

Markets Rally on Inflation Data

The march towards the Federal Reserve's 2.0% inflation target will likely be uneven from here on in, but this week's inflation data provided another month of steady progress, which reinforced the markets' view that the Fed's rate hiking cycle is indeed over. If so, the next step for the Fed might be to keep its messaging sufficiently hawkish so markets don't get ahead of themselves by baking in rate cuts faster than what Fed officials believe will be necessary to tame inflation.

Inflation Measures

On Tuesday of this week, the October consumer-price index (CPI) was released and the data showed inflation cooling at a faster rate than markets expected. The all-items CPI showed no change on a seasonally adjusted monthly basis, and an increase of 3.2% over the past 12 months. The all-items index less food and energy (core CPI), rose 0.2% on a month-over-month basis and on an annual basis gained 4.0%, both measures down 0.1% from September's release. The 4.0% annual increase in core CPI was the smallest annual change since September 2021. Additionally, over the past three months, the core CPI had an annualized increase of 3.2%.

Stock and Bond Markets

Both stocks and government bonds rallied in response to the October CPI release. The S&P 500 ended Tuesday up 1.9%, extending its gains for the month to 17%. The 10-year benchmark US treasury saw its yield drop 0.19% to 4.44%. For perspective, the 10-year US treasury closed at 4.44% on September 22, then moved generally higher until it briefly crossed 5.00% intraday for the first time in 16 years on October 23, and then back to 4.44% on November 14. The following day saw stocks hold on to their gains while bonds gave back almost half, with the 10-year US treasury up 0.09% to close at 4.53%.

Labor Market

The October jobs report from the Department of Labor was released on November 1 and it estimated that nonfarm payrolls increased by 150,000, which was roughly half of September's job gains and the smallest monthly increase since June. The report also revised lower the estimates for the previous two months by a combined 101,000.

Hourly wages for October grew by 4.1% over the past 12 months, down from the previous month's 4.2% increase. The unemployment rate ticked higher to 3.9%, which is low by historical standards, but this is the highest level since January 2022, when it was 4.00%. While the job market is still healthy it does appear to be slowly losing momentum.

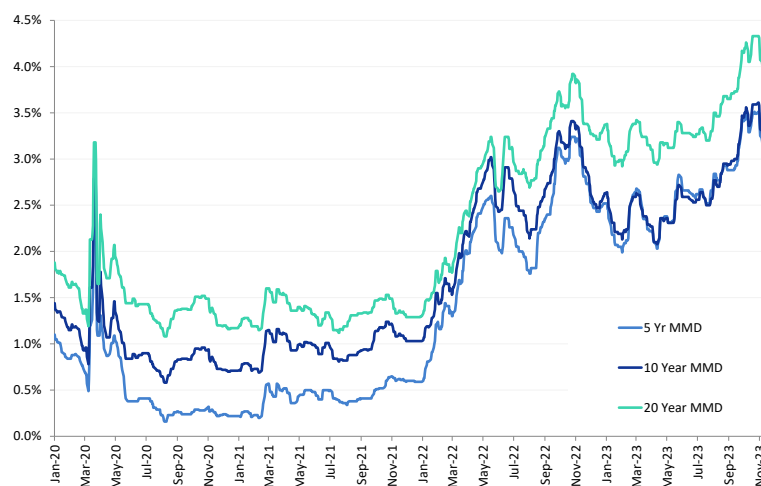
The Fed

The next Federal Open Market Committee (FOMC) meeting will conclude on December 13. Based on the October CPI release and the limited amount of economic data scheduled to be released between now and then, most market participants expect the Fed to hold rates steady at the current range of 5.25%-5.50%. In fact, investors in interest rate futures currently have a 100% probability of no change to the overnight rate as a result of the December FOMC meeting.

Municipal Market Update

It's been a little while, but we finally have some good news for municipal borrowers. Long-term municipal bond rates have moved lower by roughly 0.50% over the past three weeks bringing rates back to levels last seen in September of this year and November of 2022. If this week's rally in US treasuries holds, we should see municipal bonds generally follow those treasury yields lower. 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).

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.



Kent Johnson
Sr. Vice President, Director
Minnesota Office
PMA Securities



Steve Pumper
Sr. Vice President
Minnesota Office
PMA Securities



Michael Hart
Director, Public Finance
PMA Securities



This document was prepared by PMA Securities, LLC for clients of the firm and its affiliated PMA entities, as defined below. It is being provided for informational and/or educational purposes only without regard to any particular user's investment objectives, financial situation or means. The content of this document is not to be construed as a recommendation, solicitation or offer to buy or sell any security, financial product or instrument, or to participate in any particular trading strategy in any jurisdiction in which such an offer or solicitation, or trading strategy would be illegal. Nor does it constitute any legal, tax, accounting or investment advice of services regarding the suitability or profitability of any security or investment. Although the information contained in this document has been obtained from third-party sources believed to be reliable, PMA cannot guarantee the accuracy or completeness of such information. It is understood that PMA is not responsible for any errors or omissions in the content in this document and the information is being provided to you on an "as is" basis without warranties or representations of any kind. The analysis or information presented may also contain hypothetical projections and/or past performance that have certain limitations. Past performance does not guarantee future results and no representation is made that the results are accurate or complete or that any results will be achieved.

Securities, public finance services and institutional brokerage services are offered through PMA Securities, LLC. PMA Securities, LLC is a broker-dealer and municipal advisor registered with the SEC and MSRB, and is a member of FINRA and SIPC. PMA Asset Management, LLC, an SEC registered investment adviser, provides investment advisory services to local government investment pools and separate accounts. All other products and services are provided by PMA Financial Network, LLC. PMA Financial Network, LLC, PMA Securities, LLC and PMA Asset Management, LLC (collectively "PMA") are under common ownership.

Securities and public finance services offered through PMA Securities, LLC are available in CA, CO, FL, IL, IN, IA, MI, MN, MO, NE, NY, OH, OK, PA, SD, TX and WI. This document is not an offer of services available in any state other than those listed above, has been prepared for informational and educational purposes and does not constitute a solicitation to purchase or sell securities, which may be done only after client suitability is reviewed and determined. All investments mentioned herein may have varying levels of risk, and may not be suitable for every investor. PMA and its employees do not offer tax or legal advice. Individuals and organizations should consult with their own tax and/or legal advisors before making any tax or legal related investment decisions. Additional information is available upon request.

©2023 PMA Securities, LLC