2025 UPSBO Conference

Navigating a Turbulent Bond Market

STIFEL

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The Macro Outlook

The consumer has been faring quite well given ongoing gains in the labor market, but more recently, the pace of consumer spending has moderated and job creation has stalled

Inflation has shown improvement from earlier peak levels – which is to say prices continue to rise, but at a slower pace – but more recently, the pace of improvement has slowed with some metrics showing upward momentum

For the Fed, already walking a delicate line between stable prices and full employment, lingering fiscal policy uncertainty has muddied the outlook

The Consumer

Inflation

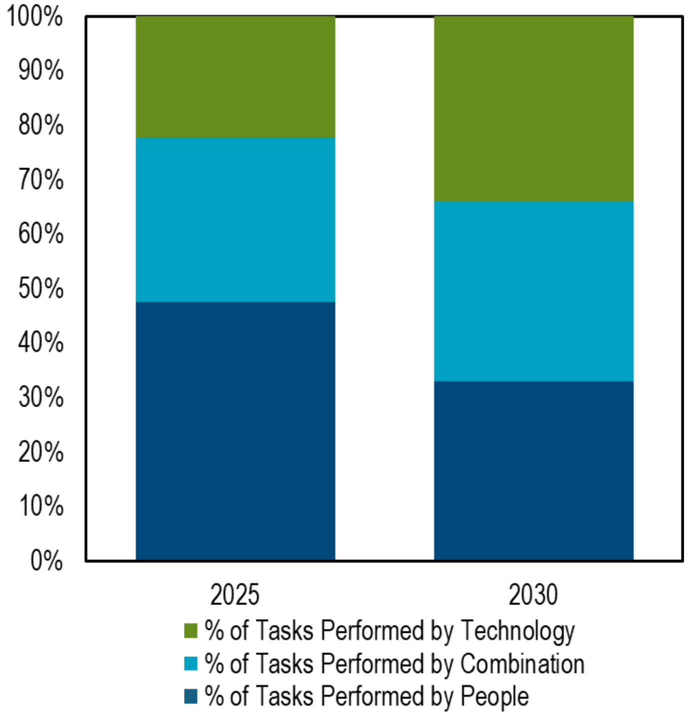
Policy Decisions

Impact of Artificial Intelligence (AI) on Labor Market

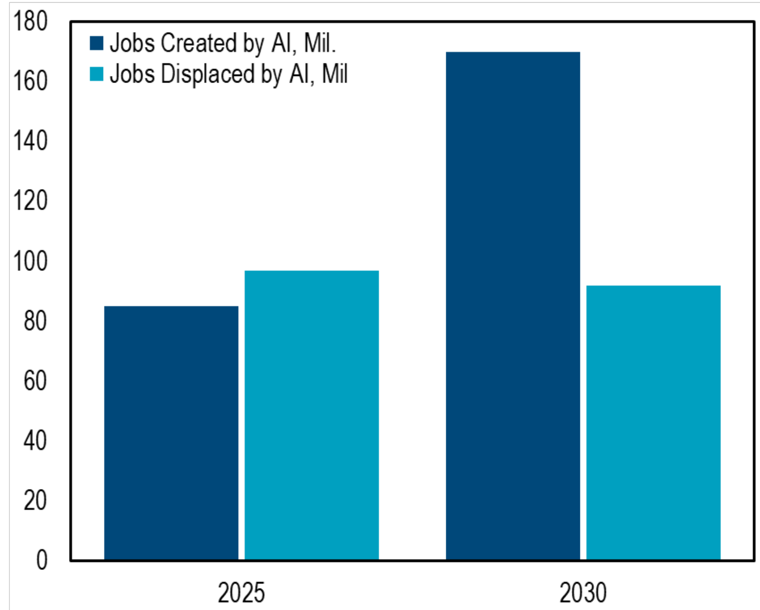
To offset rising costs, some corporations have already announced hiring freezes, cut down on investment or turned to AI for cost reductions (efficiency and productivity increases)

50% of businesses in the U.S. say they have already adjusted their staff based on the adoption of AI with **80%** reporting plans to over the coming 12-18 months

AI could also result in ample job destruction and/or displacements, potentially resulting in a net loss of **9M** jobs this year alone with potentially **34%** of the current tasks in the labor market becoming automated by 2030



Source: World Economic Forum



Source: World Economic Forum

Household Affordability Near Record Low as Mortgage Rates Remain Elevated

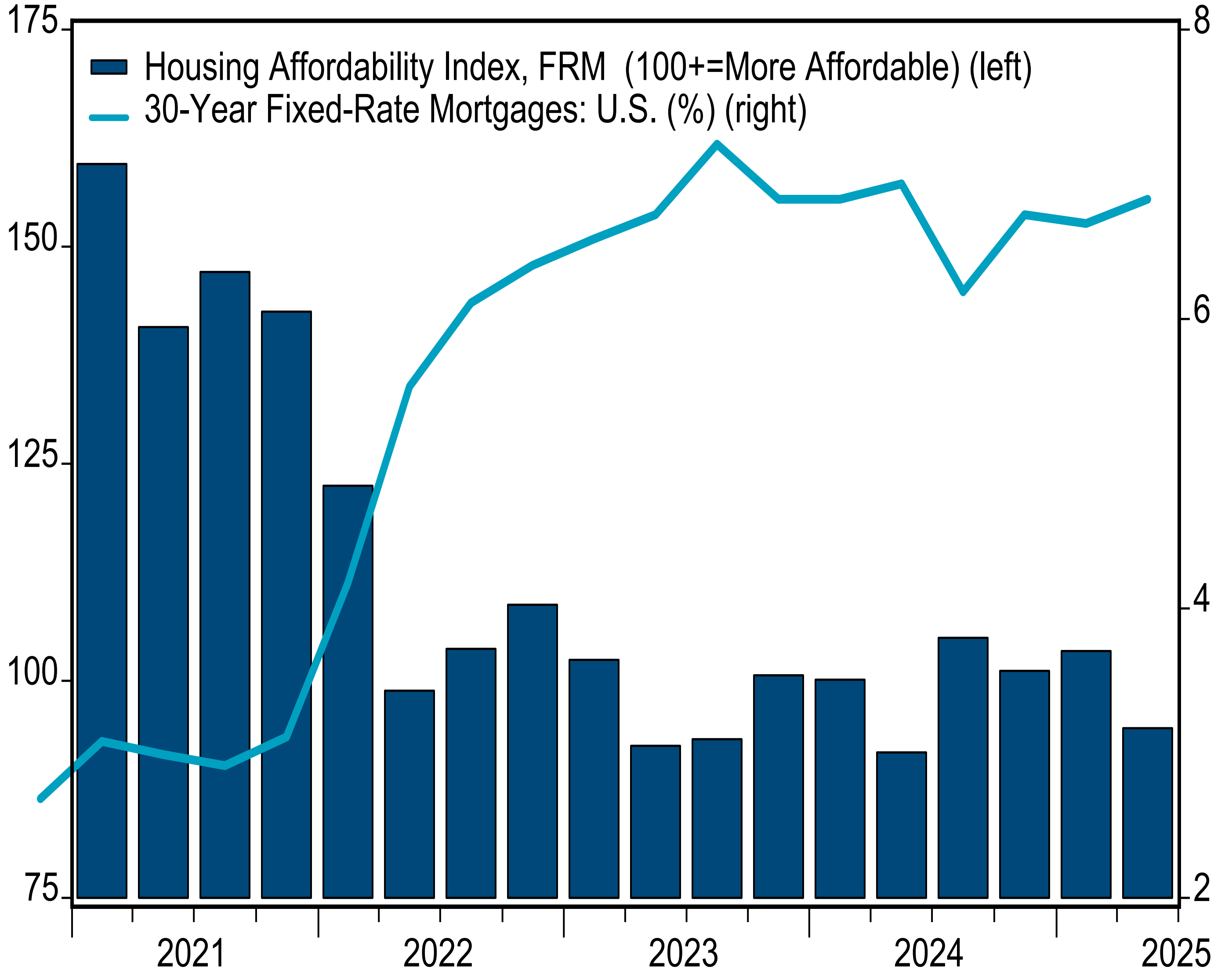
Higher rates undermine affordability (entrance) and create a lock-in effect (exit)

According to RedFin, more than 83% of homeowners have a mortgage rate below 6%, while 73% of homeowners have a rate below 5% and 55% have rate below 4%, resulting in a lock-in-effect

This lock-in effect is precluding would-be-sellers from offloading or replacing current property ownership at the risk of resetting one's mortgage from 3% to just shy of 7%

The 30-year mortgage rate rose from **4.50%** to a high of **7.90%** as the Fed initiated rate ***hikes*** in 2022

Amid the first round ***cut*** rates fell to **6.13%** in the week ending September 20, down 177bps from the earlier peak, although more recently, the 30-year mortgage rate has moved up to **6.46%**



Sources: NAR, FHLMC/Haver

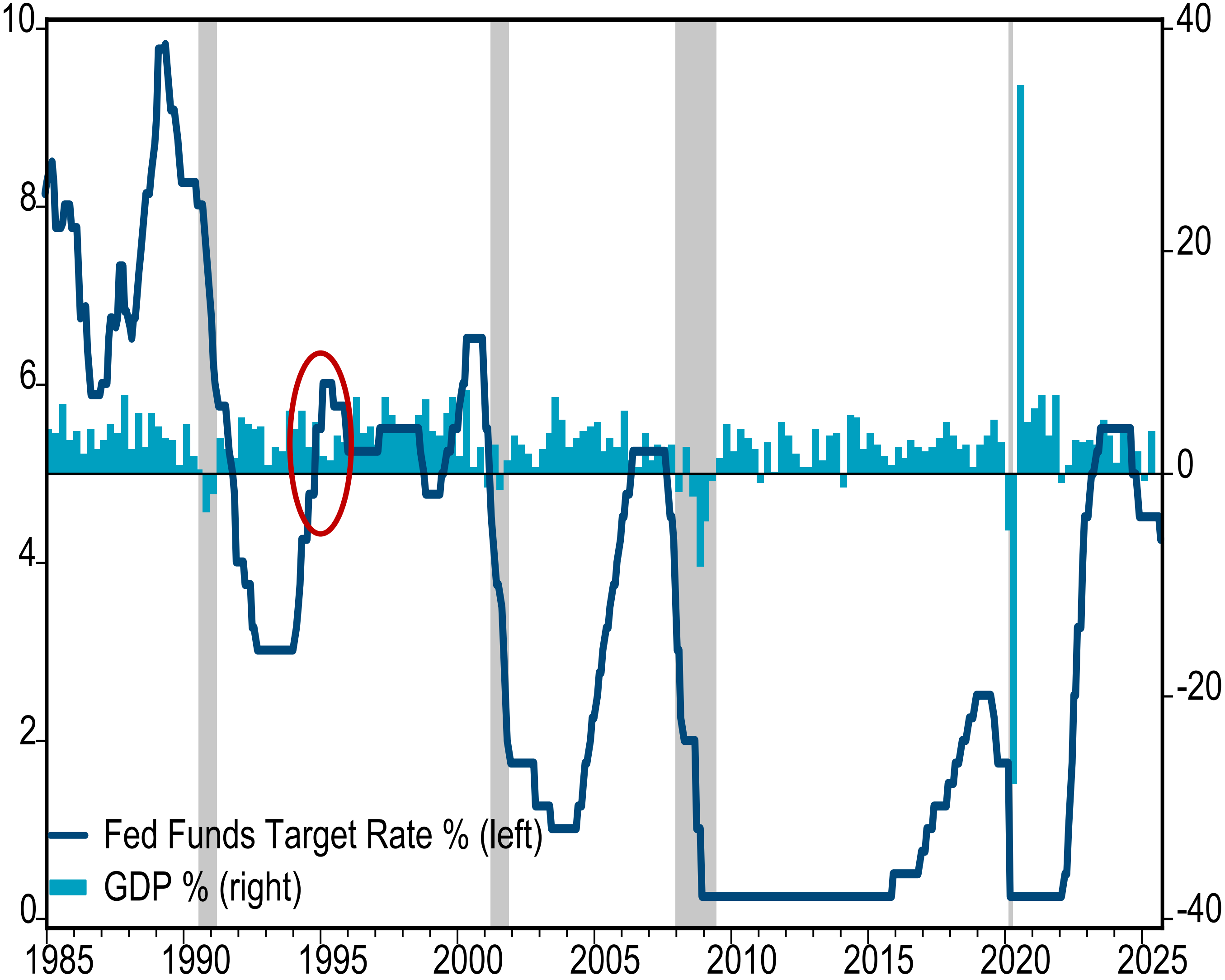
Soft Landing Only Achieved by the Fed Once in Last 60 Years

Over the last 60 years, the Fed has managed to achieve a soft landing only once in 1994-1995 under then Fed Chairman Alan Greenspan

Conditions more challenging this time; don't get partial credit for soft landing

The bigger concern and likelihood is not an outright downturn or outright recession, but a period stagflation as the economy slows to virtually a non-accelerating pace on average

	1995 Soft Landing	Current Cycle
Peak Unemployment Rate	7.8% (Jun '92)	14.8% (Apr '20)
Peak Core PCE YoY	4.4% (Sep '90)	5.6% (Sep '22)
Money Supply Growth	$3.2T to 3.6T*	$15.2T to $22.1T**
Money Supply Growth, %	12.5%*	45.5%**
Source: Bloomberg	*1990-1995	**2020-Current Date



Sources: FRB, BEA/Haver

U.S. Debt Continues to Increase, Risking Pressure on Inflation, Longer-Term Rates

The government balance sheet has grown to nearly **$37T** as of late and includes both debt held by the public as well as debt held by federal trust funds and other government accounts

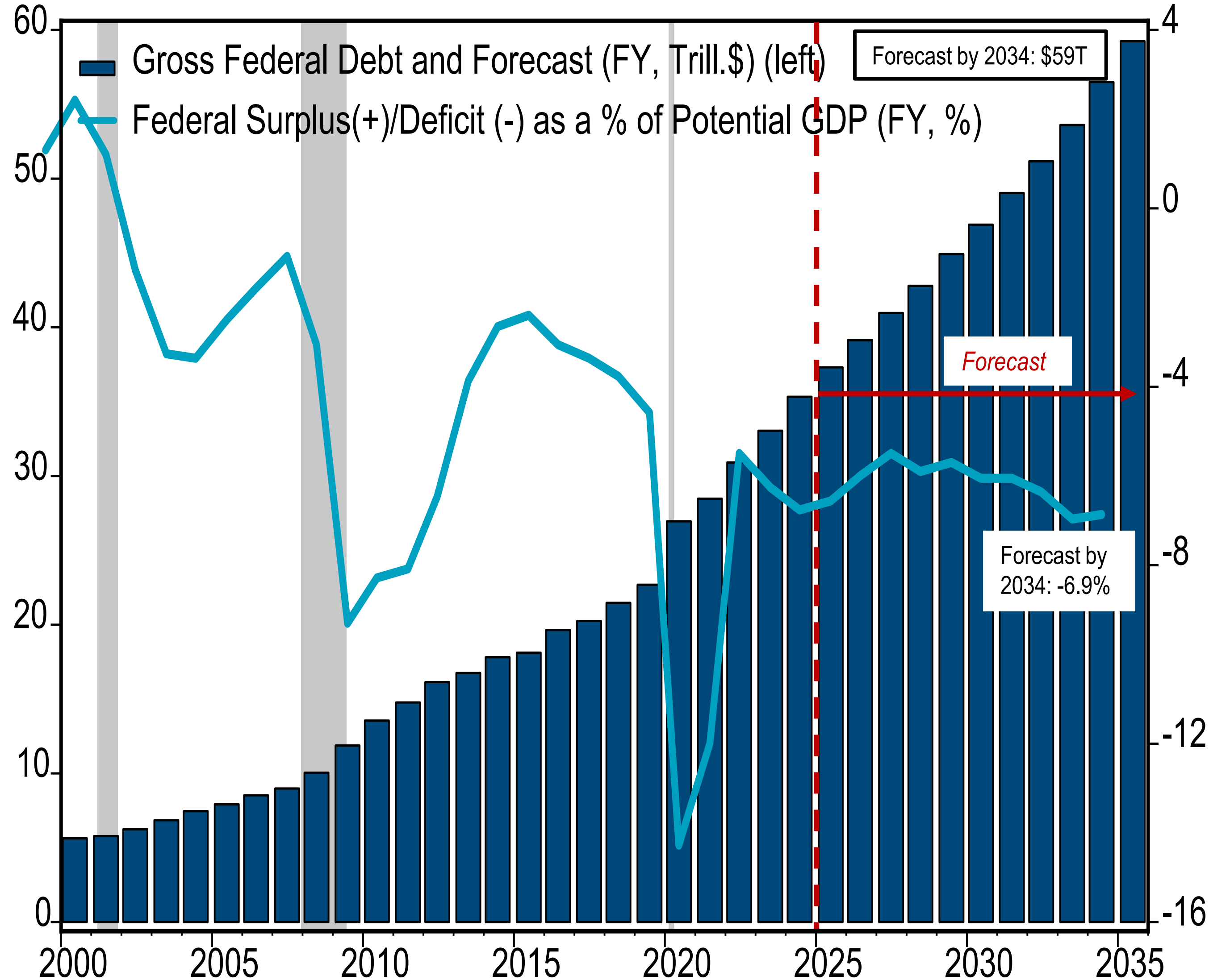
In FY 2024, the federal deficit was **$1.8T**, and 6.4% of GDP

Through the first ten months of FY 2025, the deficit totaled **$1.63T**, a $64B, or a 5%, increase from this time last year

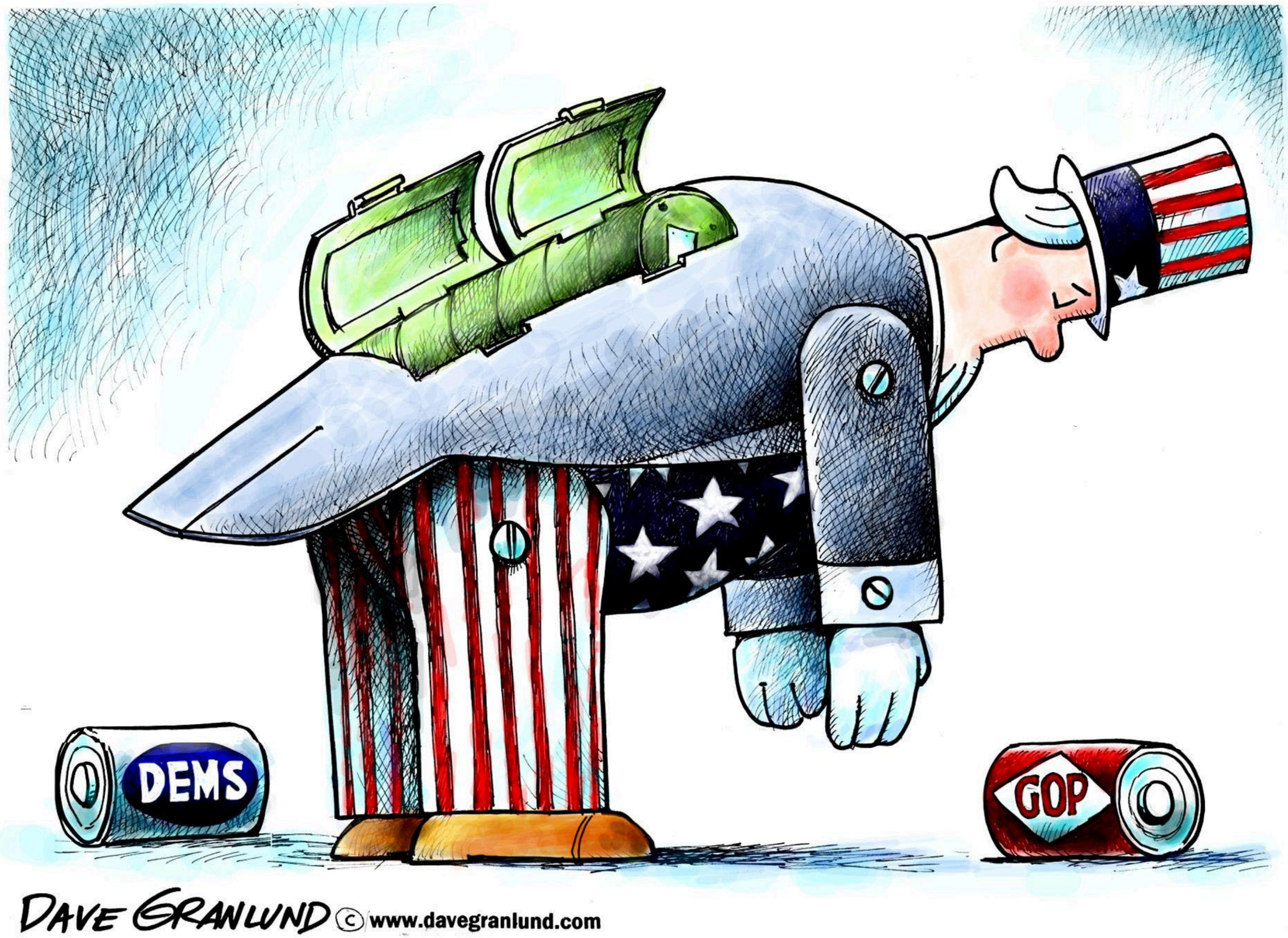
The deficit is expected to remain elevated at 6.9% of GDP, **more than two times the historical norm**

Rising federal deficits matter and will continue to reshape expectations for higher longer-term rates, complicate the Fed's pathway, and risk further inflation

Wake up call in Q4 2023 short-lived amid prospects of easing



Source: Congressional Budget Office/Haver Analytics


DEMS
GOP
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Focus Turns to Appropriations and Government Shutdown

The big fiscal gambit, however, is passing the appropriation bills with the September 30th deadline passed and the U.S. government now in the midst of a shutdown

From an economic standpoint, the shutdown is already impacting data releases including construction spending, jobless claims and the Nonfarm Payrolls report

Additionally, a shutdown – especially if prolonged – can have negative effects on the economy, eroding confidence and realized activity levels potentially reducing GDP, as well as impacting federal workers, small business loans, and National Parks

In 2018, a 35-day shutdown caused an estimated loss of 0.3% in Q4 '18/Q1 '19

Funding Ended		President	House Majority	Senate Majority	Length of Shutdown, Days
Sept. 30, 1976	R	Gerald Ford	D	D	10
Sept. 30, 1977	D	Jimmy Carter	D	D	12
Oct. 31, 1977	D	Jimmy Carter	D	D	8
Nov. 30, 1977	D	Jimmy Carter	D	D	8
Sept. 30, 1978	D	Jimmy Carter	D	D	17
Sept. 30, 1979	D	Jimmy Carter	D	D	11
Nov. 20, 1981	R	Ronald Reagan	D	R	2
Sept. 30, 1982	R	Ronald Reagan	D	R	1
Dec. 17, 1982	R	Ronald Reagan	D	R	3
Nov. 10, 1983	R	Ronald Reagan	D	R	3
Sept. 30, 1984	R	Ronald Reagan	D	R	2
Oct. 3, 1984	R	Ronald Reagan	D	R	1
Oct. 16, 1986	R	Ronald Reagan	D	R	1
Dec. 18, 1987	R	Ronald Reagan	D	D	1
Oct. 5, 1990	R	George H.W. Bush	D	D	3
Nov. 13, 1995	D	Bill Clinton	R	R	5
Dec. 15, 1995	D	Bill Clinton	R	R	21
Sept. 30, 2013	D	Barack Obama	R	D	16
Jan. 19, 2018	R	Donald Trump	R	R	3
Dec. 22, 2018	R	Donald Trump	R	R	35
Oct. 1, 2025	R	Donald Trump	R	R	Ongoing

Source: House of Representatives/Senate/NBC

Consumers Still Reeling from Years of Higher Prices

How will these policies impact the economy? It depends

Clarity, details, directional momentum, and specifics of implementation and legality are needed

Tariffs have been particularly painful for consumers after years of price hikes on everything from medical care to groceries to housing and insurance costs

Tariffs themselves are not inflationary lacking the perpetual upward momentum; however, retaliatory trade action can result in price pressures

If businesses passed on the entirety of tariffs, prices could continue to rise

Pass-through has been limited as businesses have worked to shield consumers

CPI Category Increase Since 2020

Clothing: **+7.7%**

Medical Care: **+14.1%**

Recreation Services: **+23.0%**

Transportation: **+27.4%**

Groceries: **+29.1%**

Housing: **+29.4%**

Household Energy: **+40.5%**

Roasted Coffee: **+46.8%**

Car Insurance: **+56.9%**

Far from Ideal Market Conditions with the Fed's Price Stability Mission Not Yet Complete

- Bloated and growing government balance sheet
- Rising equity market valuations; Increased volatility
- An uncertain but still "*spendy*" consumer
- International and geopolitics risks
- An aggressive fiscal policy agenda under the leadership in Washington

Fed Projects Two Additional Cuts This Year, Sees One Cut Next Year

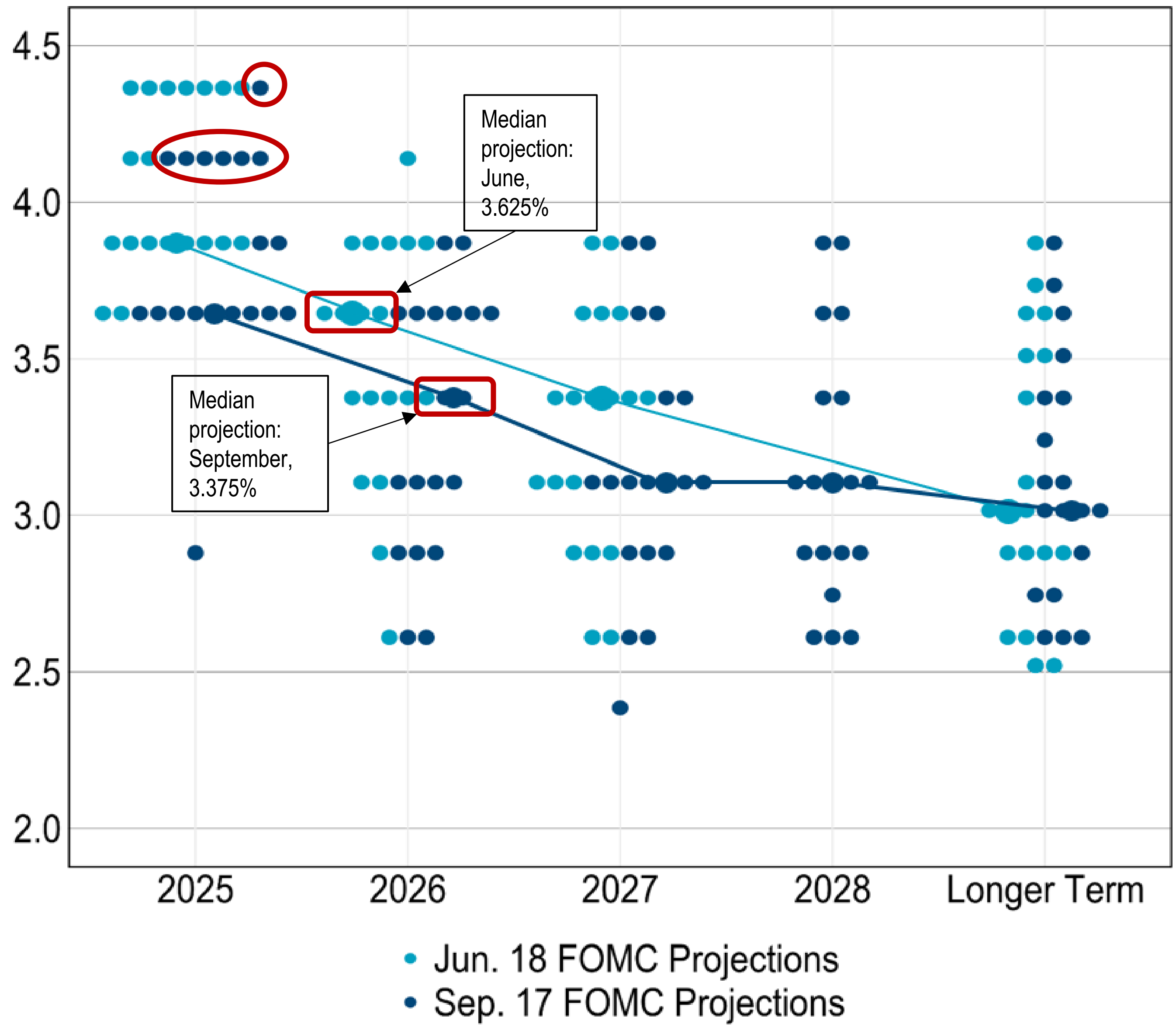
This *relative* improvement in inflation – coupled with labor market cooling – has boosted optimism for near-term policy relief

The majority of Fed officials now anticipate **two** additional rate cuts in October and December this year and **one** next year

With opposing forces on either side, there were still many officials who remain more hawkish than the median forecast suggests; in March, **four** officials anticipated no further cuts in 2025 vs. **seven** in June and again in September

This highlights the growing divide between Fed officials concerned about potential weakness in the labor market and still-elevated inflation

Recall, despite the lack of inflationary improvement, the Fed opted to move forward with a third-round rate cut in December '24, striking a more "*cautious*" tone in January



Source: Bloomberg

Fed's Ability to Provide Further Accommodation Will Depend on the Incoming Data with Upside Risks to Both Inflation and Unemployment

The Fed remains optimistic but *cautious* on the economy:

*"Recent indicators suggest that **growth of economic activity moderated in the first half of the year.**"*

*"**Job gains have slowed**, and **the unemployment rate has edged up** but **remains low.**"*

*"**Inflation has moved up** and **remains somewhat elevated.**"*

*"**Uncertainty about the economic outlook remains elevated.**"*

*"**The Committee is attentive to the risks to both sides of its dual mandate** and judges that **downside risks to employment have risen.**"*

\- September 17 FOMC Statement

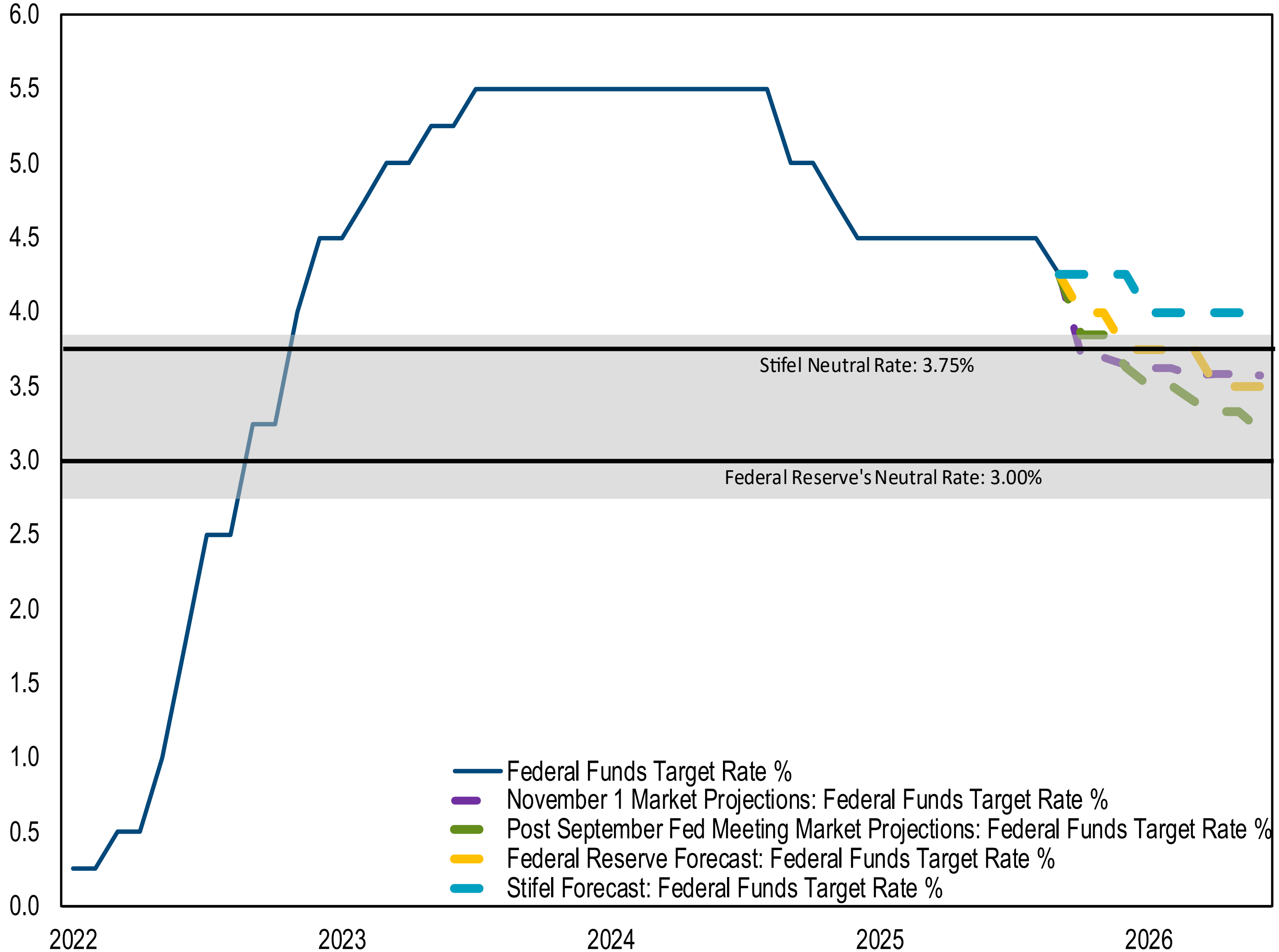
Potential for Near-Term Cut Propelled by Cooling Labor Market, Limited by Elevated Inflation

The notably weaker assessment of the economy suggests the Committee is potentially paving the way for at least *some more* easing in policy, but inflation will limit downside

A minimal number of rate cuts – two – in response to earlier weakness and waning momentum in the labor market but limited by inflation

Time is of the essence; price pressures could heat up into the holiday season and as businesses more aggressively pass on cost increases previously absorbed into the bottom line

Any decision to move beyond a minimal reduction towards neutral will depend on the impact of tariffs and the broader pathway of inflation



Source: Bureau of Economic Analysis/Federal Reserve/Stifel

The Outlook for K-12 Borrowers

For the Fed, already walking a delicate line between stable prices and full employment, lingering fiscal policy uncertainty has muddied the outlook. This has impacted borrowing and investment rates.

New Issue Municipal Supply has not outpaced demand in 2025. Bond issues in Michigan have been well received by investors and subscription levels have been stable

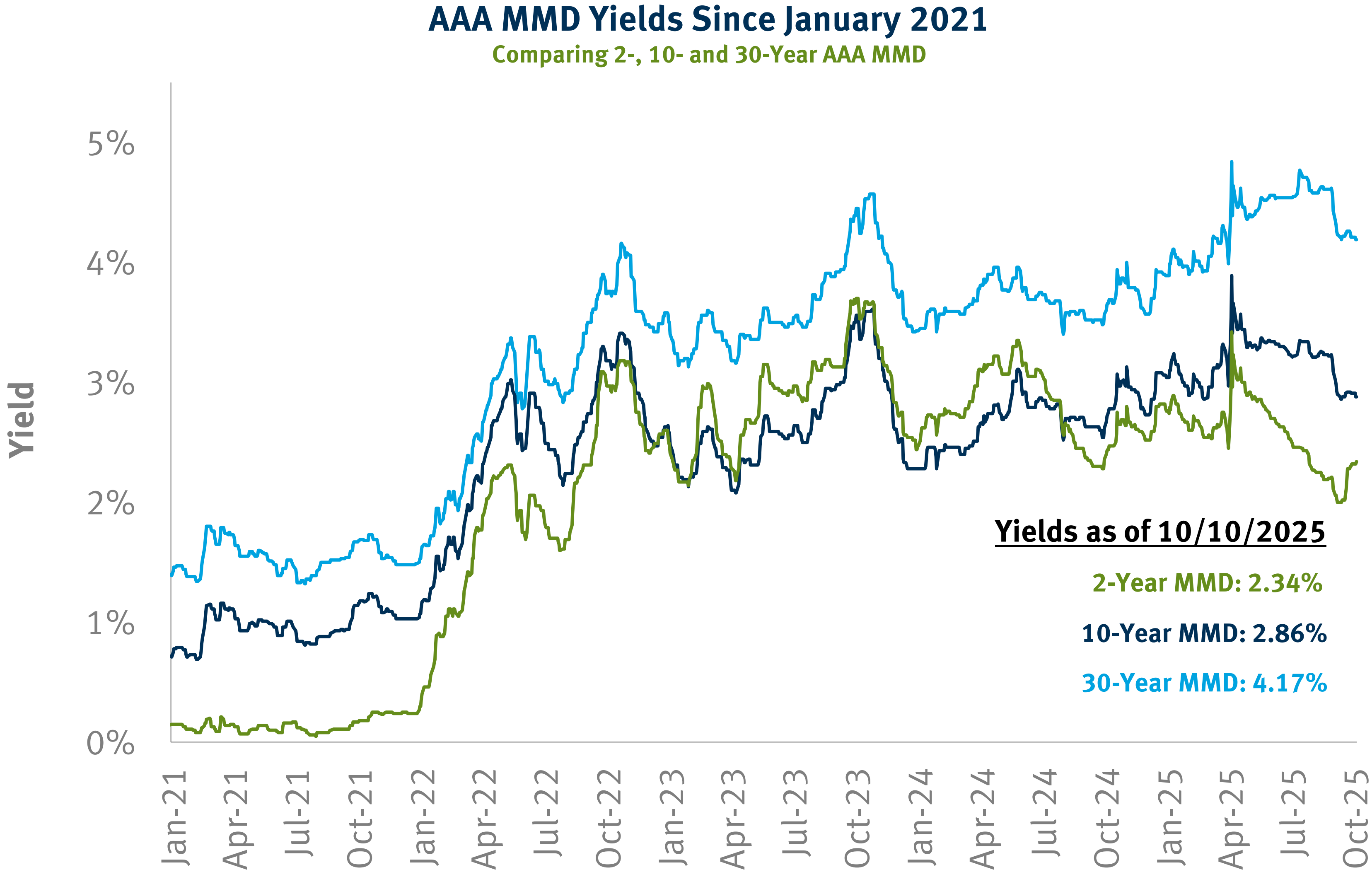
Rating Agencies and Investors remain concerned about the impact of federal and state politics on K-12 Borrowers. Funding levels, enrollment trends and spending are just a few areas of concern

Rate Pressures

Supply

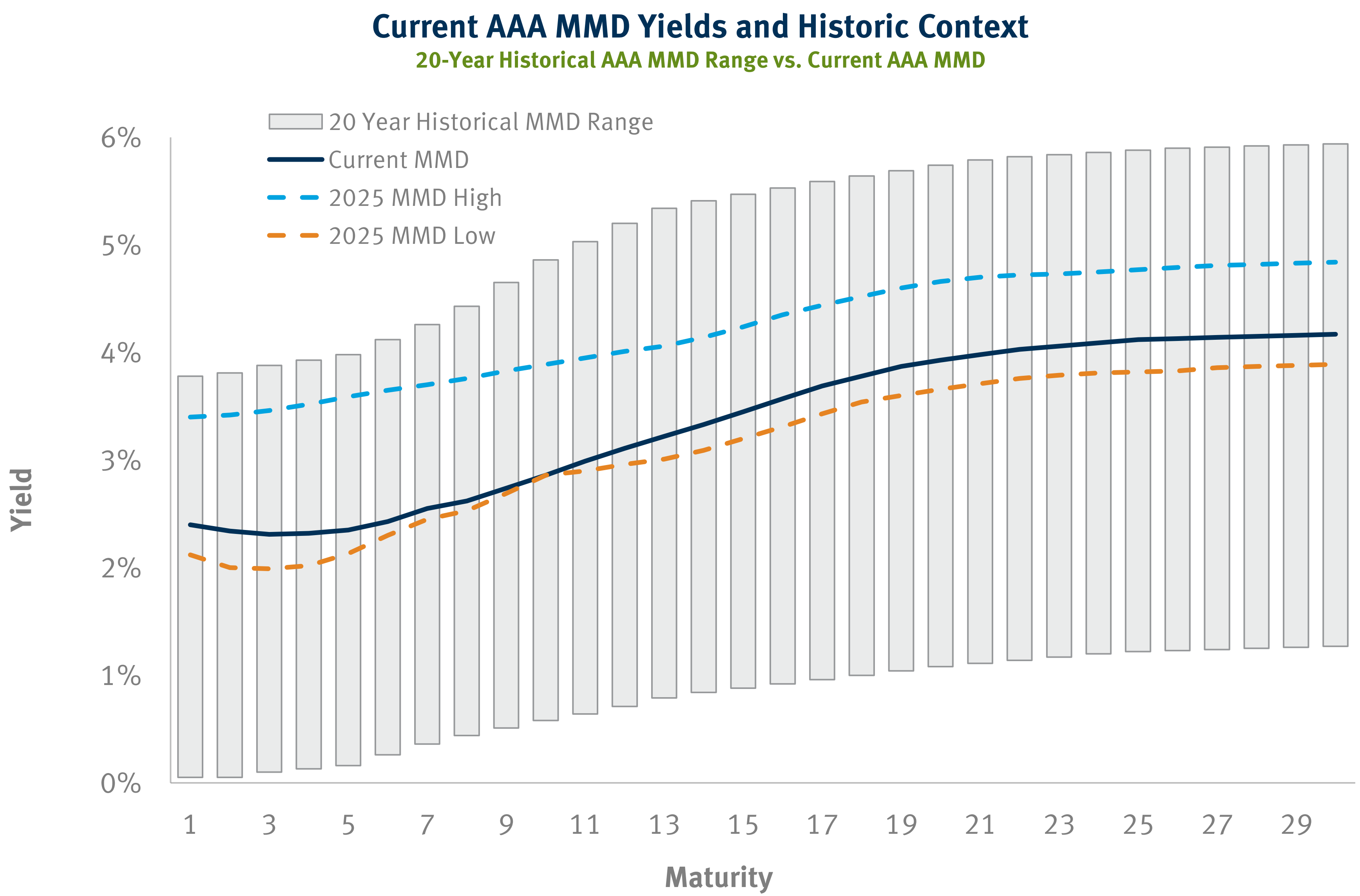
Credit Concerns

Tax-Exempt Interest Rate Movement



Sources: TM3, US Treasury. As of October 10, 2025.

Tax-Exempt Interest Rate Movement

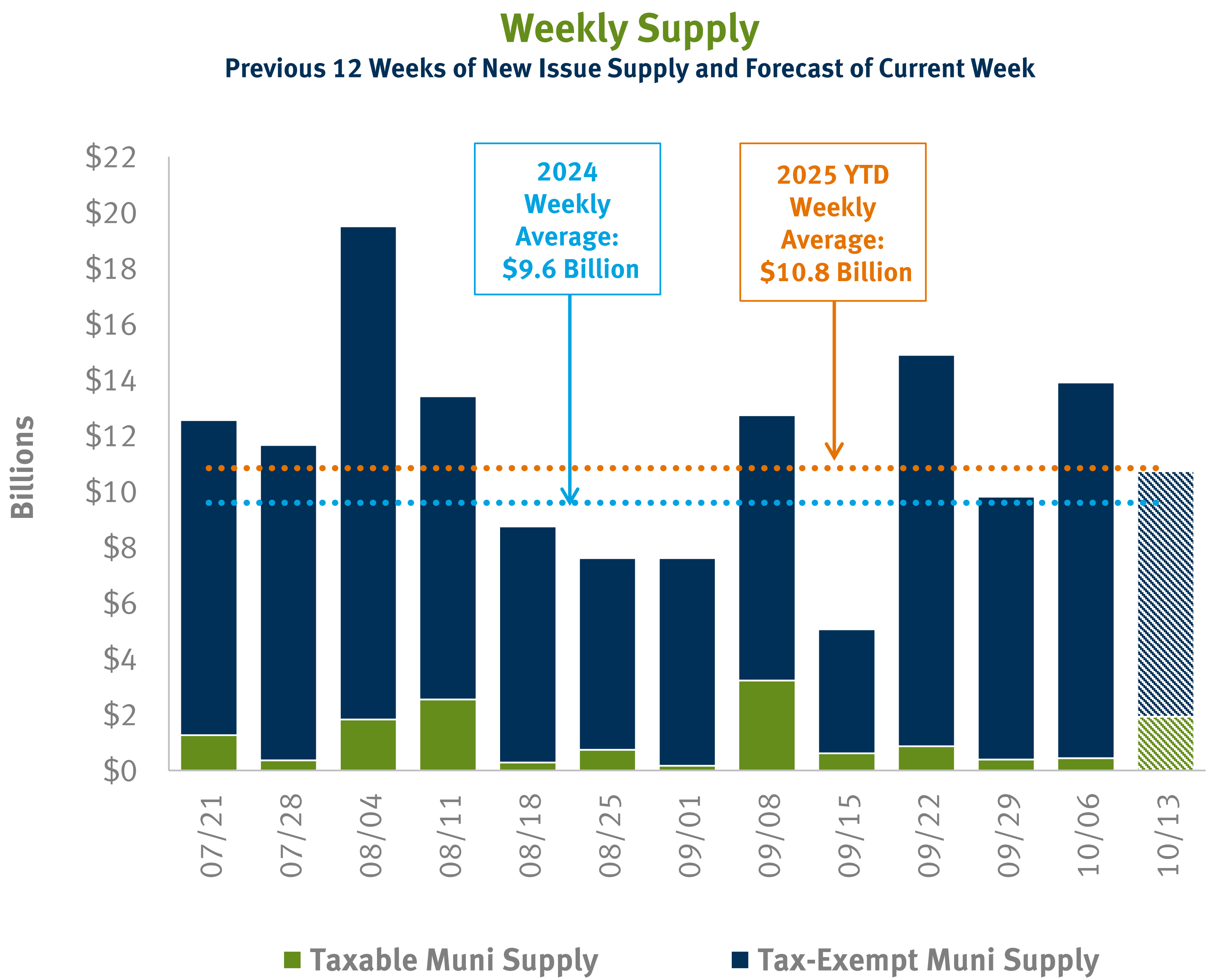


Sources: TM3, US Treasury. As of October 10, 2025.

New Municipal Bond Issue Supply

Municipal Issuance Volume

- 2025 weekly volume is expected to maintain 2024 levels
- Total municipal issuance reached a historical record of $507.6 billion in 2024.
- Last week, municipal supply reached $13.9 billion, of which $439.2 million was taxable.
- This week, municipal supply is expected to be $10.7 billion, of which $1.9 billion is expected to be taxable.



Sources: Lipper, TM3, SIFMA, IHS Markit, Bloomberg, Bond Buyer. As of October 10, 2025.

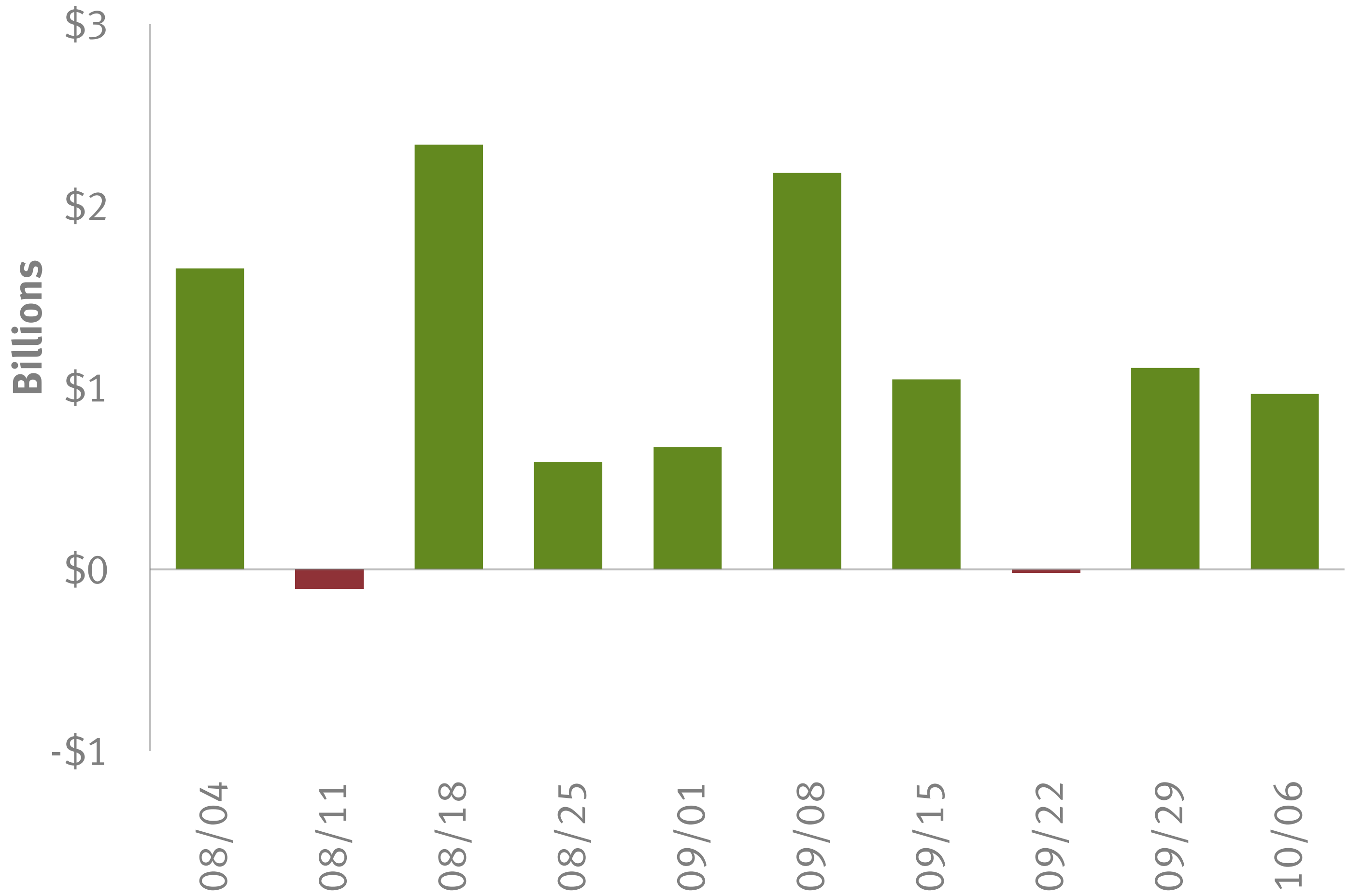
New Municipal Bond Issue Demand

Municipal Bond Funds Record Net Inflows

- Net fund inflows reached $966.0 million during the week of October 6, following inflows of $1.1 billion the week prior.
- The four-week moving average of flows decreased to $768.0 million of net inflows vs $1.1 billion of inflows the prior week.
- 2024 average weekly net inflows were $402.5 million, compared to 2023 average weekly net outflows of $301.6 million.
- 2024 inflows totaled $21.3 billion vs outflows of $15.6 billion in 2023 and $80.4 billion in 2022.

Municipal Bond Funds Record Net Inflows

Recent Weekly Municipal Bond Fund Flows



Sources: Lipper, TM3, SIFMA, IHS Markit, Bloomberg, Bond Buyer. As of October 10, 2025.

Questions?

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