Markets Estimate First Fed Cut in June

Market expectations for the number of Federal Reserve rate cuts in 2024 continue to move lower and are now essentially aligned with the estimates provided by the Federal Reserve on December 12, 2023. Current probabilities indicate three, perhaps four, 0.25% cuts are likely in 2024, with the first cut occurring at the Fed's June meeting.

Inflation Measures:

On Tuesday of this week, the February consumer-price index (CPI) was released and for the second month in a row the data came in little higher than markets were expecting. The all-items CPI showed a seasonally adjusted monthly increase of 0.4%, and an increase of 3.2% over the past 12 months. The all items less food and energy index (core CPI) rose 0.4% on a month-over-month basis, matching the previous month, and on an annual basis gained 3.8%, a tick lower than January's reading. The index for shelter was the largest contributor to the increase in core CPI.

Labor Market:

The February jobs report was released on March 8, and it estimated an increase in nonfarm payrolls of 275,000, which exceeded an economist survey estimate of 200,000. However, there was a substantial downward revision of 167,000 jobs to the previous two months of above trend job gains. Hourly wages for February grew by 4.3% over the past 12 months, but more importantly they were only up 0.1% on a month-over-month basis, which was lower than estimates and significantly lower than a revised 0.5% in January. The unemployment rate rose by 0.2% to 3.9%.

A reasonable reading of the above is that tighter Fed policy is slowing down wage growth, which should help to slow down inflation, but Fed policy is not yet significantly dampening hiring. As such, the Fed should not yet feel pressure to create more accommodative financial conditions unless and until it is comfortable that core inflation is sustainably moving toward its 2.0% target.

Bitcoin:

There have been a number of all-time highs reached in the financial markets over the last month. Major US stock indices continue to push new highs, with the S&P 500 reaching 5,175 and the Dow Jones Industrials topping 39,000 earlier this week. Last week gold hit an all-time high of over $2,206 per ounce.

Not to be outdone, Bitcoin the OG of cryptocurrencies, hit another record high on Monday of this week, surging above the $72,000 level for the first time, which equates to a market cap of $1.42 trillion. This is higher than the market capitalization of all but the largest five US publicly traded companies (Microsoft, Apple, Nvidia, Amazon, Alphabet). Meta, formerly Facebook, clocks in at number six with a market cap of approximately $1.2 trillion.

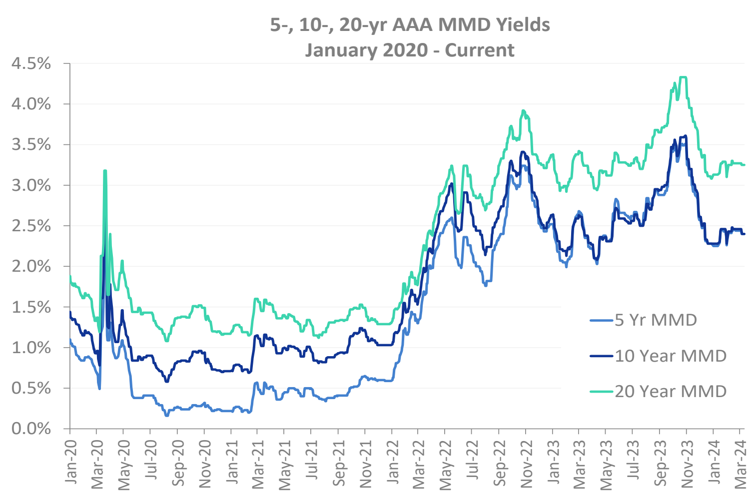
We're in no position to discuss the intrinsic value of Bitcoin, but we can offer a little insight into the run-up in price. The supply of Bitcoin is tightly constrained or as an economist might say, inelastic. The demand for Bitcoin has surged after the January launch of US exchange-traded funds that directly hold units of the digital currency.

The Fed:

The next Federal Open Market Committee (FOMC) meeting will conclude on March 20, and with little to no chance of a rate cut market participants will likely focus their attention on any changes to the language contained in the press release or changes to expectations found in the contemporaneously released quarterly Summary of Economic Projections. The following FOMC meetings will conclude on May 1 and June 12.

Municipal Market Update:

Tax-exempt municipal yields were little changed over the past month and are substantially lower than their recent peak on October 31 of last year. The following chart provides Municipal Market Data (MMD) AAA yields since the start of 2020 for 5-year, 10-year, and 20-year maturities.



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.

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