

Tensions Remain High Ahead of this Week's Fed Meeting

The Fed is widely expected to once again raise interest rates by 25-50 basis points at its meeting this week, set for May 2-3. Many economists believe that the central bank may opt for its last rate hike this year, but that sentiment is far from universal. While most members of the Fed currently predict one more rate hike, recent polling suggests that there is far more uncertainty than previously noted. As reported by Reuters, 10 Fed officials recently projected there will be one more rate increase this cycle, three members project two more rate increases, three others predict three more rate increases and just one member expects four more. Additionally, just one Fed official believes the central bank is done raising rates. The Fed has raised rates by 475 bps since March 2022, and April municipal bond issuance dropped by 24%, year-over-year, as reported by The Bond Buyer. Local governments have had the benefit of being able to spend or hold onto Federal aid which, coupled with higher interest rates, has resulted in their reluctance to enter the market to issue debt in Q1 and the start of Q2 of this year.

It's currently unknown how much unspent funds state and local governments have remaining from the federal aid doled out over the past two years in response to the COVID-19 pandemic, but some Federal lawmakers are talking about taking back unspent aid. Noting the low supply of new municipal debt offerings in the market, an analyst from Janney Montgomery commented "If Congress were to claw back on unspent funds from COVID-19 aid, that could be a factor to help with the muni market, because the more funding that they have to spend until 2024, the more difficult the market is going to be in terms of volume."

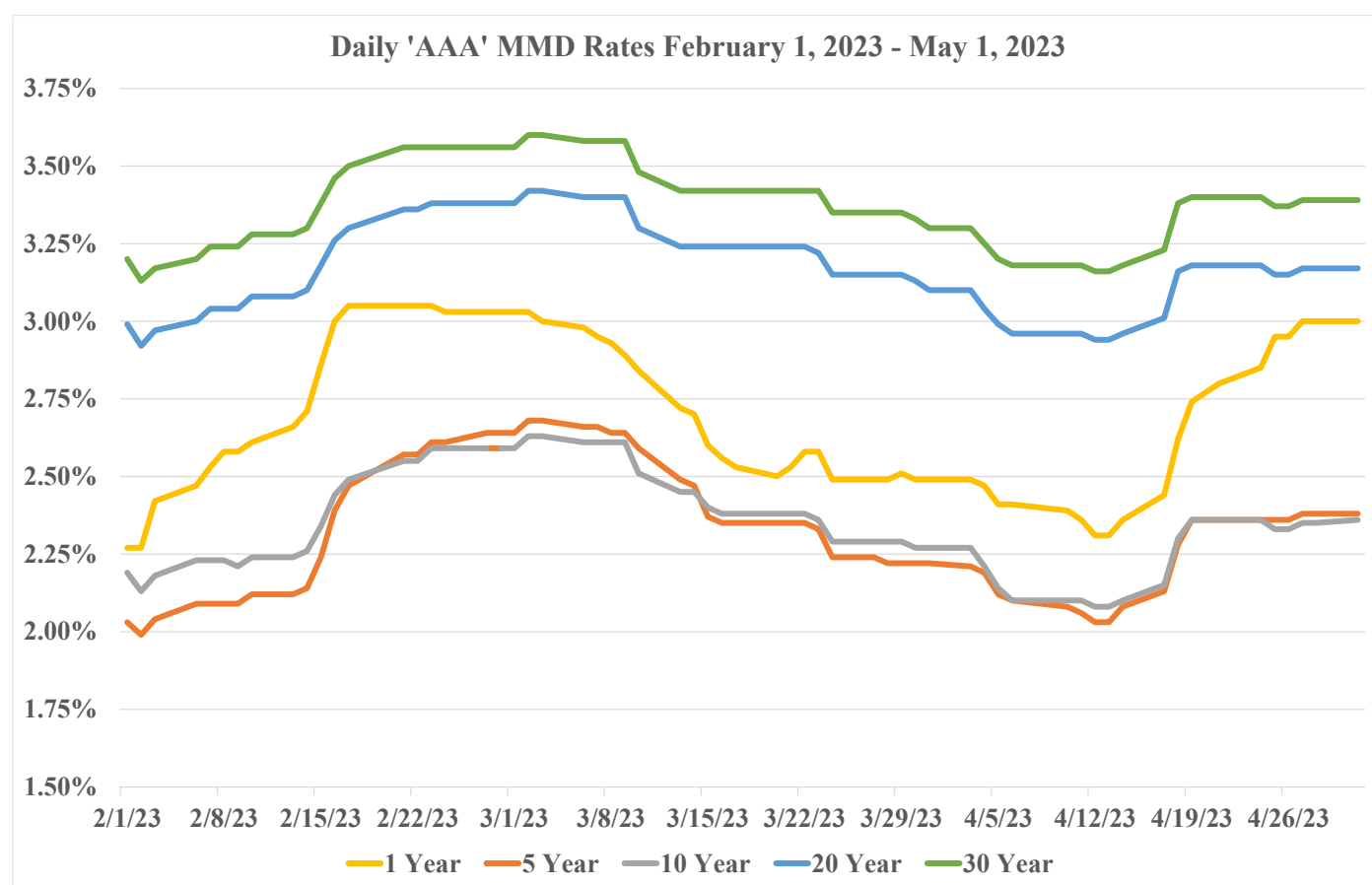
A senior global market strategist at Wells Fargo Investment Institute forecasts additional 25 basis point increases at both the May and June FOMC meetings. While combating inflation is the Fed's primary goal, the analyst said the Fed, "will not ease rates until the goal will be achieved." He also stated that he did not believe that the Fed would cut rates in 2023. Initial optimistic forecasts of declining rates in early 2023 appear to have abated, however, not every economist is espousing doom and gloom. A fixed income strategist focused on munis at Charles Schwab posits that, "there's something notable with the markets expecting about two to three rate cuts by the end of the year, which differs from the Fed's mantra that they're 'hike, hold and recalibrate.'" All eyes will be on Fed Chair Jerome Powell this week to try to catch a glimpse of where the markets may be heading as spring moves to summer.

RECENT CMA CLIENT SALE RESULTS

<u>Issuer</u>	<u>Issue Type</u>	<u>Par Amount</u>	<u>Sale Date</u>	<u>Term</u>	<u>Rate</u>	<u>Purchaser</u>
Haverstraw Town (Aa2)	BAN	\$4,210,000	26 – Apr.	1 Yr.	3.72%	BNY Mellon
Hingham Town (Aaa)	BAN	\$24,084,468	25 – Apr.	9 mos.	3.22%	Fidelity Capital Markets
Islip Town (Aaa)	Bonds	\$26,000,000	25 – Apr.	15 Yrs.	2.79%	Mesirow Financial
North Shore (Aa1)	BAN	\$21,654,296	13 – Apr.	1 Yr.	2.74%	Jefferies LLC
Buffalo City (A1)	Bonds	\$23,250,000	13 – Apr.	13 Yrs.	2.28%	Janney Montgomery
Orchard park CSD (Aa2)	Bonds	\$15,660,000	13 – Apr.	17 Yrs.	2.82%	FHN Financial
Watervliet City SD (A)	BAN	\$9,000,000	12 – Apr.	1 Yr.	3.17%	Oppenheimer & Co.
Lockport City SD (Aa3)	Bonds	\$9,180,000	12 – Apr.	16 Yrs.	2.89%	FHN Financial
Great Neck Plaza Vlg. (Aa3)	BAN (Tx.)	\$268,334	5 – Apr.	1 Yr.	4.75	Bank of Greene County

Takeover of First Republic By JP Morgan Chase Settles Market Jitters

In the second-largest bank failure in U.S. history, First Republic Bank closed its doors on May 1st, just weeks after the collapse of Silicon Valley Bank and Silvergate Bank in California and Signature Bank in New York. JPMorgan Chase purchased the assets of First Republic in a fire sale relieving the concerns of many municipal market participants worried that the bank's \$19.4 billion municipal portfolio would flood a market that's already trying to absorb Silicon Valley Bank's \$7 billion muni portfolio. The FDIC brought BlackRock Financial in to liquidate SVB's portfolio last month. This latest bank collapse and the accompanying liquidation of its low coupon municipal bond holdings at discounted prices may have an adverse effect on banks' appetite for municipal bonds going forward which could result in upward pressure on tax exempt interest rates.



Term	May 1, 2023					1 Month Ago - Apr 3, 2023					1 Year Ago - May 2, 2022				
	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	3.00%	3.03%	3.15%	3.14%	3.49%	2.49%	2.52%	2.64%	2.63%	2.98%	1.97%	2.10%	2.21%	2.22%	2.42%
5	2.38	2.46	2.57	2.60	2.97	2.21	2.29	2.40	2.43	2.80	2.49	2.67	2.77	2.82	3.07
10	2.36	2.52	2.67	2.72	3.20	2.27	2.43	2.58	2.63	3.17	2.76	3.01	3.14	3.21	3.58
15	2.95	3.25	3.35	3.46	3.90	2.86	3.16	3.26	3.37	3.81	2.88	3.17	3.27	3.38	3.72
20	3.17	3.62	3.62	3.72	4.16	3.10	3.44	3.55	3.65	4.09	2.96	3.29	3.40	3.50	3.84