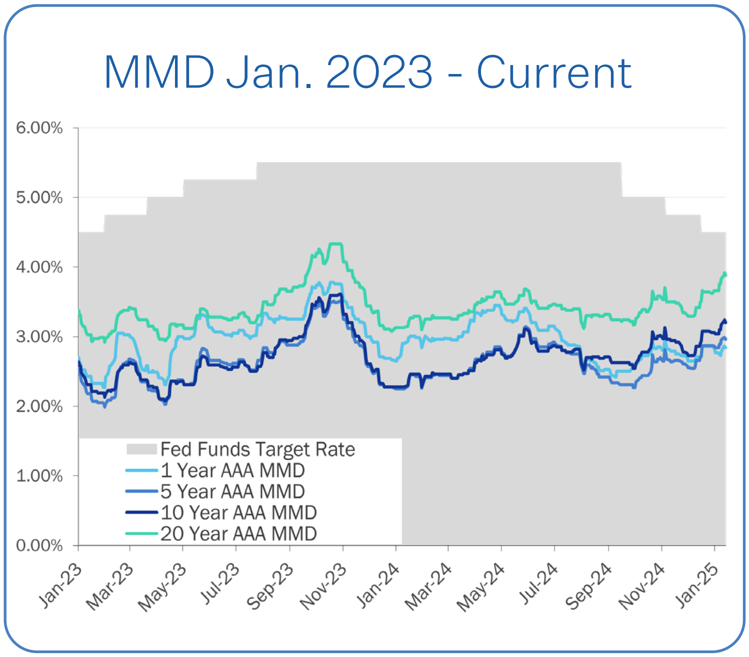
Markets Wary to Start 2025

After slowing down for the holidays to end 2024, mixed data has muddied the waters for major markets to start the new year. Core CPI, which is less volatile than the full CPI, climbed 0.2% in December and 3.2% annually, beating expectations and displaying a deceleration from the prior month to which both the equity and bond markets reacted positively. Overall, the monthly CPI was 0.4% for the month of December, higher than expected and higher than the 0.3% experienced in November. CPI increased 2.9% year over year, decreasing from 3.4% in 2023. The CPI report arrives on the heels of a strong jobs report last week, which reported that the US economy added 256,000 jobs in December - much higher than the consensus 155,000. Simultaneous changes in both the labor market and inflation data contrast with data observed in the latter half of 2024, making the Fed's path in 2025 ambiguous and creating uncertainty in all markets.

Just a few months ago, the market expected up to four rate cuts to occur in 2025 as part of the Fed's response to "normalize" the Federal Funds Rate while inflation slowly cooled. Uncertainty regarding new policies coming from Washington and other recent data has led to a drastic shift in the Fed's likely path. The general market consensus expects the Federal Reserve to hold interest rates constant at its January 28-29 meeting and potentially only cut rates once later this year. Shifts in expectations contributed to a profound treasury selloff that accelerated following the recent jobs report as investors stomached the labor market data. Yields on the US 10-Year Treasury hit 4.79% on Monday, January 13th, the highest point since October 2023 and a significant jump from September. The 10-Year Treasury opened 2025 yielding 4.57% and as of January 15th yields moderated to 4.65% following the release of yearly CPI data. It is unlikely that the Federal Reserve would shift from the sentiment expressed in September, where Chair Jerome Powell indicated that all decisions would be rooted in data and a pre-determined path would not be followed.

A sell-off in the US Treasury market is correlated with the municipal market, with the 10-year AAA MMD also reacting to market data and continuing its increase in yield. After starting 2025 at 3.06%, the 10-year AAA MMD has risen 14 basis points (bps) to 3.20%, as of January 15th. The graph below illustrates MMD rates since January 2023.



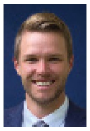
Additional wariness stems from a lack of information concerning the upcoming administration's policies and an undefined path forward for the Federal Reserve. It is still unclear what type of policies will be enacted and whether these policies will create additional inflationary pressures, potentially forcing the Federal Reserve to abstain from further cuts. If widespread confidence in the economy's direction increases and inflation continues its moderation, the 10-Year AAA MMD may trend downwards, leading to decreased borrowing costs in 2025.

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.

Kent Johnson
Sr. Vice President, Director
Minnesota Office
PMA Securities

Steve Pumper
Sr. Vice President
Minnesota Office
PMA Securities



Michael Hart
VP, Managing Director
Minnesota Office
PMA Securities

PMA®