of 0.1% after rising 0.1% in November, and an increase of 6.5% over the past 12 months. The largest contributor to the monthly decrease was a reduction in the price of gasoline. The modest monthly decrease confirms that with respect to the consumer price index, 2022 was a year of distinct halves. The average month-over-month seasonally adjusted percent change in CPI during the first six months of 2022 was 0.87% (~10% annualized), while the average during the last six months was 0.15% (~2% annualized).



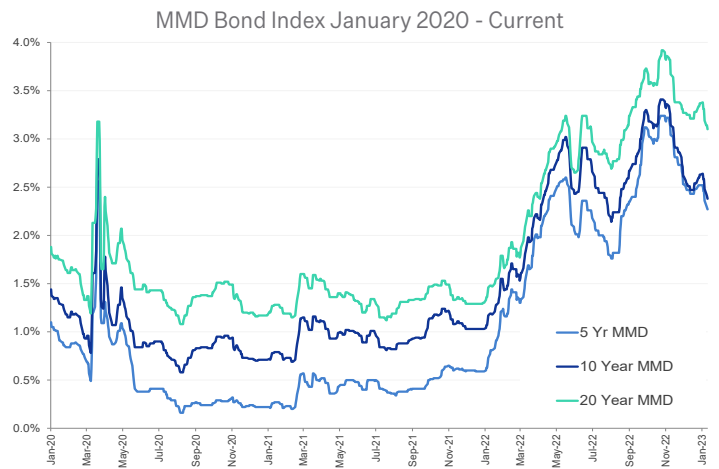
While consumers are rightly interested in the monthly CPI data, this "all items" index is not the Fed's preferred measure of inflation for informing its policy decisions. December's core CPI, which excludes energy and food prices, rose 0.3% on a month-over-month basis and on an annual basis gained 5.7%.

The Fed

The Fed's next regularly scheduled Federal Open Market Committee (FOMC) meeting wraps up on February 1, 2023. Prior to December's CPI release the futures market had a 76% probability of a 0.25% rate increase at this meeting. After the CPI release, the futures market increased the probability of a 0.25% increase to 93%.

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 2022 peak that occurred during the last week in October. The decline in municipal yields has largely been fueled by the cooling of inflation. While yields did tick up towards the latter half of December, the market has rallied in January largely driven by a lack of municipal bond supply.



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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