January 2025 Muni MOment: Elevated Uncertainty As We Ring In A New Year

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Fixed income markets ended the year on a weaker note. Yields rose in December by 20-40 bps. This is understandable; uncertainty remains elevated as the calendar turns to a new year.

The first "layer" of that uncertainty stems from the cyclical nature of inflation and questions around whether the Fed's hiking campaign – which has now pivoted to a patient holding/easing regimen – has exerted sufficient economic restraint to return inflation to the Fed's 2% target. With CPI still reading 3.3% (unchanged since mid-year) and PCE at 2.8% (up from 2.6% at mid-year), the argument could be made that there is still some work to be done on the inflation front. Yet the Fed seems confident that rates remain sufficiently restrictive and will pull inflation down over the next several quarters.

The second layer of uncertainty revolves around the policies of the incoming administration – and whether those will be inflationary (tariffs), neutral, or deflationary (increased productivity and less regulatory burden).

The final layer of uncertainty is specific to the municipal market.

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