

# Markets Uneasy Over Mixed Data and Tariffs

Tariff policy has been the focus of the market over the last few months. On April 2, President Trump announced a baseline 10% tariff on all imports, with additional reciprocal tariffs on 57 countries. One week later he announced a pause on all reciprocal tariffs except those on Chinese goods, which he raised to 125%. In response, the European Union paused retaliatory tariffs to begin negotiations. After the first announcement of the reciprocal tariffs, the stock market plummeted, hovering around bear market territory. A bear market occurs when a major stock index declines by 20% or more from a recent high and remains down. However, the markets rallied upon news of the tariff pause. The S&P 500 jumped 9.5%, its largest single-day gain since 2008. Likewise, the NASDAQ soared 12%, its best day since 2001, and the Dow Jones Industrial Average (DJIA) climbed 7.9%, its biggest increase since 2020. However, some of these gains were corrected on April 10, as all three indices closed in the red.

On April 9, the Federal Reserve released the minutes from its March 18-19 meeting, which centered around fears of upcoming tariffs. Officials discussed concerns such as market volatility, depleted household savings, and limited growth due to stricter immigration policy. The Fed unanimously voted to hold rates steady but the so called “Dot Plot” signaled three possible rate cuts by the end of 2025, largely dependent on the development of tariffs.

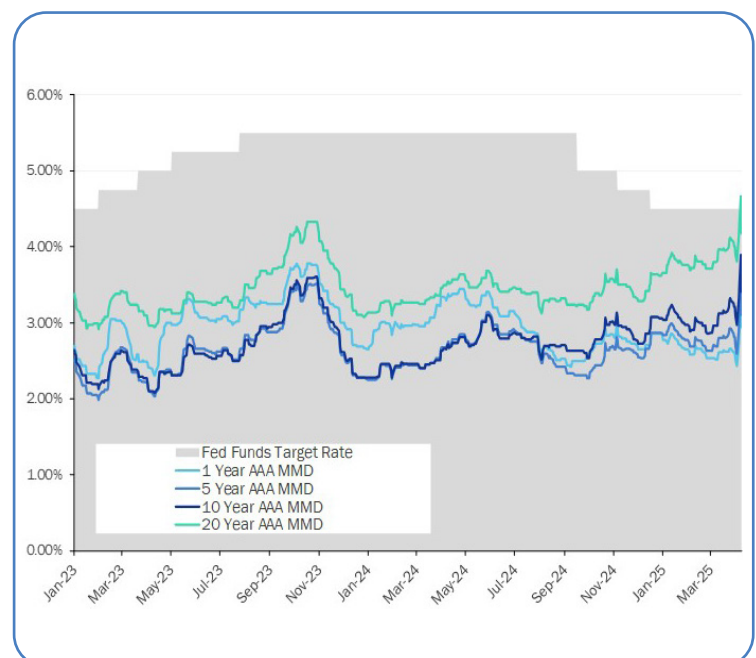
The Bureau of Labor Statistics released March inflation data on April 10. CPI fell a seasonally adjusted 0.1% in March, putting the 12-month inflation rate at 2.4%, a decline from the 2.8% recorded in February. Core inflation increased 0.1% for the month, setting the 12-month rate at 2.9%, the lowest increase since March 2021. CPI and core CPI both beat Wall Street expectations, which were 2.6% and 3.0%, respectively.

Investor uncertainty has caused volatility in the municipal market as well. Between March 3 and April 9 the 10-year Municipal Market Data Index (MMD) rose from a low of

2.86% to 3.89%. 0.90% of that increase occurred between April 4 and April 9. From March 3 to April 9, the 10-year Treasury rose from 4.180% to 4.400% but between April 4 and 9 it increased by 0.415%. Following the tariff pause announcement, the 10-year MMD dropped by 0.48% to 3.41% on April 10, while the Treasury rose by 0.013% to 4.413%. See below for a graph of MMD rates since January 2023.

Muni volatility is exacerbated by outflows in the Exchange-Traded Funds (ETF) markets. When large ETFs sell, buyers bid at lower levels. Decreased demand and investor unease cause higher yields, continuing the cycle. For the four weeks ending April 2, the municipal market experienced a net outflow of \$735 million. In response to the skyrocketing yields, many issuers have postponed deals scheduled to price this week, hoping the market stabilizes. The postponed deals boosting supply could continue to affect yields in the coming weeks.

## MMD Jan. 2023 - Current



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*Uncertainty around tariffs and inflation continue to be major factors in investor confidence. If you have any questions regarding the bond market or your specific bond issue, please do not hesitate to contact a PMA advisor below.*

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**Bob Lewis**  
Senior Vice President,  
Managing Director  
PMA Securities



**Tammie Beckwith  
Schallmo**  
Senior Vice President,  
Managing Director  
PMA Securities



**Andrew Kim**  
Director,  
Public Finance  
PMA Securities



**Stephen Adams**  
Director,  
Public Finance  
PMA Securities



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