



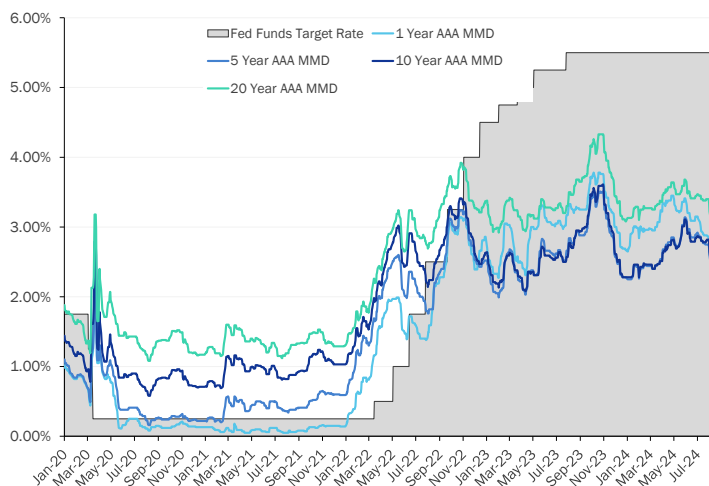
JOB REPORTS FUEL MARKET VOLATILITY

The unemployment rate rose to 4.3% in July, the highest level since October 2021. With inflation approaching long-term expectations, indication of a weaker labor market has recession talks creeping back into the market.

The unemployment news promptly initiated a rally in the market. The 10-year US Treasury rate dropped from 4.09% on Thursday, July 31 to 3.78% on Monday, August 5; a 0.31% (31 basis points, or bps) decrease over three days of trading. The effects were felt in the municipal bond market as well. The 10-Year AAA MMD dropped 30 bps from 2.82% to 2.52% over the same time frame. However, the weekly initial claims on unemployment that were reported on August 8 declined by 17,000 from the prior week. The market reacted to the positive labor market news by pushing rates higher. The 10-year US Treasury ended the week on August 9 at 3.94%, a 16 bps increase from the week's low. The 10-Year AAA MMD also increased by 18 bps, ending the week at 2.70%.

Inflation concerns have been the main theme in the economy and primary driver of the Fed's decision to maintain rates at current levels. The Consumer Price Index (CPI) rose 2.9% year-over-year in July. The CPI was below market expectations and at the lowest level since 2021. With inflation indicators receding, will the July unemployment data spark the Fed to start rate cutting? The market certainly thinks so. Currently, the expectation is for the Fed to start cutting more aggressively than what was projected just a month ago. The market has priced in a 0.25% cut in September, another 0.50% cut in November and ending the year with an additional 0.25% cut in December, resulting in a full 1.00% reduction before year end. The data for the rest of the year will determine if the Fed moves as the market expects.

Fed Funds vs MMD



In recent market updates we noted that strong market demand typically arrives each summer since these months have relatively higher amounts of principal and interest payments. Investors will look to reinvest these dollars, which may lead to a strengthening of the municipal bond market relative to the U.S. Treasury market and potentially translate into larger inflows. That expectation finally came to fruition as the total municipal market inflow over the 4-week period ending July 31 was \$5.6 billion according to the Investment Company Institute (ICI), which includes data from both ETFs and long-term mutual funds. Total inflows for the week ending August 7 totaled \$1.5 billion. The increased market demand is a positive sign of a strong municipal market and is good for our clients.

If you have any questions regarding the bond market or your specific bond issue, please do not hesitate to contact a PMA advisor on the second page.

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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