

Is The Fed's Rate Hiking Cycle Over?

Market participants that believe the Federal Reserve has reached the end of its rate increase cycle are pointing to three main factors. Despite unexpectedly strong hiring last month, wage growth continues to moderate. Core inflation data, measurements that exclude volatile food and energy prices, shows slower increases. Long-term US Treasury rates (e.g., 10-year and 30-year maturities) have increased materially since the start of September, which is its own form of financial tightening.

Labor Market

The September jobs report from the Department of Labor was released on October 6 and it estimated that nonfarm payrolls increased by 336,000, which was roughly twice the consensus of economists' estimates, and above the average monthly gain of 267,000 over the prior 12 months. In a reversal of recent trends, nonfarm payrolls for the previous two months were adjusted upwards by 119,000.

Hourly wages for September grew by 4.2% over the past 12 months, and on a three-month annualized basis wages increased by 3.4%, which could be consistent with the Fed's 2.0% inflation target. That stated, labor unions are currently engaging in high profile negotiations with US automakers, healthcare providers (e.g., Kaiser Permanente), Hollywood studios and others, and it is yet to be seen if these are indicative of national, needle-moving labor rate increases.

Inflation Measures

Last Thursday the September consumer-price index (CPI) was released and the data was generally consistent with market expectations. The all-items CPI showed a seasonally adjusted monthly increase of 0.4%, and an increase of 3.7% over the past 12 months. The core CPI rose 0.3% on a month-over-month basis and on an annual basis gained 4.1%, down from last month's 4.3%. Over the past three months, the core CPI had an annualized increase of 3.1%. September marked the seventh month in a row of annual core-CPI exceeding the all-items index.

On September 28, the Fed's preferred inflation measure, the personal-consumption expenditures price index (PCE), was released for August. From the same month one year ago, headline PCE increased by 3.5% while core PCE, measurements that exclude volatile food and energy prices, was up 3.9%. On a month-over-month basis core PCE was up only 0.1%.

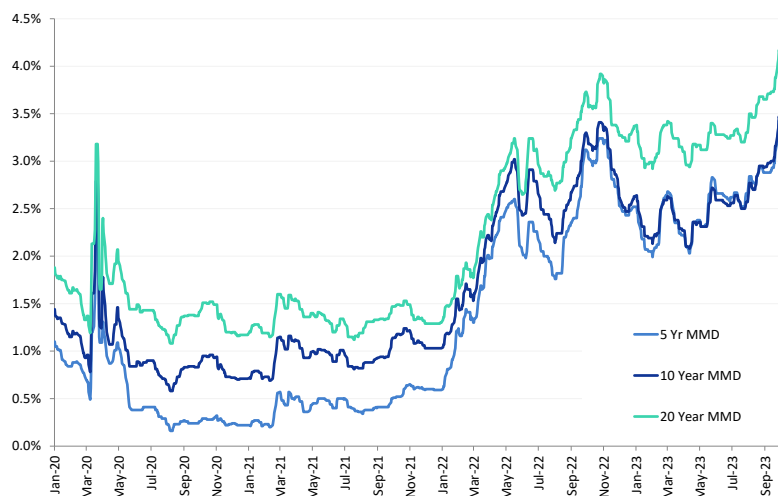
The Fed

The next Federal Open Market Committee (FOMC) meeting will conclude on November 1, with most market participants expecting the Fed to hold rates steady at the current range of 5.25%-5.50%. That stated, interest rate traders now indicate only a 29% probability of another 0.25% increase at the December 13 FOMC meeting, which is lower than a month ago.

Municipal Market Update

Municipal bond rates have broken higher, largely in sympathy with the US Treasury market, after generally being 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.

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).

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