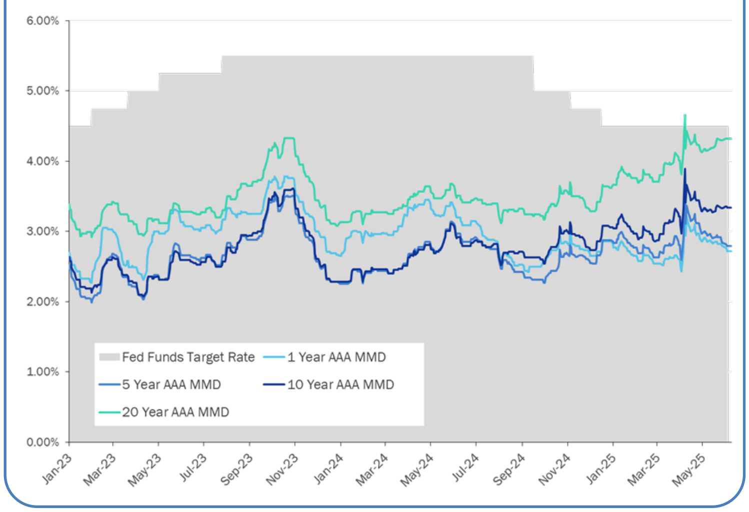
# May CPI Beats Expectations Despite Tariff Threat

With all eyes on inflation in May, the first month expected to be impacted by President Trump's tariffs, inflationary readings came in cooler than anticipated and temporarily nulled fears of inflationary pressures. CPI and Core CPI both rose 0.1% from April, with the former increasing 2.4% in the last year and the latter maintaining the 2.8% that it has exhibited in the last three months. Most economists expected increases of 0.2-0.3% from April, prompting conversations over whether inflationary concerns were overblown, or if the bulk of the expected tariff impacts on consumers have yet to materialize.

President Trump and his administration have repeatedly expressed a desire for the Federal Reserve (the Fed) to cut the Federal Funds Rate by a full 100 basis points, as well as frustration with Fed Chair Jerome Powell for not yet doing so. At the beginning of 2025, markets expected the Fed to cut rates three times this year for a total reduction of 0.75%. The tone expressed by various Fed officials in recent interviews indicates doubt that the Fed will decrease its target rate at the June 17-18 meeting, but the market is pricing in one or two cuts this year. Powell and the Federal Open Market Committee (FOMC) urged a "wait-and-see" approach when tariffs were first announced, suggesting that the Fed may infer May's CPI reading solely as the economy's current position and offering little insight into potential levels of inflation later in the year. If the FOMC believes that consumers have yet to bear the brunt of tariff costs, then policymakers could exhibit increased patience and restraint. The labor market continues to show resilience, with the unemployment rate holding constant at 4.2% and total nonfarm employment increasing by 139,000 in May, thus easing concerns on one side of the Fed's dual mandate.

While CPI readings have traditionally been some of the most influential economic events, Treasury auctions are rapidly gaining traction as insights into market sentiment and confidence in the US Government's ability to pay down its debt. Trump's "One Big Beautiful Bill" has rattled the bond market, with the Congressional Budget Office estimating that it would add $2.4 trillion to the national deficit over 10 years. Moody's Ratings has downgraded the United States to Aa1 from Aaa, citing concerns over large annual debts and growing interest costs. Treasury yields have spiked all along the curve, but especially on the long end, as investors grapple with the ballooning deficit and command higher yields for what the markets perceive to be a riskier loan. 30-year Treasury bonds may be indicative of market sentiment towards the administration's fiscal and trade policies, as decreased demand would signal significant economic issues. Thursday's highly anticipated auction of 30-year bonds saw strong demand with $22 billion being sold, easing fears that investors would be hesitant to buy the government's longest maturity. The 10-year Treasury increased 16 bps to 4.41% between May 1st and June 11th, while the 30-year Treasury increased 17 bps to 4.91%. Meanwhile, the municipal bond market has responded differently in recent weeks. The 1-year AAA MMD fell 14 bps to 2.72% during that period, while the 10-year and 30-year AAA MMD yields rose by only 5 bps to 3.34% and 20 bps to 4.56%, respectively. The graph below illustrates MMD rates since January 2023.

MMD Jan. 2023 - Current



*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.*

***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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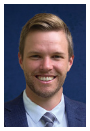

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