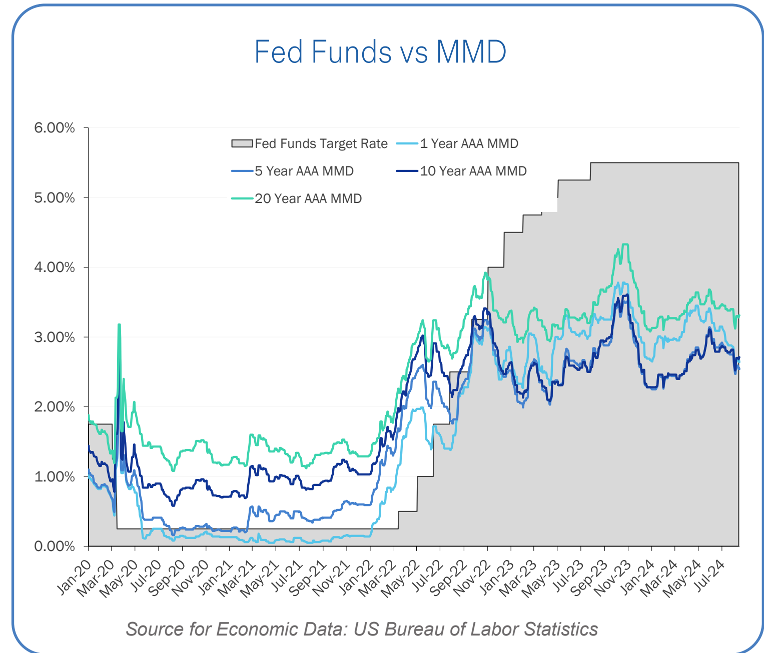
Fed Cuts Rate for First Time in Four Years

The Federal Reserve cut the federal funds rate by 0.50% (50 basis points, or bps) on Wednesday, reducing it to 4.75%-5.0% from the previous range of 5.25%-5.50%. With inflation slowly heading towards the Fed's target of 2% and continued fears of a weaker labor market, the Fed deemed that more aggressive action was appropriate. The "dot plot" released by the Federal Reserve indicates that more cuts are likely to come over the next two years. However, Fed chairman Jerome Powell indicated that subsequent decisions will be made on a meeting-by-meeting basis and rooted in future economic reporting. Currently,19 Federal Open Market Committee (FOMC) members see the benchmark rate dropping to 4.4% by the end of 2024, 3.4% by the end of 2025, and 2.9% by the end of 2026.

In the weeks leading up to this month's Fed meeting, discussion centered around how quickly rates would be cut going forward. Traders had been pricing in a 0.25% cut for weeks before the market began to shift expectations towards the 0.50% cut observed on the 18th. In recent years, the Fed's decisions were driven by its mandate to drive down inflation. CPI saw an increase of 0.2% for August 2024, putting the 12-month rate at 2.5%, the lowest it has been since early 2021. Core CPI, which excludes food and energy prices, increased 0.3% with the 12-month holding at 3.2%. After raising rates 11 times since the beginning of 2022, statements from the Fed indicate that the Central Bank sees satisfying progress in the battle with inflation but acknowledges that it has not yet reached its target. Nevertheless, the Federal Reserve is now beginning to focus on the other side of its mandate amid increasing concerns over the labor market and its desire to execute a soft landing. The unemployment rate decreased to 4.2% from the 4.3% observed last month, yet still sits noticeably higher than the 3.7% observed at the beginning of the year. Recent labor market data indicates that 142,000 jobs were created in August, a substantial difference from the average of 202,000 in the prior 12 months.



Source for Economic Data: US Bureau of Labor Statistics

US Treasuries had slowly declined in the weeks leading up to this month's meeting, with traders pricing in expected cuts and the 10-Year Treasury rate opening September at 3.909%. The 10-Year is currently trading at 3.732% in the aftermath of the week's events but is expected to trend downward in the foreseeable future. The 10-Year AAA MMD is currently sitting at 2.63% (as of September 19th), a decrease of 8 basis points from the beginning of the month. Above is a graph of the MMD showing rates from January 2020 through September 19, 2024.

The total municipal market inflow over the 4-week period ending August 28 was $6.02 billion according to the Investment Company Institute (ICI), which includes data from both ETFs and long-term mutual funds. As the federal funds rate falls, we expect to see decreased costs of borrowing for our clients and an uptick in refinancing opportunities for school districts and municipalities alike.

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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