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## Municipal Market Update

December 19, 2025

# Unemployment Uncertainty, Rising Debt Keep Yields Elevated

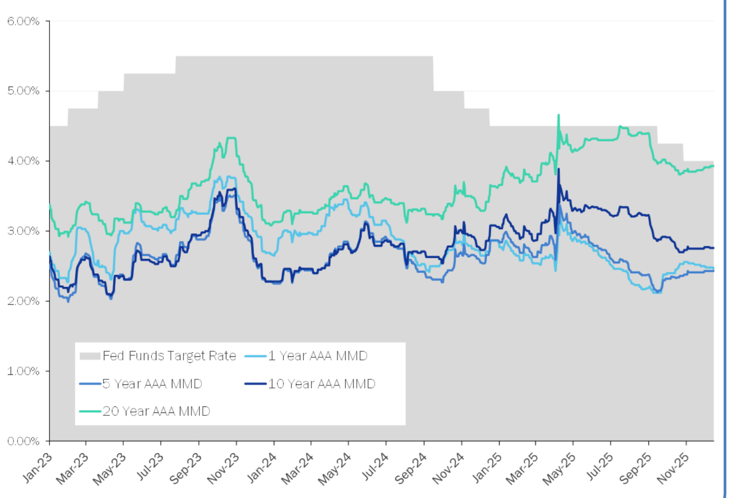
The Consumer Price Index (CPI) for November 2025 set the inflation rate over the last twelve months at 2.7%, considerably below expectations of 3.1%. Core CPI, which excludes food and energy, was 2.6%, beating expectations of 3.0%. The report did not include the usual month-over-month calculations due to difficulty collecting October data during the 43-day government shutdown, which ended on November 12. Stock futures jumped in response to the positive CPI data. On December 16, the November jobs report was released, which included long-awaited October data that had been delayed due to the shutdown. That report showed a loss of 105,000 jobs in October but did not include an October unemployment rate, while August and September jobs totals were revised downward by a total of 33,000. The economy added 64,000 jobs in November, beating expectations of 45,000. However, the unemployment rate reached 4.6%, its highest level since September 2021.

A split Federal Reserve ("the Fed") fulfilled expectations of a "hawkish" rate cut and lowered the federal funds rate by another 0.25% last week, setting the target rate at 3.50%-3.75%. Despite the Fed making its third rate cut this year, the closely watched "dot plot" of the Fed members' rate expectations indicates just one rate cut in 2026 and another in 2027, setting the rate at 3.00% for the longer term. Currently, CME Group lists the probability of the Fed maintaining rates at its January 28 meeting at 75.6%. The Fed also raised its expectations of Gross Domestic Product (GDP) growth to 2.3% and signaled expectations of inflation remaining above the 2% target until 2028.

Despite the federal funds rate decreasing 1.5% since the Fed first began cutting rates in September 2024, Treasury yields have continued to climb, a disconnect not seen since the 1990s. Since September 18, 2024, the 10-year Treasury has increased 46 basis points (bps) to 4.16% on December 17, while the 30-year Treasury has increased by 80 bps to 4.83%. The Municipal Market Index (MMD) has followed the same trajectory, with the 10-year MMD rising by 13 bps since September 18, 2024, and the 30-year MMD rising by 74 bps. One possible explanation for the disconnect is that investors are doubting that the U.S. will reign in the ballooning national debt, which recently surpassed $30 trillion for the first time. The national debt has more than doubled since 2018, climbing sharply since the beginning of the pandemic, and has investors concerned over the sustainability of constant deficits.

The yield curve continues to steepen, with the 1-year Treasury declining by 18 bps as the 30-year rose by 10 bps month over month. Meanwhile, the 10-year Treasury has risen by 3 bps since November 17. The 10-year MMD closed at 2.76%, 1 bp higher than on November 17, while the 30-year MMD closed at 4.24%, an increase of 10 bps, and the 1-year MMD declined by 4 bps to 2.46%. Net inflows for the four weeks ending December 10 were $4.193 billion, showing continued investor interest in the municipal market. The graph below illustrates MMD rates since January 2023.

### MMD Jan. 2023 - Current




On Tuesday, December 2, PMA Securities served as municipal advisor to Community Unit School District 4 (Champaign, IL) on the successful competitive sale of its $42,210,000 Series 2026 General Obligation Refunding School Bonds. Healthy participation in the sale was fueled by the District's strong "Aa1" Moody's rating and highlighted strong investor engagement in the market. The District received seven bids with a winning True Interest Cost (TIC) of 2.66%, 30 bp lower than the 2.96% estimated TIC presented to the District's Board of Education prior to the sale of the Bonds.

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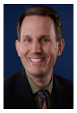
## If you have any questions regarding the bond market or your specific bond issue, please do not hesitate to contact an advisor below.

***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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