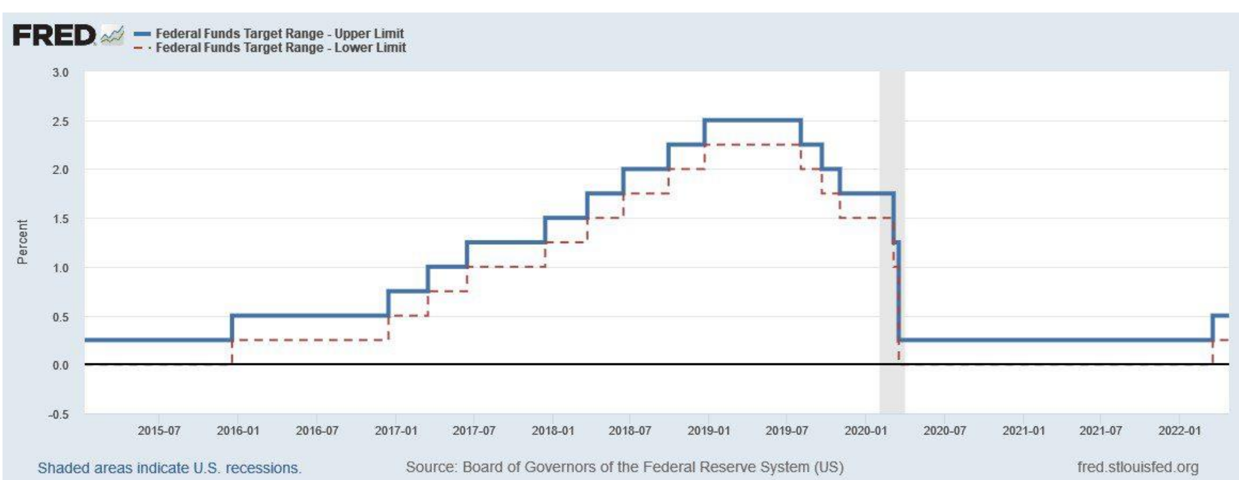
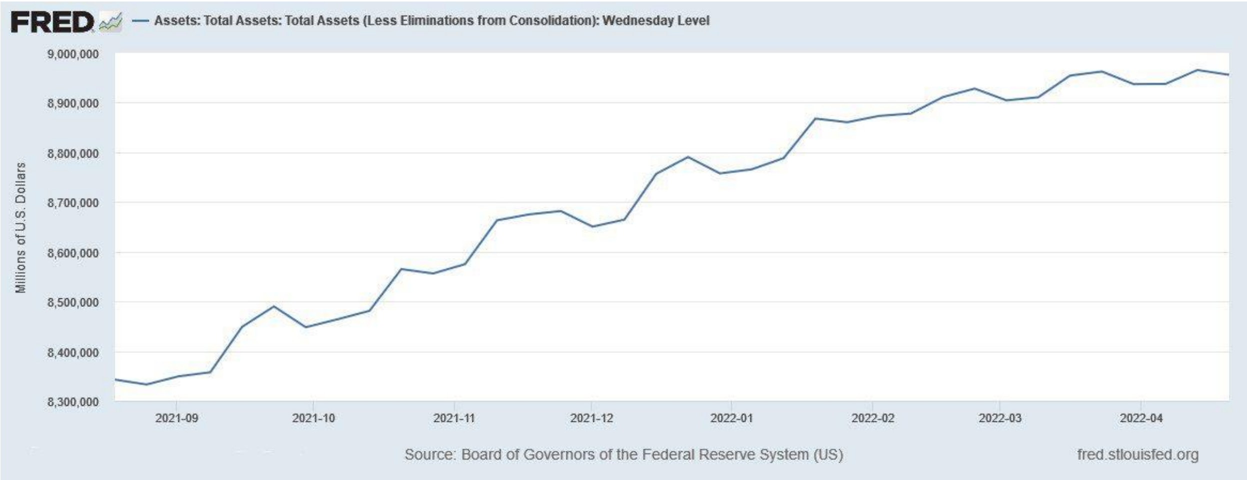
Chairman Powell Speaks Publicly Prior to May FOMC Meeting

Federal Reserve Board Chair Jay Powell spoke publicly alongside European Central Bank President Christine Lagarde prior to the next month's Federal Open Market Committee (FOMC) meeting scheduled for May 3-4.

During a panel discussion hosted by the International Monetary Fund, Chair Powell addressed many points that largely suggested unanimity among FOMC members to take more aggressive measures to curb inflation. Some members have outright stated as much in public forums. The collective comments of these Fed officials strongly imply that a 50-basis point (1 basis point = 0.01%) increase in the target range for the federal funds rate will be announced at the conclusion of the next FOMC meeting. This would be the first half-point increase since 2000. Chair Powell's comments were further interpreted to mean that additional half-point increases could continue into the summer meetings, leading to significant declines in major stock market indices last Friday. Markets have been very much reconsidering prior consensus around quarter-point rate increases over the seven remaining FOMC meetings in 2022. The last rate hike cycle (see below) was entirely comprised of 25-basis point increases. Decreases to the target range were varied, and far larger, given they occurred during periods of financial distress, most recently the global COVID pandemic.



In addition, the Fed is continuing its quantitative tightening campaign, having eliminated asset purchases in March of this year and contemplating reductions in the asset portfolio. The current size of the asset portfolio is nearly $9 trillion, more than double its size as recently as the beginning of 2020. The markets are keenly focused on how the Fed will strike a balance of fed funds rate hikes and quantitative tightening in relation to economic growth and financial market conditions.



Municipal Bond Yields

Fixed income investors are intently focused on the efforts the Fed is making toward combating inflation. As rates have materially increased from their absolute lows, redemptions from municipal bond funds have forced portfolio managers to sell holdings. The pace of outflows has been steady since the beginning of the year. Refinitiv Lipper reported $4.3 billion in outflows in the previous week. This dollar figure accounts for roughly 4% of total assets under management. It’s always helpful to put numbers into context. The outflows the market is currently experiencing are less than what occurred during the “taper tantrum” of 2013 and more measured than the scale and speed at which outflows occurred in 2020, following the onset of the COVID-19 pandemic, with $24 billion of outflows occurring over a **two-week period**.

Week-over-week changes in AAA, tax-exempt yields were fairly uniform across the maturity spectrum. Month-over-month, yield increases were more heavily felt on the short end of the interest rate curve. The 30-year “AAA” benchmark reached the 3.00% mark for the first time since March of 2019.

Trends in Municipal Bond Yields March 25, 2022 to April 22, 2022					
AAA Yields*	**Mar. 25, 2022**	**April 8, 2022**	**April 22, 2022**	**Change Since 3/25**	**Change Since 4/8**
5 Years	1.99%	2.19%	2.48%	0.49%	0.29%
10 Years	2.21%	2.40%	2.69%	0.48%	0.29%
20 Years	2.47%	2.64%	2.91%	0.44%	0.27%
30 Years	2.60%	2.76%	3.04%	0.44%	0.28%
Bond Buyer 20 Bond Index**	2.67%	2.73%	3.19%	0.52%	0.46%

Source:
** Bloomberg Valuation*
*** The Bond Buyer, average yield on a portfolio of municipal bonds maturing in 20 years, AA/Aa2 average rating*

Muni-U.S. Treasury ratios have been relatively stable and are presently around 80%, 91% and 103% at 5-, 10- and 30-years, respectively, according to Refinitiv MMD. Municipal bond yields have recently tracked rather tightly with U.S Treasury equivalents.

4 YEAR TREND IN MUNICIPAL BOND INDICES

The Bond Buyer "20 Bond Index" (BBI) shows average yields on a group of municipal bonds that mature in 20 years and have an average rating equivalent to Moody's Aa2 and S&P's AA.

Source: The Bond Buyer

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