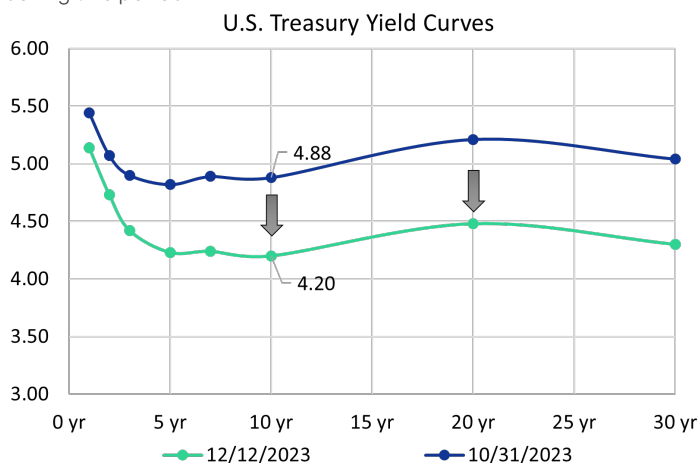


Markets Get Ahead of the Fed

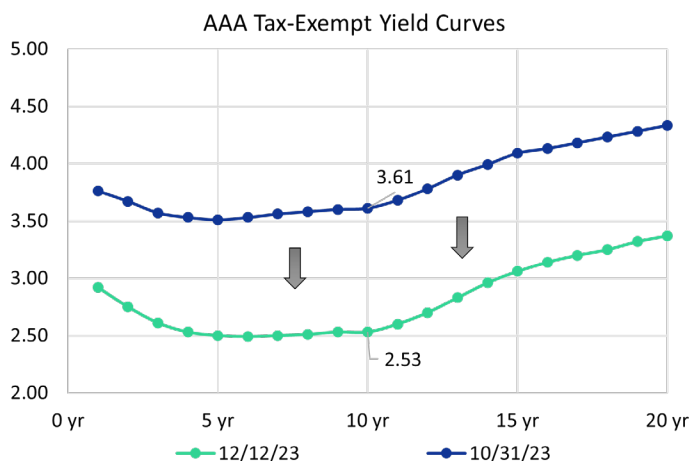
With inflation and wage growth continuing to trend lower, markets have been bidding up bond prices (prices up, yields lower) in anticipation of next year's rate cuts. That stated, some have argued that the bond market has overestimated how quickly the Fed will cut rates.

Bond and Stock Markets

US treasury yields have rallied considerably over the past six weeks, as evidenced by the 10-year benchmark treasury closing at 4.20% on December 12, versus a 4.88% on October 31. The below chart provides the corresponding treasury par yield curve rates from 1 to 30 years during this period.



Tax-exempt municipal borrowers finally have something to cheer with rates following US treasuries lower after experiencing generally increasing rates for most of the summer and autumn. The following chart provides Municipal Market Data (MMD) AAA yield curve rates out to 20 years. Notice how the 10-year yield has moved lower by over 1.00% during this six-week period.



With a resilient labor market and robust consumer spending, economists have generally been sanguine about recession risks in 2024 and as such, equities have rallied in tandem with US treasuries. Between October 31 and December 12, the S&P 500 has gained 10.7%, which puts the index to the highest level since January 2022.

Inflation Measures

On Tuesday of this week, the November consumer-price index (CPI) was released and the data showed inflation largely unchanged from the previous month. The all-items CPI showed a seasonally adjusted monthly increase of 0.1%, and an increase of 3.1% over the past 12 months. The all-items index less food and energy (core CPI), rose 0.1% on a month-over-month basis and on an annual basis gained 4.0%, as it did for the 12 months ending in October. At a six-month annualized rate, core CPI was at 2.9% in November. The index for shelter was the largest factor in the increases in both CPI and core CPI.

Labor Market

The November jobs report from the Department of Labor was released on December 8 and it estimated that nonfarm payrolls increased by 199,000, which was slightly more than economists expected. November's total included approximately 30,000 motor vehicle and parts workers returning from the UAW strike.

Hourly wages for November grew by 4.0% over the past 12 months, down from the previous month's 4.1% increase. Another month of slowly moderating job gains and wage growth, which is good news for those hoping the economy will achieve a soft landing. Additionally, the unemployment rate moved lower by 0.2% month-over-month to 3.7%.

The Fed

The Federal Open Market Committee (FOMC) meeting concluded on December 13, and as expected there was no change to the overnight rate, leaving it at 5.25%-5.50%. What was unexpected was dovish comments by Fed Chair Jerome Powell and in response markets surged to end the trading session. The 10-year benchmark US treasury saw its yield drop 0.16% to 4.04%, and the S&P 500 tacked on 1.37%. Investors in interest rate futures now have a 70% probability of at least 0.50% in rate cuts by the May 1, 2024 FOMC meeting, up from 25% the prior day.

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.



Bob Lewis
Senior Vice President,
Managing Director
PMA Securities



Tammie Beckwith Schallmo
Senior Vice President,
Managing Director
PMA Securities



Andrew Kim
Director,
Public Finance
PMA Securities



Stephen Adams
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