



## Markets Rally as Economic Data Meets Expectations

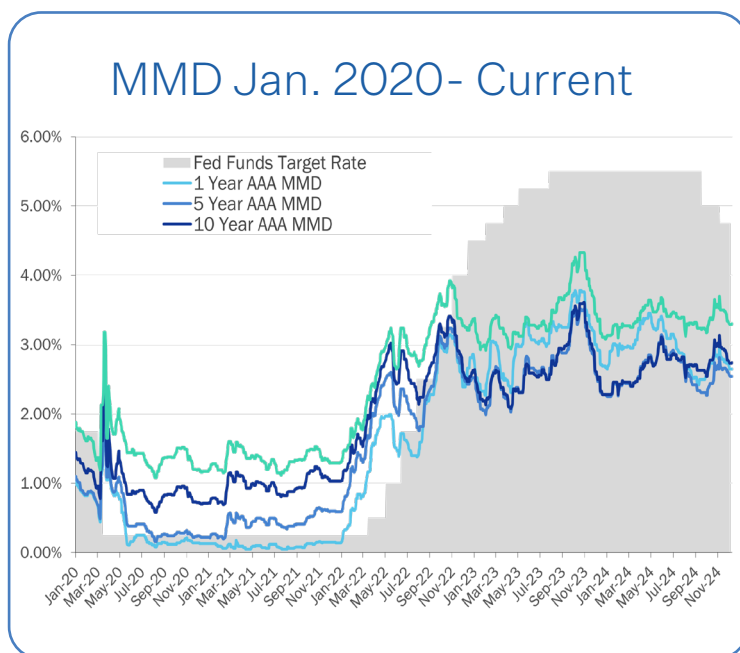
Following a turbulent November filled with elections, rate cuts, and quick shifts in every major market, December has been steadier due to an influx of positive and expected market data. The freshly released November CPI showed a 2.7% increase over the prior November and a 0.3% increase over October (seasonally adjusted), in line with market expectations. Core CPI followed suit, increasing by 3.3% in the last twelve months and 0.3% in the last month.

Economic readings in line with estimates typically promote market confidence in the Fed's ability to meet its dual mandate of managing inflation and supporting the labor market. The market expects the Federal Reserve, which has already cut rates by 0.75% since September, to decrease the federal funds target rate by 0.25% at its December 17th-18th meeting. While Fed Chair Jerome Powell has indicated that rates will be cut when necessary and decisions will be made with caution, data in line with expectations makes one more cut this year a strong possibility.

The "dot plot", set to be released at next week's Federal Open Markets Committee (FOMC) meeting, will illustrate the Fed's sentiment concerning the rate at which cuts will occur. Generally, the market expects the Fed to institute cuts at a slower pace than was thought even three months ago. Currently, CPI is still above the Fed target of 2%, suggesting that the battle with inflation is not yet over. With unemployment concerns rising in the last few weeks, the latest release from the Bureau of Labor Statistics has calmed the market. The US economy added 227,000 jobs in November, a significant increase from the revised total of 36,000 in October. Despite increased confidence in the labor market, the November unemployment rate has ticked up to 4.2% from 4.1%, causing the Fed to cautiously consider its dual mandate and refrain from guaranteeing continuous cuts. Economists are carefully weighing the potential impact of proposed policy shifts and tariffs, both of which are expected to increase inflationary pressures. The policies to be implemented, as well as their impact on labor and prices, will likely have a profound impact in the next calendar year.

While investors patiently await the changes that will come in 2025, markets have reacted positively and cautiously to recent economic

developments. Mildly changing since the middle of November, the 10-Year US Treasury is currently yielding 4.215%, a decrease of 0.23%, or 23 bps, from the November 15 yield of 4.445%. The municipal market has behaved similarly, with the 10-year AAA MMD currently yielding 2.74%, a decrease of 20 bps from the 2.94% observed on November 15th. Continuous inflows into the market, such as the \$2.589 billion added into mutual funds in the last two weeks ending December 4th, are a positive sign of decreased borrowing rates for local governments. The graph below illustrates MMD rates since January 2020.



Several PMA clients that passed referenda in November have taken advantage of the improved market tone in December. Four referendum financings have priced in the last week, beginning with Indian Prairie 204's (Moody's rated Aa1) first phase of their multi-phase financing plan. The district received double digit bids in its competitive sale, followed this week by Mount Prospect 57 (S&P rated AA+) and Barrington 220 (S&P rated AAA) also receiving double digit bids. Cary 26 (S&P rated AA) received six strong bids. Robust bid activity is a direct result of rising confidence in the municipal market and drove down the TIC (total interest cost) for each financing, beating expectations by a wide margin.

*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.*

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