Fed Holds Rates Constant Amidst Future Uncertainty

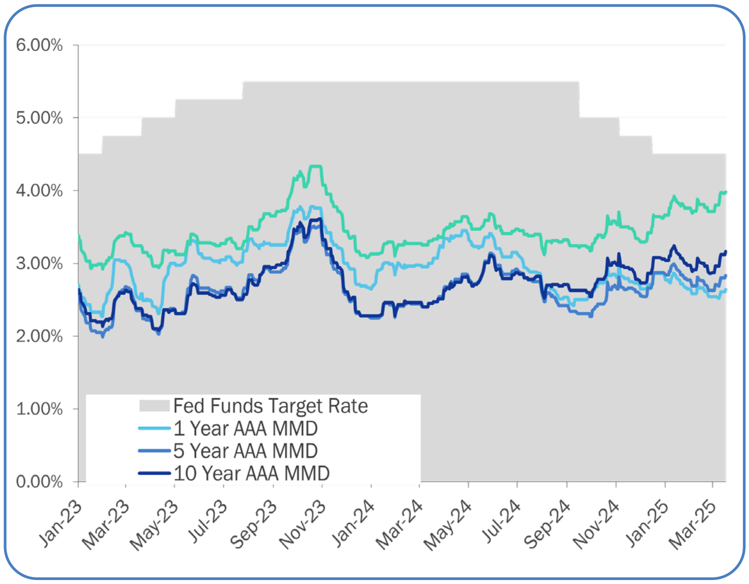
At its meeting that concluded on March 19th the Federal Reserve (the "Fed") chose to keep interest rates at the current target range of 4.25%-4.50%, in line with expectations, in a turbulent economic environment. The Fed did slow quantitative tightening (QT), the pace at which it is reducing its balance sheet. Committee sentiment is that uncertainty continues to increase, although it is prepared to adjust its monetary policies if data or other information arises that could prevent the Committee from satisfying its dual mandate. While decisions are strongly rooted in data, future assessments will place additional emphasis on international developments and policies that are expected to create inflationary pressure.

Markets were eagerly awaiting hints of future rate cuts from Fed Chair Jerome Powell, who painted a murky picture of the economy and cautioned restraint moving forward. Officials of the Fed, on average, depict two rate cuts in 2025 in this month's "dot plot," keeping the median estimate from December's meeting. Despite these positive developments for economic markets, policymakers have altered their expectations for 2025 for the worse. The Committee now expects the economy to grow 1.7% annually, a decrease from the 2.1% forecasted in December. Core prices are expected to grow 2.8% annually, an increase from the 2.5% last projected. A mix of decreasing growth and increasing costs, commonly referred to as "stagflation," would be a worst-case scenario for the Fed and economy. Powell and the rest of the Fed have expressed that they are willing to delay rate cuts for as long as necessary, especially considering the ever-changing effects of tariffs.

While recent headwinds have sparked significant turmoil in almost every major market, Powell was explicit in his belief that a recession was unlikely. CPI increased 2.8% over the prior February, a decrease from the 3% observed in January and a welcome deceleration. Core CPI rose 3.1% over the prior February, also decreasing from 3.3% in January. Retail sales rose 0.2% in February, a welcome increase following a steep 1.5% decline in January. Job growth was stable and non-farm payrolls increased by a seasonally adjusted 151,000 in February, an improvement from the 125,000 in January. The unemployment rate marginally increased to 4.1% from 4.0%, in line with expectations. Despite these foundational data points, markets have strongly reacted to enacted, announced, and delayed tariffs, showing frustration with a lack of direction and expectation. Continued uncertainty and patterns of sudden reversals may continue to cause investors to pull funds from the markets, as observed in the last few weeks.

The 10-year Treasury currently yields 4.239% (as of March 20th) following Powell's remarks, an increase of 0.036% since the end of February. The 10-year AAA MMD currently yields 3.13%, an increase of 27 basis points (bps) in the same period. The four-week period ending March 12th, 2025 saw a municipal market net inflow of $4.231 billion. The graph below illustrates MMD rates since January 2023.

MMD Jan. 2023 - Current



Given the uncertainty surrounding tariffs and their impacts on global trade, all markets are prone to increases and decreases at a moment's notice. A lack of information, data, or investor confidence in the direction of fiscal and monetary policy can impact markets and borrowing rates, even if other factors are still positive. Uncertainty may lead to market fears and corrections as investors wait and see what surprise is in store next.

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

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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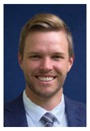

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