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Municipal Market Update October 17, 2025

Markets Hold On as Shutdown Continues

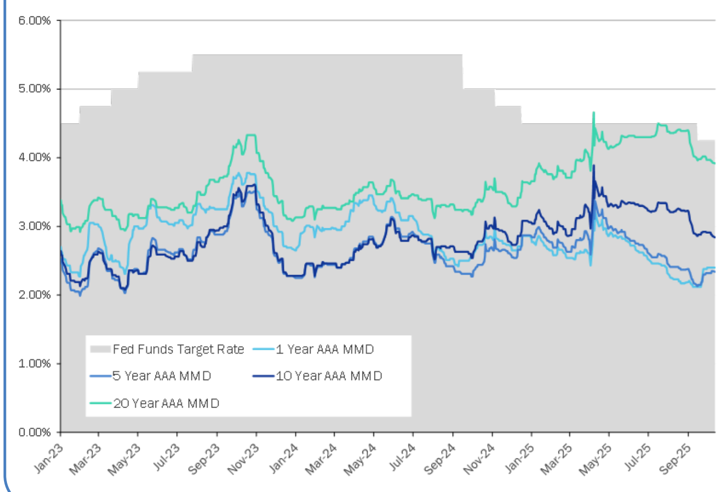
The federal government entered the third week of its shutdown on Wednesday, October 15 as Republicans and Democrats remained firmly entrenched in their positions. Democrats are holding out for an extension of Obamacare credits that are set to expire, while Republicans are arguing that the issue must be dealt with separately, outside the context of a government funding bill. On October 13, Treasury Secretary Scott Bessent warned of consequences to the economy, pointing to an earlier White House memo that projected a potential loss of $15 billion in GDP per week, with an additional 43,000 unemployed if the shutdown were to last a month.

The markets reacted positively to Federal Reserve Chair Jerome Powell's October 14 comments, in which he warned that the current slowdown in hiring poses a growing risk to the economy , suggesting more rate cuts are on the way. While CPI in August remained above the Fed's target of 2%, Powell reiterated that the Fed is currently more focused on the job market. Powell stated that despite the shutdown halting official economic data, "the outlook for employment and inflation does not appear to have changed much" since the September meeting, when the Fed reduced rates for the first time this year and forecast two more rate cuts before the end of 2025. Currently, the CME Group's FedWatch Tool forecasts a 96.7% probability of a 0.25% rate cut at the Fed's October 29 meeting.

The 10-year Treasury closed at 4.021% on October 14, slightly less than the 4.026% on September 15. The Treasury market had climbed to as much as 4.187% on September 26 but declined as the impact of the shutdown was more muted than expected. Over the same period, the 10-year Municipal Market Data Index (MMD) decreased to 2.84% from 2.88%, following a similar pattern with a high point of 2.92% as recently as September 30. The yield curve continues to flatten, with the 1-year MMD increasing to 2.40% from 2.12% as the 25-year MMD decreased to 4.11% from 4.16%. Over the four-week period ending October 8, the municipal market saw a net inflow of $6.953 billion, a decrease from $7.997 billion over the four weeks ending September 10. The graph below illustrates MMD rates since January 2023.

Strong inflows into the municipal market funds typically drive down yields on municipal bond transactions. School District Number 79 (Fremont) experienced this in its October 6th sale of $26,575,000 General Obligation School Bonds, Series 2025. The District received a total of ten bids with a winning Total Interest Cost (TIC) of 3.99% on its 20-year financing. UMB Bank's winning bid was stronger than the TIC of 4.89% in the original estimates presented to the Board of Education prior to the sale of the bonds. As a result, the final debt service was $3.4 million lower than the estimate from a few weeks before the sale, resulting in an annual median taxpayer impact $17 lower than previously projected.

MMD Jan. 2023 - Current



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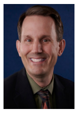
Investors continue to watch Congress for a resolution to the shutdown.

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

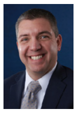
PMA is dedicated to staying up to date on market trends and will be ready to guide you through a dynamic and evolving market. If you have any questions about the municipal bond market in general or your specific bond issue, please feel free to contact a PMA advisor below.



Bob Lewis
Senior Vice President,
Managing Director
PMA Securities

Tammie Beckwith Schallmo
Senior Vice President,
Managing Director
PMA Securities

Andrew Kim
Director,
Public Finance
PMA Securities



Stephen Adams
Director,
Public Finance
PMA Securities