Mixed Data Continues as Markets Adjust to New Policies

After a roller coaster April, the market received a reprieve last week with the announcement of a trade deal with the United Kingdom, the first such deal following the implementation of President Trump's tariffs on April 9. On May 12, the White House also announced a mutual 90-day reduction on tariffs with China while further negotiations are held. In response, the S&P 500, NASDAQ, Dow Jones, and the dollar surged.

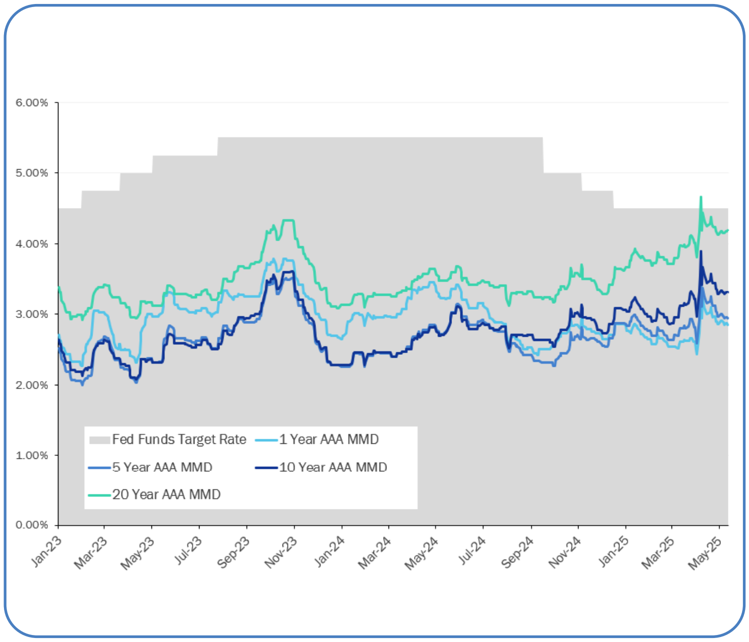
CPI for April, released on May 13, rose 2.3% on an annual basis, less than the 2.4% economists had expected and the lowest level since February 2021. On a month-over-month basis, CPI rose by 0.2%, which was lower than economists' expectations of 0.3%. Core CPI, which excludes volatile food and energy prices, increased 2.8% year-over-year and 0.2% from last month. April's CPI data was highly anticipated as the first since President Trump's tariffs were enacted and sparked fear of potential inflation. In response to the lower-than-expected data, the S&P 500 continued its upward trend, closing the day back in positive territory for 2025.

The economy is proving hard to judge amid inflation fears, unemployment, and investor wariness over trade policy. Much of the data this month has been mixed. Nonfarm payrolls increased by a seasonally adjusted 177,000 for the month, a sign of resilience, while GDP fell by an annualized 0.3% in the first quarter, pushed by a surge of imports as companies front-ran the tariffs. The April unemployment rate was 4.2%, remaining unchanged from March.

The Fed decided against a preemptive rate cut in its May meeting, as expected, holding rates steady at 4.25%-4.50%. The decision comes after careful consideration of the balance the Fed must maintain between inflation, which is still higher than the Fed's 2% target, and maintaining a strong jobs market. Considering these factors, Fed Chair Jerome Powell emphasized that the Fed is waiting to see more economic data before implementing additional rate cuts. According to CME Group, the market is still pricing in a total of two rate cuts in 2025.

After the extreme swings following the initial tariff announcements, the MMD has stabilized and trended downwards. The 10-year MMD improved from 3.56% on April 14 to 3.31% as of May 13. Over the same period, the 10-year Treasury had more mixed results, closing at 4.475% on May 13, an increase of 0.152% from 4.323% on April 14. See below for a graph of MMD rates since January of 2023. Over the four weeks ending May 7, the municipal market saw a net inflow of $484 million, weighed down by drastic outflows during the weeks of April 16 and April 23.

MMD Jan. 2023 - Current



In January, a leaked memo from the House Ways and Means Committee listed removing tax exemption for municipalities as a possible way to help cover the costs of a sweeping tax bill. However, the draft tax bill released by the Committee on Monday afternoon did not list municipal tax exemption as one of its cost-cutting measures, so the fate of municipal tax exemption appears to be secure for the moment.

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 next page.

Uncertainty around tariffs and inflation continue to be major factors in investor confidence.
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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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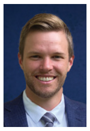

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