CapitalMarketsAdvisors,LLC

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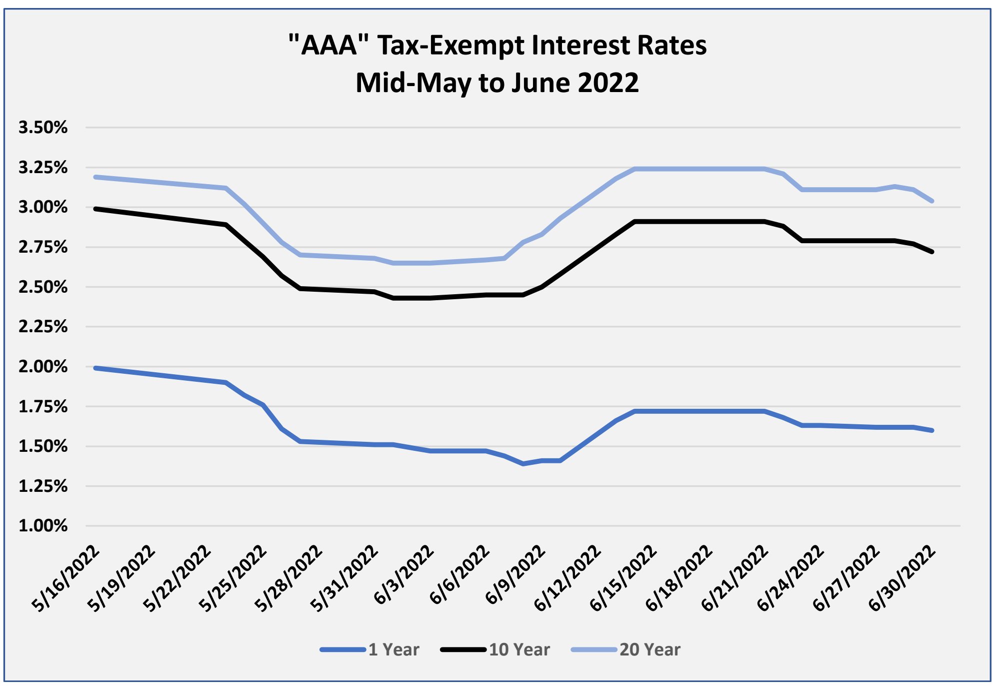
May's Rate Volatility Persists into June

Tax exempt interest rates regained their upward momentum in June, following the significant decline in the latter half of May. Rates remained stable at their lower levels during the month's first week, however, they climbed rapidly in the week leading up to the Federal Reserve's June 14th-15th meeting. In anticipation of the Fed's announcement, longer term maturities experienced drastic rate increases, with 10-year to 30-year rates rising approximately 55 bps, on average. Shorter term rates, in comparison, increased but to a lesser degree, with approximately 30 bps increases for 1-year and 5-year terms. These increases erased the decline from late-May, and rates again reached their mid-May highs. Interestingly, the rise in rates did not continue after the Fed's decision to increase the Federal Funds rate by 75 bps which was more than the expected 50 bps bump. The recent decline/leveling of rates may, to some extent, indicate that the market had already priced in the possibility of a 75 bps rate hike. Rates leveled off in the week following, and subsequently tailed off (by approximately 10-15 bps) to the end of June. Nevertheless, volatility is expected to continue as municipal bond fund outflows persist, credit spreads to MMD widen, and the outlook for rates continues to favor the upside.



According to the Fed's statement on June 15th, it expects "that ongoing increases in the target [federal funds rate] range will be appropriate." This comes after rate increases of 25 bps in March, 50 bps in May and, most recently, the historic 75 bps increase on June 15th. In comments made following the June hike, the Fed reinforced its "strong commitment" to controlling inflation and achieving a 2% inflation rate. The Fed is scheduled to meet again on July 26th-27th.

Recent CMA Client Sale Results

Issuer	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
Hempstead UFSD (A-)	RAN	$ 43,000,000	30-June	11 mos.	2.59%	Oppenheimer & Co.
Monroe County (AA-)	Bonds	$ 34,603,000	21-June	20 yrs.	3.35%	Citigroup Global Markets, Inc.
Bethlehem CSD (AA)	Bonds	$ 25,225,000	15-June	8 yrs.	2.56%	UBS Financial Services
Elmira CSD (A1)	BAN	$ 45,595,000	9-June	12 mos.	1.74%	J.P. Morgan Securities LLC
East Ramapo CSD (Baa3)	RAN	$ 32,000,000	7-June	11 mos.	2.12%	Oppenheimer & Co.
Amityville UFSD (Aa3)	Bonds	$ 50,230,000	2-June	20 yrs.	3.30%	BofA Securities

CMA's Roy McMaster Soars off into the Sunset!

After a career that spanned over 50 years working with school districts across New York State as both a school business official and financial advisor, Roy McMaster retired from CMA on June 30th. While he was long sought after for his encyclopedic knowledge of school aid practices, Roy's first love was soaring in his glider from an airstrip just a short walk from his home in Elmira. He set many state and national records and was inducted into the Soaring Hall of Fame in 2020. Please join us in wishing Roy a long and healthy retirement.

The Fed's Historic 75 Basis Point Interest Rate Increase… and the Expected Results

The Federal Reserve increased interest rates by three-quarters of a percentage point on Wednesday, June 15th. This historic 75-basis point (bps) increase in interest rates comes as the largest in 28 years (since 1994). In the past, the Fed has been able to increase interest rates ahead of price rises to keep pace with inflation. However, the Fed has now fallen behind the highest rate of growth in inflation since December 1981, an unsettling 8.6%. Thus, Fed Chair Jerome Powell issued the aggressive 75 bps increase instead of the expected 50 bps hike in June. It is expected the Fed will continue to increase rates by similar amounts in its July 26th to 27th meeting to reach the goal of a 2.25% - 2.5% federal funds rate range. According to the Fed, these movements aim to create a "softish" slow to the 2% long term inflation goal in the U.S. economy rather than a sudden halt that could cause a recession.

The expected results of the aggressive interest rate hike will be seen in a decrease in consumer borrowing, specifically in the housing market, as mortgage rates are expected to climb to 3.4% by the end of 2022 compared to the prediction of 1.9% in March. Many consumers may try to refinance into a fixed-rate loan from variable-rate or higher-cost debt. This will also greatly affect credit card borrowers because by the beginning of 2023, the variable rate can increase up to 17.9% from the current 16.68% rate. The Fed's higher rates are also expected to hurt the labor market as the unemployment rate is projected to be a 3.7% rate in 2022, 3.9% rate in 2023, and 4.1% rate in 2024. However, Fed Chair Powell justified the 4.1% unemployment rate by stating "we can't have the kind of labor market we want without price stability." Even after increasing interest rates earlier this year for the first time since 2018, it is expected that inflation will continue to remain above the 2% goal through 2024.

Blockchain: The Future of Capital Financing?

A new law in Colorado has moved that state one step closer to utilizing blockchain-backed "security tokens" as a means to raise funds for capital projects. Security tokens function as digital indicators of ownership in a formal financial security, here debt securities issued for capital purposes. Proponents of the law believe that the use of security tokens will increase smaller, individual investors' accessibility to, and demand for, state debt. Doing this would ultimately reduce costs of borrowing, they claim. It is essential to note, however, that unlike in New York, general obligation bonds are constitutionally prohibited in Colorado. Such a difference will likely make this blockchain application more viable in Colorado than it would be in New York. Nonetheless, statewide adoption of this practice in Colorado could serve as a strong proof of concept, which may be significant enough to influence other states and municipal entities to examine similar financing alternatives. This may be even more true for certain entities like New York City, which has had a heightened focus on blockchain integration in recent years. Colorado's treasurer will conclude analysis of the plan's financial viability by no later than March 2023, which will determine Colorado's next steps.

MMD General Obligation Interest Rates

	Today - June 30, 2022					1 Month Ago - June 1, 2022					1 Year Ago - July 1, 2021				
Term	**Aaa**	**Aa**	**Insured**	**A**	**Baa**	**Aaa**	**Aa**	**Insured**	**A**	**Baa**	**Aaa**	**Aa**	**Insured**	**A**	**Baa**
1 yr.	1.60%	1.73%	1.86%	1.87%	2.12%	1.51%	1.66%	1.77%	1.78%	1.98%	0.12%	0.14%	0.19%	0.20%	0.38%
5	2.22	2.40	2.52	2.57	2.87	2.05	2.25	2.35	2.40	2.65	0.50	0.55	0.60	0.66	0.92
10	2.72	2.99	3.12	3.19	3.61	2.43	2.70	2.83	2.90	3.27	0.98	1.11	1.16	1.23	1.61
15	2.91	3.22	3.32	3.43	3.82	2.56	2.87	2.97	3.08	3.42	1.16	1.31	1.34	1.46	1.79
20	3.04	3.39	3.50	3.60	3.99	2.65	3.00	3.11	3.21	3.55	1.31	1.46	1.50	1.61	1.94