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## Municipal Market Update

August 15, 2025

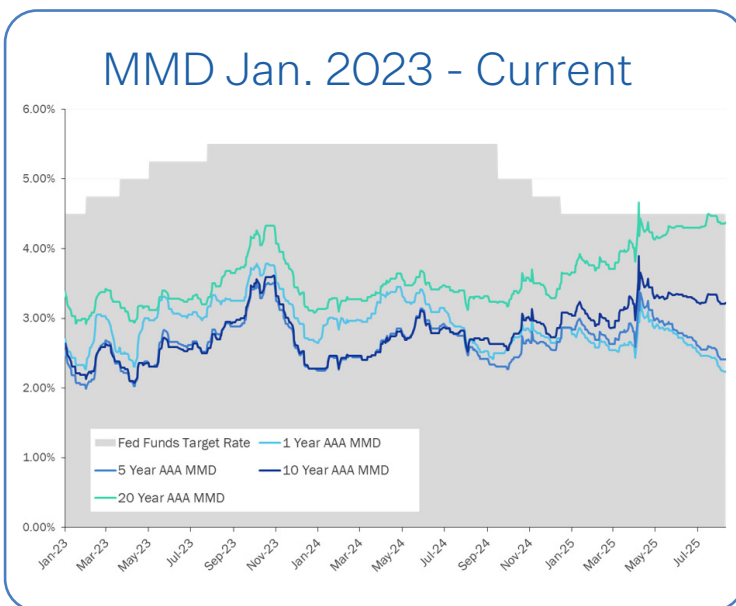
# Market Ramps Up Bets on September Rate Cut

The Consumer Price Index (CPI) for July increased 0.2% from June, in line with expectations, and 2.7% from the prior year, beating expectations of 2.8%. Core CPI increased 0.3% for the month and 3.1% from the prior year, compared with expectations of 0.2% and 3.0%, respectively. Tariffs had a moderate impact, with canned fruits and vegetables, apparel, and new vehicles showing little movement, but household furnishings and supplies increasing 0.7%. The tariff-fueled drop in imports figured in second quarter GDP, which increased 3%, beating estimates of 2.3% and providing reassurance after the first quarter decline of 0.5%. The Producer Price Index (PPI) increased 0.9% for the month of July, well over the 0.2% expected and pushing the year-over-year rate to 3.3%. The core rate rose 0.6% over the prior month and 2.8% over the prior year.

The muted tariff impact on CPI gives the economy room to focus on the July jobs report. According to the Bureau of Labor Statistics (BLS), the unemployment rate ticked up to 4.2%, and 73,000 non-farm jobs were added in July, far below expectations of 104,000. May's job gains were revised down to 19,000 from 144,000 and June's gains were lowered to 14,000 from 147,000. This combined reduction of 258,000 jobs is the largest in more than a decade, excluding the sharp decline in 2020. In response, President Trump fired Dr. Erica McEntarfer, the Commissioner of the BLS, alleging, without proof, that her agency had faked jobs numbers.

While inflation is still above the Fed's target rate of 2%, the market expects that the Fed will choose to focus on unemployment at its September meeting. Fed Governor Michelle Bowman, in a speech on August 9, expressed her concern that a further delay in action could impair the labor market and slow economic growth. As of August 14, the CME Group's FedWatch sets the probability of a 0.25% rate cut at the September meeting at 94.4%, only slightly lower than the day before despite the higher-than-expected PPI reading. President Trump and Treasury Secretary Scott Bessent continue to push for rate cuts, citing the unemployment rate and housing costs as chief concerns.

As of August 13, the 10-year Treasury yielded 4.24%, a decline of 19 basis points from 4.43% on July 14. Over the same time period, the 10-year Municipal Market Data Index (MMD) remained relatively stable, declining 1 basis point to 3.22% from 3.23%. The MMD/Treasury ratio is currently at 75%, which is consistent with historical trends. Over the four-week period ending August 6, the municipal market saw a net new inflow of \$5.597 billion, a slight increase from \$5.455 billion for the four-week period ending July 9. The yield curve continues to steepen, driven largely by heavy supply and continuing doubts about the health of the economy. The 1- and 5-year MMD rates dropped by 23 and 14 basis points respectively since July 14, while the 25-year MMD shifted upwards by 4 basis points in the same time period. The graph below illustrates MMD rates since January 2023.





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