



## Markets React Positively to Cooling CPI

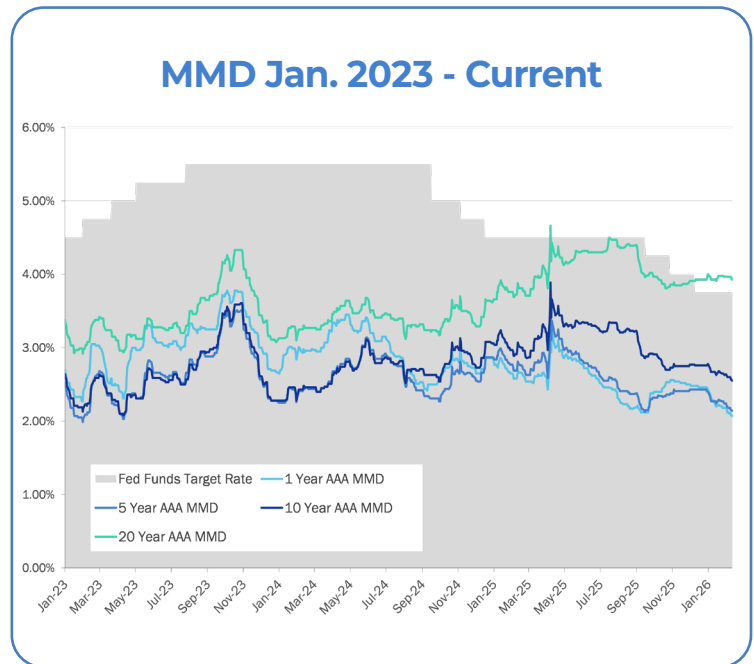
The Consumer Price Index (CPI) for January increased 0.2% from December 2025 and slowed to 2.4% over the prior 12 months, undercutting expectations of 0.3% and 2.5%, respectively. This is the lowest reading since May 2025. Core CPI, which excludes volatile food and energy prices, met expectations of 2.5%, the lowest reading since April 2021. Monthly core CPI was 0.3%, meeting what was anticipated.

The jobs report released on Wednesday, February 11 was also positive, with the unemployment rate decreasing to 4.3%, below the 4.4% forecast. Non-farm payrolls added 130,000 jobs, well above the Dow Jones estimate of 55,000. December's total was 48,000 after a slight downward revision, capping off a year in which job creation averaged an anemic 15,000 per month. January was the best month for payroll growth since December 2024. In addition to the monthly numbers, the Bureau of Labor Statistics released final revisions for the 12-month period ending in March 2025. The numbers were revised to 898,000, slightly lower than the 911,000 estimate released in September.

Following the positive CPI report, U.S. stocks climbed. While the markets still predict a 90.2% chance of the Federal Reserve holding rates steady at its March meeting, as of February 13, the CME Group's FedWatch Tool displays a 51.4% chance of a 0.25% rate cut at the June meeting. Most investors still expect a total of two rate cuts in 2026, though a growing minority are now betting on more.

Treasuries trended lower month-over-month, with the 10-Year Treasury closing at 4.09% on February 12, 9 basis points (bp) lower than the 4.18% recorded on January 13. Over the same time period, the one-Year Treasury closed at 3.45%, a 6 bp reduction, and the 30-Year Treasury dropped 11 bp to 4.72%. Meanwhile, the Municipal Market Index (MMD) has continued to steepen. The 10-Year MMD closed at 2.55% on February 12, 12 bp lower than the January 13 reading. The one-Year MMD decreased 19 bp to 2.07% since January 13, while the 30-Year MMD increased 8 bp to 4.29%. The graph below illustrates MMD rates since January 2023. The municipal markets continue to see a jump in participation from separately managed accounts (SMAs) and exchange-

traded funds (ETFs) as investors progressively look to products that are more customizable and cost-effective. Accordingly, and combined with increased investor fund balances due to December principal and interest payments, the markets saw a net inflow of \$14.423 billion in the four-week period ending February 4. This phenomenon likely contributes to the steepness in the yield curve because both SMAs and ETFs are lower-duration products than traditional mutual funds.





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