

# 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.

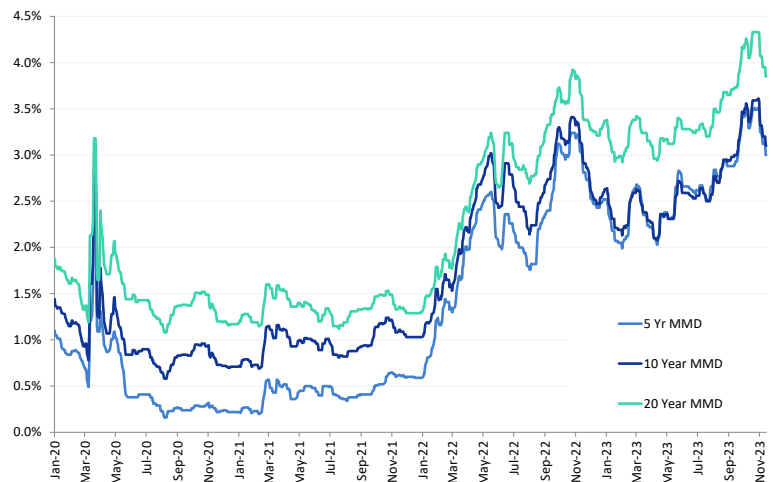
## The Fed

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).

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