PMA®

Municipal Market Update
January 12, 2024

Looking Back at 2023 and Ahead to 2024

In January 2023, the conventional wisdom of many market prognosticators was that the Federal Reserve would continue to raise its overnight rate in 2023, which would help reduce inflation, soften demand for labor, and likely tip the US economy into a mild recession. While the Fed did raise rates and inflation subsided, the labor market proved resilient, and the US economy experienced above-trend real GDP growth.

Inflation:

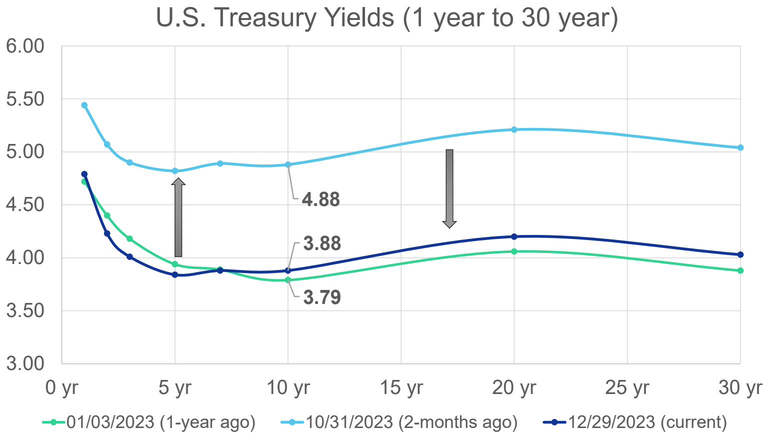
On Thursday of this week, the December consumer-price index (CPI) was released. The increase in the all-items CPI was 3.4% over the past year and the all-items index less food and energy (core CPI), rose 3.9% during the same period, which was down from last month's 4.0%. One year ago, the values were 6.5%, and 5.7%, respectively.

Employment:

The December jobs report from the Department of Labor was released on January 5 and it estimated that non-farm payrolls increased by 216,000, which was more than economists had expected and close to the average monthly gain for 2023. The unemployment rate was unchanged at 3.7%, which is in the middle of 2023's range. Hourly wages for December grew by 4.1% over the past 12 months, a tick higher than last month's 4.0% reading, and lower than the 4.6% measure one year ago.

US Treasury Rates:

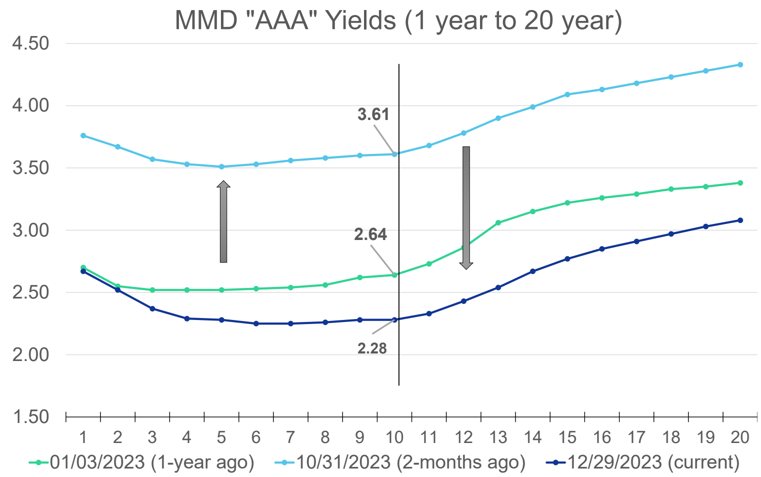
After yields peaked towards the end of October, the US Treasury market enjoyed a massive rally that brought rates down to levels similar to those at the start of 2023.



Source: U.S. Department of the Treasury

Municipal Rates:

High quality, tax-exempt yields have followed US treasuries lower during the final two months of the year, and ended at lower levels than those at the start of 2023.



REFINITIV MMD yield for a AAA rated General Obligation (5.00% coupon).

US Stock Indices:

The S&P 500 finished the year up 24%, the Dow Jones Industrial Average advanced 14%, and the NASDAQ Composite soared 43%, largely driven by large technology stocks response to the mania surrounding artificial intelligence.

The Fed:

During 2023, the Fed increased its overnight rate by four quarter-point moves, ending with a range of 5.25-5.50%. The last increase was on July 27.

The next Federal Open Market Committee (FOMC) meeting will conclude on January 31. Markets are currently not expecting a change to the overnight rate at this meeting. Investors in interest rate futures currently have a 65% probability of a 0.25% rate cut by the March 20 FOMC meeting, and a 56% probability of 0.50% in cuts by the May 1 meeting. Similar to last month, markets have baked in more rate cuts by the end of 2024 than were included in the Federal Reserve's Summary of Economic Projections released on December 13, 2023.

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