



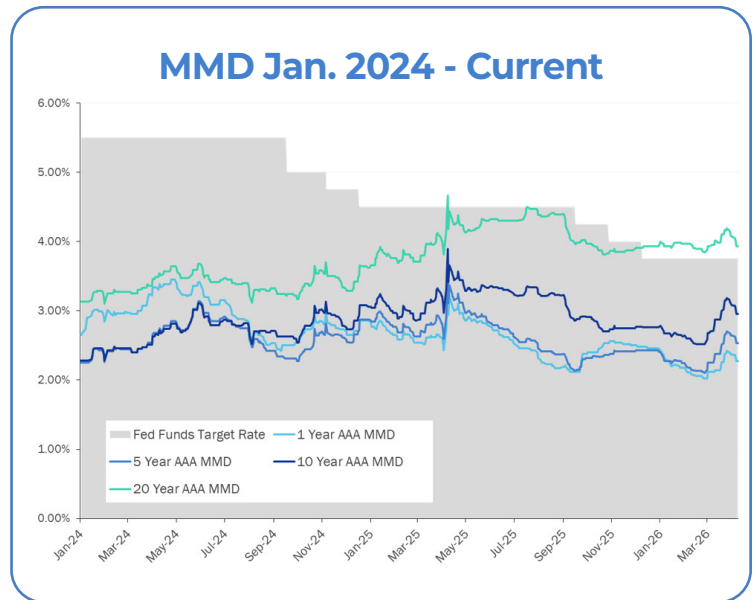
## International Conflicts Reflected in Economic Data

Inflationary readings for the month of March came in elevated but muddled, reflecting volatile increases following the start of the conflict in Iran. The Consumer Price Index (CPI) rose 0.9% in March from the previous month, setting the annual inflation rate at 3.3% and far exceeding February’s monthly reading of 0.3%. The Producer Price Index (PPI) rose 0.5% in March, well below expectations, and currently sits at 4.0% annually.

Rapid increases in the costs of energy, mainly gasoline, directly affect consumers at the gas pump, but also take the form of increased costs of inputs for other goods and services in the economy. As energy costs rise, so do inflationary expectations, creating a reaction that has rippled across the Treasury and Bond markets. Unlike the previous month, the latest reading reflects the effects of the conflict in Iran, largely driven by a 21.2% rise in gasoline prices. This reflects the largest monthly increase in the data series since it was first published in 1967. Core CPI, which excludes the volatile food and energy sectors, rose only 0.2% monthly and sits at 2.6% annually, much closer to the 2.0% target set by the Federal Reserve (the Fed). Core PPI, which excludes the same sectors, increased 0.1% monthly and sits at 3.8% annually.

In the weeks since the conflict began, the Treasury and Bond markets have seen substantial increases in interest rates. International conflict is typically viewed as inflationary, causing rates to heighten as the expectation of the conflict’s length increases. The 1-Year Treasury yielded 3.56% on March 10th and increased by 14 basis points (bps) to 3.70%, as of April 10th. The 10-Year Treasury increased 16 bps in the same period and currently yields 4.31%. The Municipal Market Index (MMD) performed similarly, with the 1-Year MMD increasing 15 bps to 2.27% and the 10-Year MMD increasing 24 bps to 2.95%, increasing the steepness of the yield curve. While elevated from the onset of the conflict, these rates have decreased from higher points just two weeks ago and reflect expectations of the continual success of a cease-fire.

The graph below illustrates MMD rates since January 2024.



Municipal mutual funds and ETFs recorded approximately \$5.008 billion in net inflows during the four-week period ending April 1st, slightly lower than the previous four-week period. The week ending March 25th was the first week of negative inflows since the week ending April 23rd, 2025. When investors believe that inflation and interest rates will rise in the near future, they may hold off on buying municipal funds now in the hope that they can buy at a higher yield later. The current expectation is that the Federal Reserve will maintain the Federal Funds Target of 3.50% to 3.75% this year, but the odds of a rate decrease or even an increase may rapidly change as geopolitical events develop. Real Gross Domestic Product (GDP) grew at an annual rate of 0.5% in the fourth quarter of 2025, a stark contrast from the 4.4% growth in the third quarter but heavily distorted by October’s government shutdown. If the economy remains sluggish and inflation continues to grow, then the Fed may have to grapple with a worst-case “stagflation” scenario, where a move in either direction may hinder progress on the other side of the dual mandate.



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