

Economic Data Reduces Rate Cut Expectations

The latest round of jobs and inflation data came in hotter than consensus estimates, and markets have reacted accordingly by increasing bond yields and revising projections for when the Federal Reserve will have its first rate cut in 2024.

Inflation Measures:

On Tuesday of this week, the January consumer-price index (CPI) was released and the data came in higher than markets were expecting. The all-items CPI showed a seasonally adjusted monthly increase of 0.3%, and an increase of 3.1% over the past 12 months. The core CPI rose 0.4 % on a month-over-month basis, which is higher than the 0.3% for the previous two months, and on an annual basis gained 3.9%, the same as last month. The index for shelter was the main contributor to the increase in core CPI. January marked the eleventh month in a row of annual core-CPI exceeding the all-items index.

Stock and Bond Markets:

Prices of government bonds fell (prices down means yields up) in response to the January CPI release. Soon after the release, the yield on 10-year US treasury increased by approximately nine basis points (bps) to 4.27%, with the 2-year experiencing a similar basis point increase to 4.59%.

Beginning on November 1 last year, the 10-year US treasury enjoyed a massive rally on expectations of Federal Reserve rate cuts in 2024, but has given back some of those gains since the start of the year. The 10-year moved from 4.88% on Halloween to 3.88% at the end of 2023, and closed at 4.31% on February 13.

Labor Market:

The January jobs report was released on February 2 and it estimated an increase in nonfarm payrolls of 353,000, which was almost double an economist survey estimate of 185,000. Furthermore, December's payroll gains were revised upwards to 333,000 from 216,000. According to the Department of Labor, the last time there were this many new jobs created over a two-month period was January and February 2023.

Hourly wages for January grew by 4.5% over the past 12 months, which was substantially higher than the previous two monthly increases of 4.1% and 4.0%. For the third month in a row, the unemployment rate was 3.7%, and the labor force participation rate, at 62.5%, was unchanged. The narrative of a job market

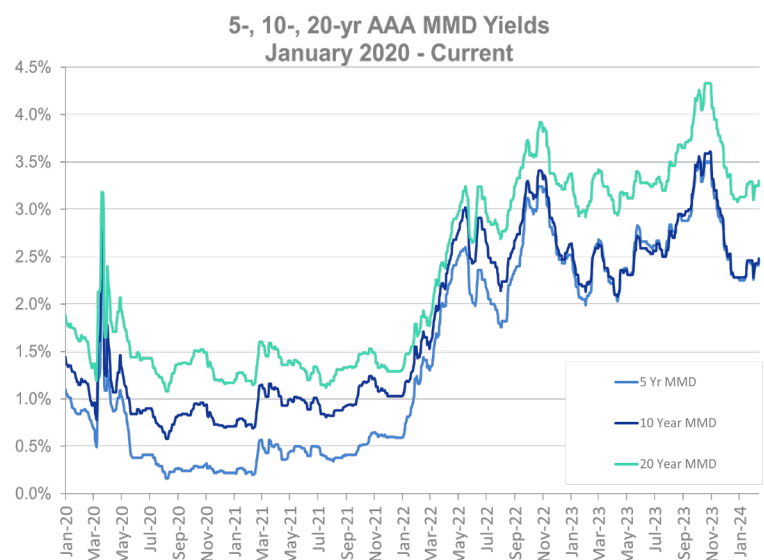
slowly losing momentum was firmly put on hold for at least a month.

The Fed:

Market expectations for the number of Federal Reserve rate cuts in 2024 have changed quite a bit over the last two months. At the Federal Open Market Committee (FOMC) meeting that concluded on December 13, the Fed's Summary of Economic Projections had the median member estimating three 0.25% rate cuts during 2024. However, interest rate traders seized on dovish comments by Chair Jerome Powell and subsequently priced in six 0.25% rate cuts by the end of 2024. After the January jobs report, markets priced in five 0.25% rate cuts for the year. Shortly following Tuesday's CPI release, the futures market has a 60% probability of four or more quarter point rate cuts, with the first cut moving from the March 20 FOMC meeting to the May 1 meeting.

Municipal Market Update:

Similar to US treasuries, tax-exempt municipal yields enjoyed a substantial decline in rates beginning on November 1 last year but have given a little back in 2024. That stated, the 10-year benchmark yield is currently well over 1.00% lower than it was on Halloween, which has been a major benefit to municipal borrowers. The following chart provides Municipal Market Data (MMD) AAA yields since the start of 2020 for 5-year, 10-year, and 20-year maturities.



Illinois School District Case Study:
Hinckley Big Rock CUSD 429

On Monday, February 12, Hinckley-Big Rock CUSD 429 in DeKalb, Kane and Kendall Counties achieved a successful pricing of its \$4,015,000 Series 2023 General Obligation Limited Tax School Bonds via a competitive sale. With an average life of 3.98 years, the transaction garnered significant interest from 11 bidders. The winning bid provided a True Interest Cost of 3.05%, the cover (second place) bid was 3.09% and the last place bid was 3.69%. As the District’s municipal advisor, PMA recommended to the District a few months ago that it pursue a competitive sale. Despite recent upward pressure on municipal bond rates, the favorable pricing results were due to several factors, including the District’s strong underlying credit rating (“Aa3” from Moody’s Investors Service), short average life, and lack of Illinois school district bond supply. In addition, the spread between the 11 bids demonstrates the effectiveness of the competitive sale process. As municipal advisor to more Illinois school districts that any other firm, PMA evaluates each transaction separately to determine the most appropriate method of sale, which helps our clients achieve the lowest cost of borrowing given current market conditions.

Bidder Name	TIC (%)	Spread to Winner*
Hilltop Securities	3.048757	--
Robert W. Baird & Co., Inc.	3.093934	0.05
Mesirow Financial, Inc.	3.104499	0.06
Piper Sandler & Co	3.118657	0.07
StoneX Financial Inc.	3.156443	0.11
The Baker Group	3.168247	0.12
BNYMellon Capital Markets	3.209855	0.16
Stifel, Nicolaus & Co., Inc.	3.262867	0.21
Huntington Securities, Inc.	3.292532	0.24
Loop Capital Markets, LLC	3.315690	0.27
Bernardi Securities, Inc.	3.688202	0.64
* rounded		

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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



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