Investors Cautious as Mixed Data Continues to Surprise

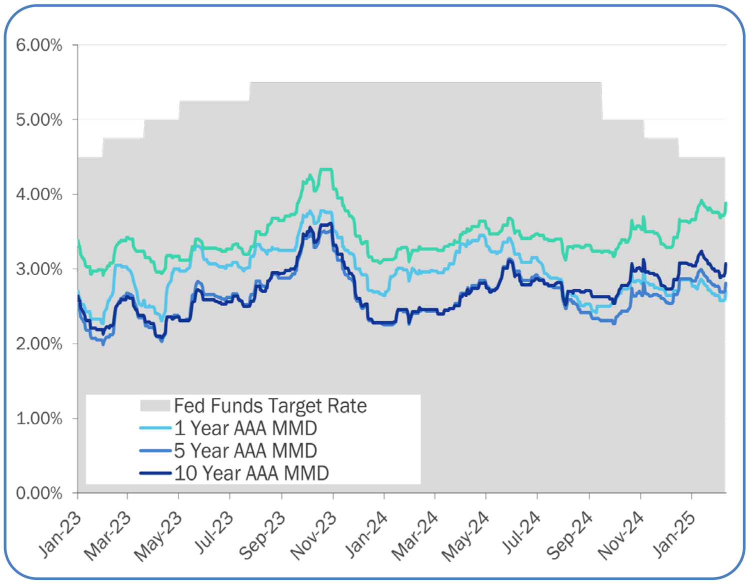
Seasonally adjusted CPI in January rose by 0.5% from December 2024 and 3.0% on a year-over-year basis from January 2024, higher than the Dow Jones estimates of 0.3% and 2.9%, respectively. Core CPI, which excludes the historically volatile food and energy prices, rose 0.4% from December and 3.3% from January 2024, also exceeding expectations of 0.3% and 3.1%, respectively. The Bureau of Labor Statistics cited housing and rent prices as a significant factor in the increase. The Producer Price Index (PPI) in January increased by a seasonally-adjusted 0.4%, higher than the expected 0.3%. Core PPI was up 0.3%, in line with the estimates. The U.S. economy added 143,000 non-farm jobs in January, lower than expected, and unemployment fell to 4.0% from 4.1%, an indication that growth in the labor market may be slowing. However, upward revisions from the prior two months totaling 100,000 indicate that the labor market is still strong.

The mixed reports cap a week of disappointment for issuers after Fed Chair Jerome Powell indicated in a hearing before the House Financial Services Committee on February 11th that rate cuts in 2025 would be few and far between. The Fed's path forward will continue to be driven by data with the Fed's 2% inflation goal a top priority. Despite President Trump's support for cutting rates, market expectations indicate about a 50% probability that the Fed will either cut rates once or not at all in 2025, with the first cut likely not occurring until September. The White House has recently enacted tariffs on steel and aluminum and announced broader tariffs on Canada, Mexico, and China, which if fully implemented, are likely to add to existing inflationary pressure. Despite these announcements, the S&P 500, the Dow Jones, and the NASDAQ Composite remained roughly level after seeing strong gains in mid-January. Following the February 12th release of CPI, all three indices started in the red but closed within half a percent of the market open.

The 10-year Treasury closed on February 12th at 4.637%, roughly 15 basis points below its most recent peak of 4.788% on January 13th. Following suit, the 10-year MMD peaked on January 14th at 3.24% before beginning a downward trend, closing at 2.95% on February 11th, then jumping 12 basis points to 3.07% after the CPI announcement on February 12th. In the week ending January 15th, the municipal market saw a net outflow of $189 million. However, the next week saw a net inflow of $3.476 billion, the largest inflow seen since July 2021. In total, the four weeks ending February 5th saw a net inflow of $5.645 billion, a sign that investors are seeking refuge in a more stable investment. Below is a graph of the MMD rates and Fed Funds Target Rate since January 2023. More volatility is expected as the markets react to monthly CPI and PPI data and continue to closely observe the movements of the Trump administration.

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.

MMD Jan. 2023 - Current



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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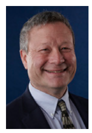

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