

Inflation Progress Inches Along

The latest round of core inflation data, measurements that exclude volatile food and energy prices, continues its slow and steady march lower. However, with core inflation still substantially higher than the Federal Reserve's (the Fed), 2.0% target, and a labor market that continues to exhibit low unemployment and meaningful wage growth, there is still much work to do.

Inflation Measures

On June 30, the Fed's preferred inflation measure, the personal consumption expenditures price index (PCE), was released for May. Over the past 12 months, headline PCE increased by 3.0%, while core PCE was up 4.6%, a tick lower than the 4.7% measured in April.

On July 12, the June consumer-price index (CPI) was released and the data came in a little better (lower) than expected giving some market participants' hope that July might be the last Fed rate hike of the year. The all-items CPI showed a seasonally adjusted monthly increase of 0.2%, and an increase of 3.0% over the past 12 months. Shelter was the largest contributor to the monthly all-items increase, accounting for over 70% of it. The core CPI rose 0.2% on a month-over-month basis and on an annual basis gained 4.8%.

Both the PCE and CPI data show a continued divergence between the all-items measures of inflation and core inflation, which is proving to be very sticky.

Labor Market

The June jobs report from the Department of Labor was released on July 7 and it estimated that nonfarm payrolls increased by 209,000. This was the first time in 15 months that nonfarm payrolls have come in lower than expected, and the April and May numbers were revised downward by 77,000 and 33,000, respectively. Hourly wages for June grew by 4.4% over the past 12 months, which was up 0.1% from May.

The Fed

The next Federal Open Market Committee (FOMC) meeting will conclude on July 26, and there is still wide consensus that the Fed will increase its overnight rate by 0.25%, bringing the range to 5.25%-5.50%. The latest round of inflation and labor data has lowered expectations for additional rate hikes this year.

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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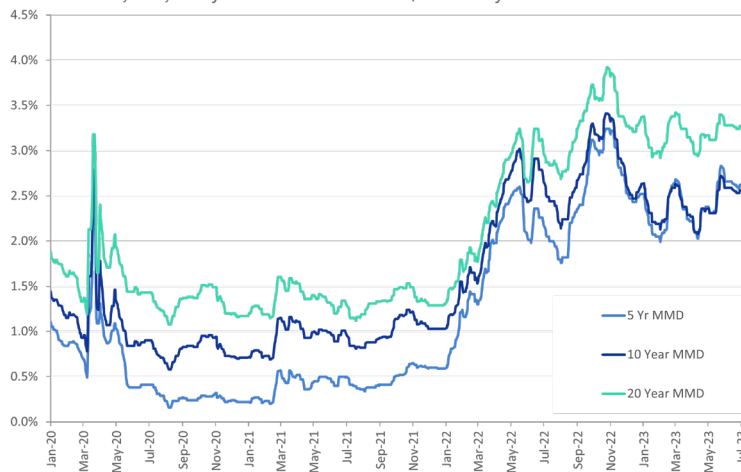


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Municipal Market Update

Municipal bond rates have been generally range bound since the beginning of December last year. 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 are lower than their 2022 peak that occurred during the last week in October. Current rates for the below three maturities are very similar to those on December 1, 2022, down just 0.03% to 0.12%.

5-, 10-, 20-yr AAA MMD Yields | January 2020 - Current



REFINITIV MMD yields for 5-, 10-, 20-yr maturities, AAA-rated, General Obligation (5.00% coupon).

Case Study: Springfield Public Schools

On Tuesday, July 11 PMA served as municipal advisor on Springfield Public Schools' (Illinois) Series 2023 Alternate Revenue Bonds. With a par amount of \$83,270,000, not only was it a sizeable transaction but it had a 40-year final maturity. The issue was a negotiated sale and pre-pricing feedback leading up to Monday was quiet. With approximately \$6 billion in the primary tax-exempt market this week (and a significant amount earmarked for several public school districts in Texas), the sale was slated for Tuesday in order to draw investor interest early in the week. The bonds carried an "A" underlying rating with a positive outlook and were "AA" insured by AGM. Market acceptance of Monday's sale was very favorable, with several of the longer maturities, particularly the term bonds in 2048, 2053 and 2058 well oversubscribed (buyer interest greater than the amount of available bonds). This oversubscription benefited the District by enabling the underwriter to lower the yields on several maturities, translating to a reduced interest cost to the District of nearly \$300,000. The transaction is an excellent example of the importance of monitoring market dynamics leading up to and during a sale.



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