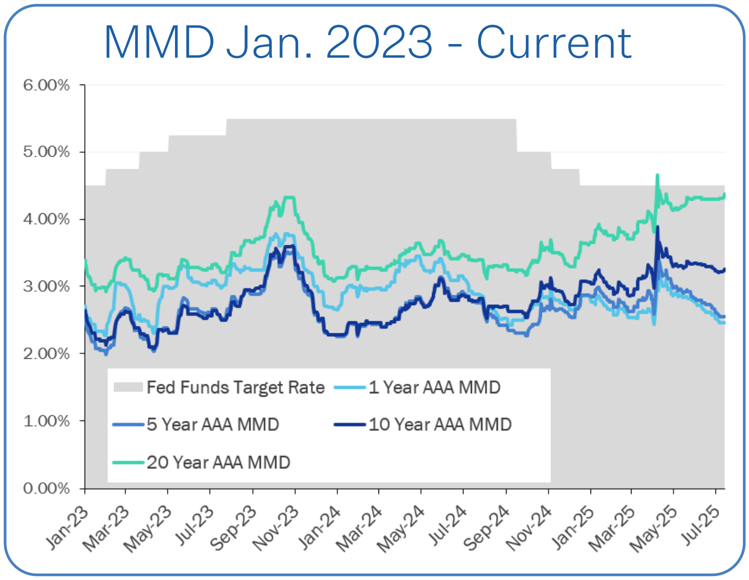
Municipal Market Update
July 17, 2025

Inflation Increases in Line with Expectations

Economic data continues to puzzle the markets as investors attempt to discern if June's uptick in inflation is the peak of the mountain or a sign of more to come. After falling short of expectations in May, headline CPI rose 0.3% in June and raised the year-over-year inflation level to 2.7%, the highest it has been since February. Core CPI rose 0.2% from May and sits at 2.9% for the last year. Both readings are in line with expectations as economists forecasted a hotter reading in June, further muddying the possibility of multiple rate cuts this year and bringing the effects of tariffs into the spotlight.

Although a 0.3% increase in inflation all but guarantees that the Federal Reserve will hold rates steady at its next meeting on July 29-30, a rate cut in September is still on the table. The Fed's hesitancy to cut rates continues to stem from uncertainty about the effects of existing tariffs, as well as the possibility of additional tariffs coming next month. Inflation was larger than 0.3% for many import-exposed goods, adding to fears that it's only a matter of time until price increases are passed on to consumers. The producer price index (PPI) was unchanged in June after rising 0.3% the month before, well below expectations by a wide margin. GDP growth for the first quarter of 2025 was revised downward to -0.5% from the previously estimated -0.2%, suggesting either higher import prices or fewer American exports than expected. President Trump has threatened to increase tariffs on many countries in August, including Mexico, Canada, and the European Union, giving the Fed further reason to continue its "wait-and-see" approach.

Additional economic data gives reason for optimism about the economy's overall short-term health and should calm fears about the possibility of stagflation. The U.S. economy added 147,000 jobs in June and held the unemployment rate at 4.1%, keeping a steady pace from the prior month amidst fears of a slowdown in the labor market. The Fed may choose to interpret the labor market's strength as another reason to focus on inflation, adding to the possibility of delayed rate cuts. Treasury and municipal yields continue to be steady relative to the spikes experienced just a few months ago, displaying increased vigilance amidst the ever-changing geopolitical landscape. The 10-Year Treasury has shifted upward by about 4 bps between June 16th and July 15th and yields 4.50% as of July 15th. The 10-Year AAA MMD has experienced a downswing of 6 bps in the same period and yields 3.26% as of July 15th, leading to a 10-Year MMD/US Treasury ratio of 72%, which is consistent with historical trends. Over the four-week period ending July 9th, the municipal market saw a net inflow of $5.455 billion. The graph below illustrates MMD rates since January 2023.



Although the 10-year AAA MMD and Treasury have fallen slightly in the last month, both the municipal yield curve and Treasury yield curve continue to steepen as investors command higher yields for bonds with longer maturities. A lack of faith in the economy and the government's long-term health have increased yields out long over fears that the federal government may not be able to sustain higher levels of debt. Doubts stem from the passing of President Trump's "Big, Beautiful Bill," which the Congressional Budget Office estimates will add $3.4 trillion to federal deficits over the next 10 years. The Bill will also raise the debt ceiling by $5 trillion, allowing the federal government to continue its borrowing trend. These doubts and their impact to long-term rates may sustain higher borrowing costs even if the Federal Reserve begins to cut its short-term rate later this year.

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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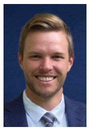

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