Economic Update & Outlook

PNC Public Finance

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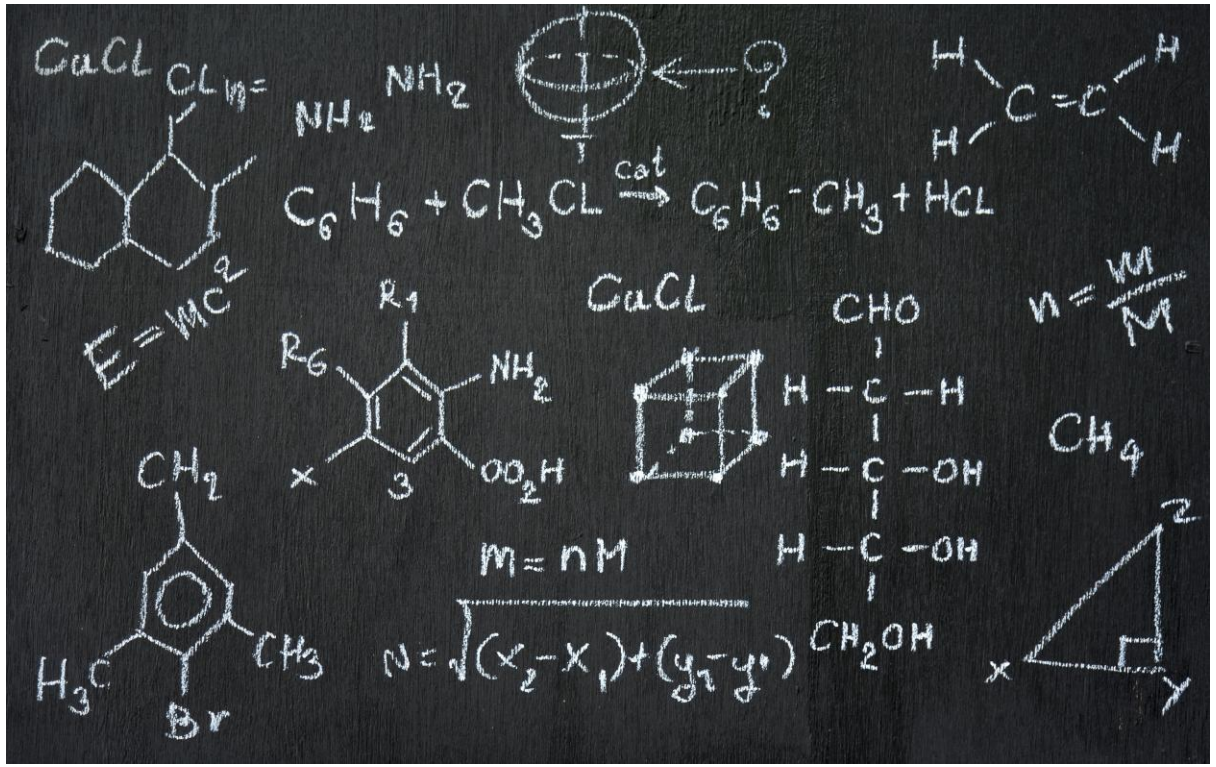
PNC BANK

Alabama Market



News and Trends to Watch

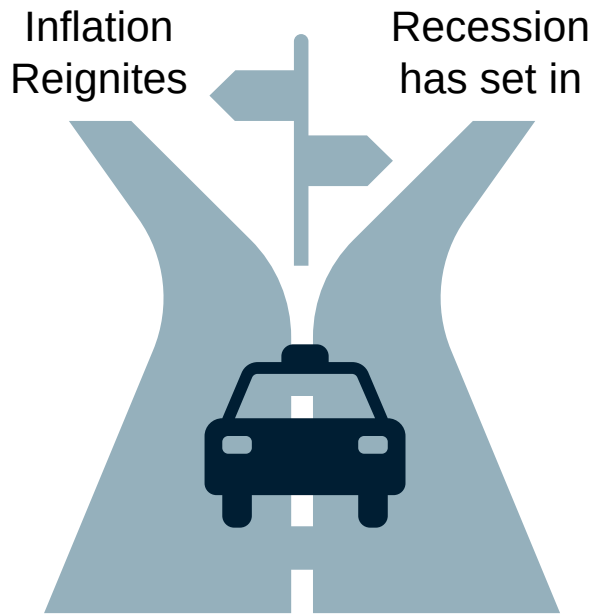
- New School Funding Model
- Literacy Act in Action
- Enrollment Growth
- Demographic Shifts
- School Choice
- Cell Phone Ban

Macro Forces in the Driver's Seat

Monetary Policy:
On Cruise Control

- Rate Cuts Have Begun
- Fed & Investors Aligned
- Lagging Effect of Policy Change

Potential Disruptions



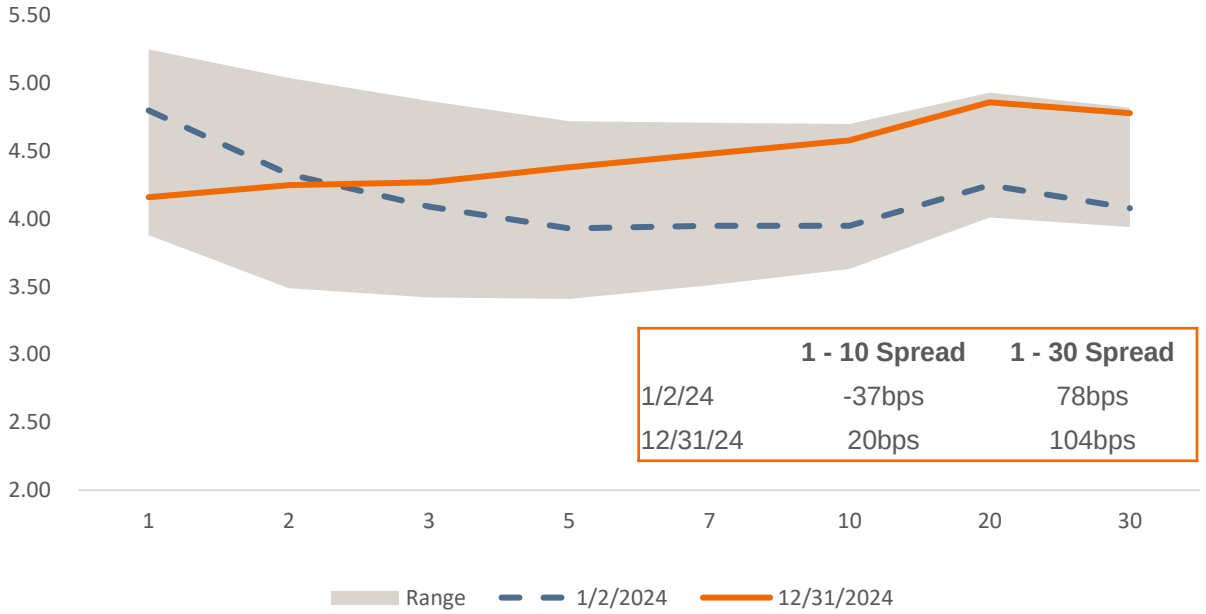
U.S Business Cycle:
Hit the Gas

- Consumers in the Driver's Seat
- Strong Manufacturing Support Required
- Global PMI Data in Contraction
- Loosening Monetary Policy in 2025

2024 Interest Rates Recap

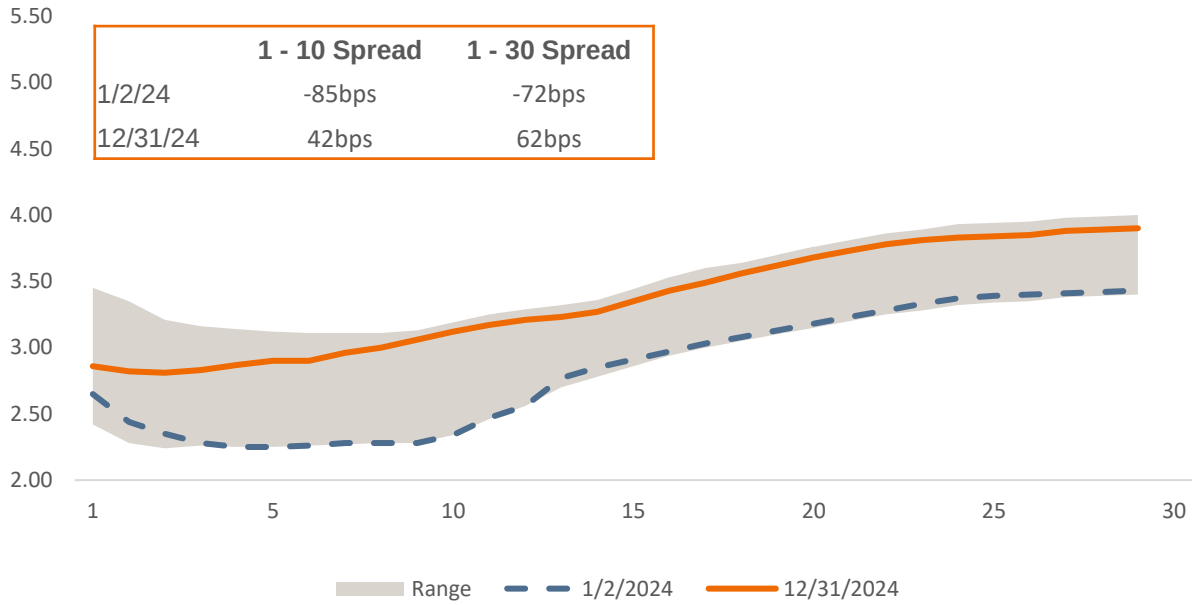
Higher Rates and Yield Curve Normalization

2024 Treasury Rates



	1 - 10 Spread	1 - 30 Spread
1/2/24	-37bps	78bps
12/31/24	20bps	104bps

2024 MMD Rates



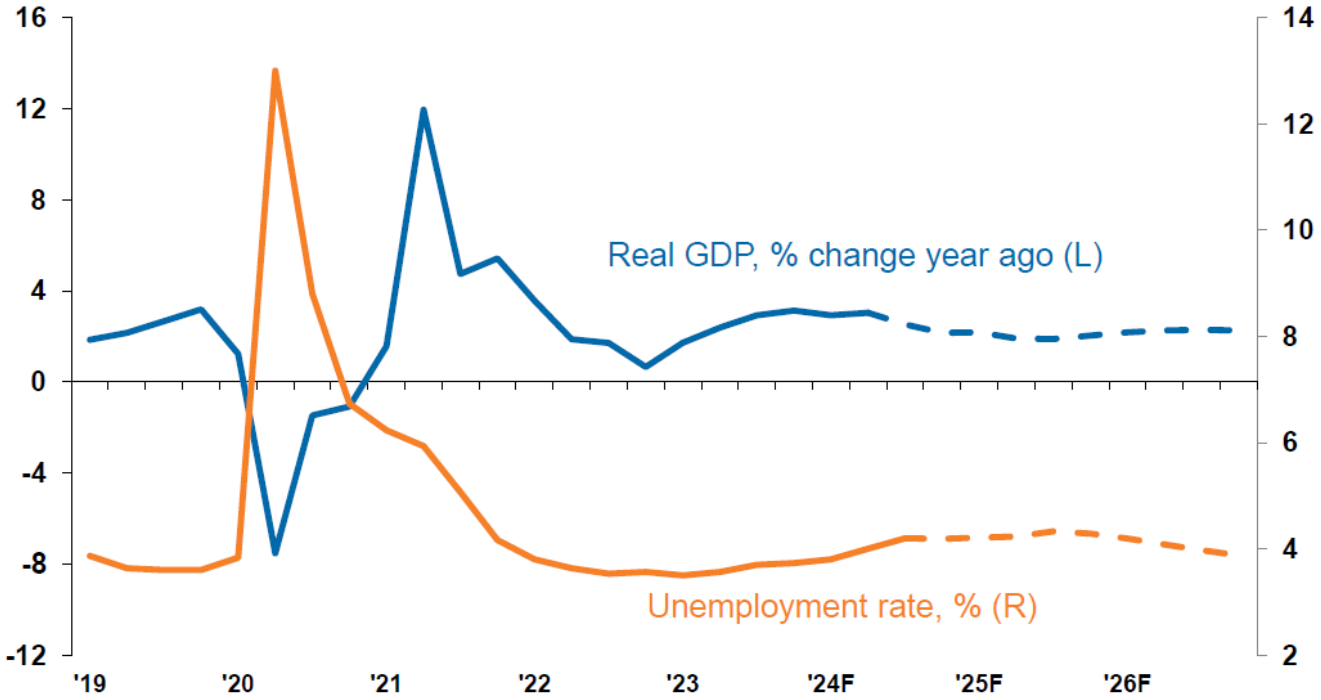
	1 - 10 Spread	1 - 30 Spread
1/2/24	-85bps	-72bps
12/31/24	42bps	62bps

- The yield curves steepened as short-term rates moved lower and long-term rates moved higher throughout the year
  - Yield curve normalization
- The largest rate changes in 2024 occurred through 10 years as the Fed held its target rate range unchanged through August and then lowered it 100bps from September through December

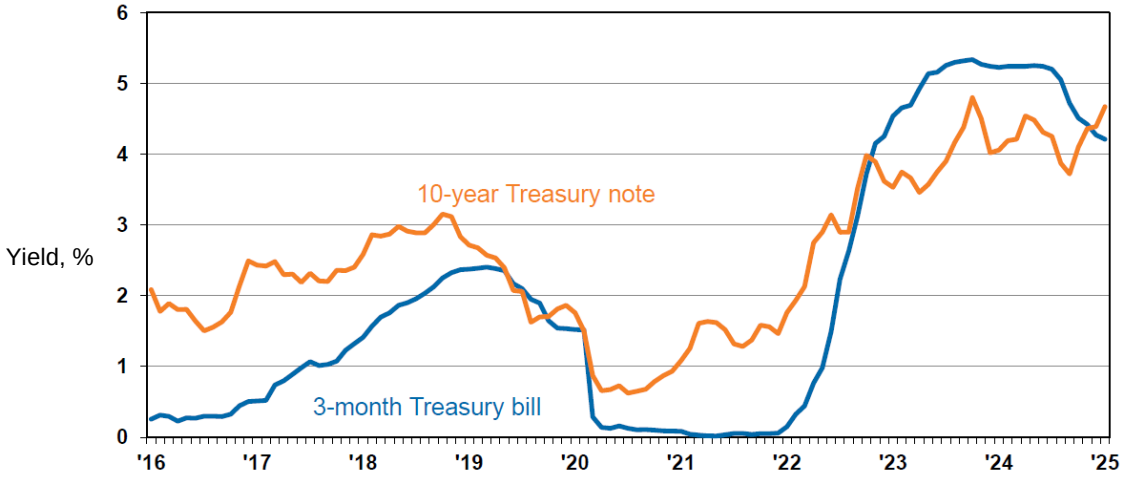
Source: Bloomberg, Thomson Reuters TM3

Economic Outlook

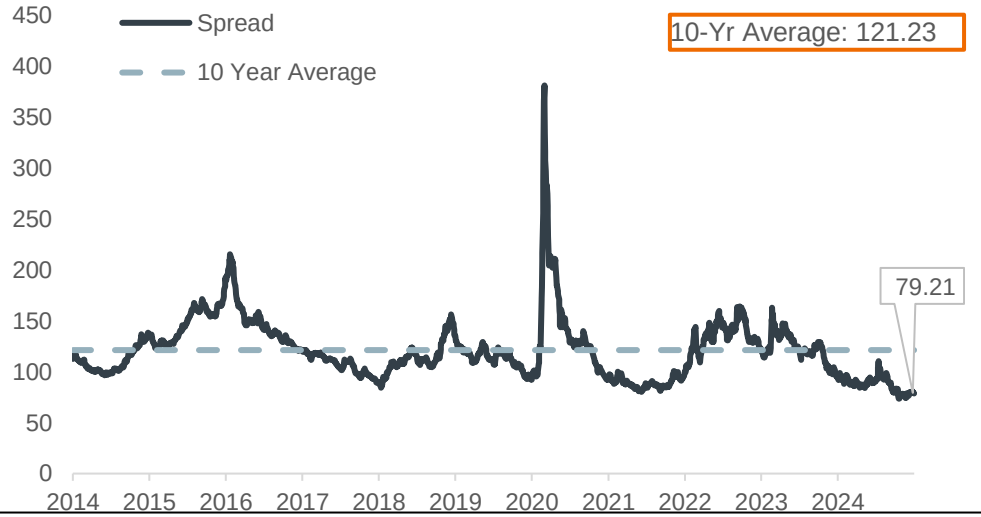
Slower, But Solid Growth in 2024 & 2025



Interest Rates Are Moving Lower



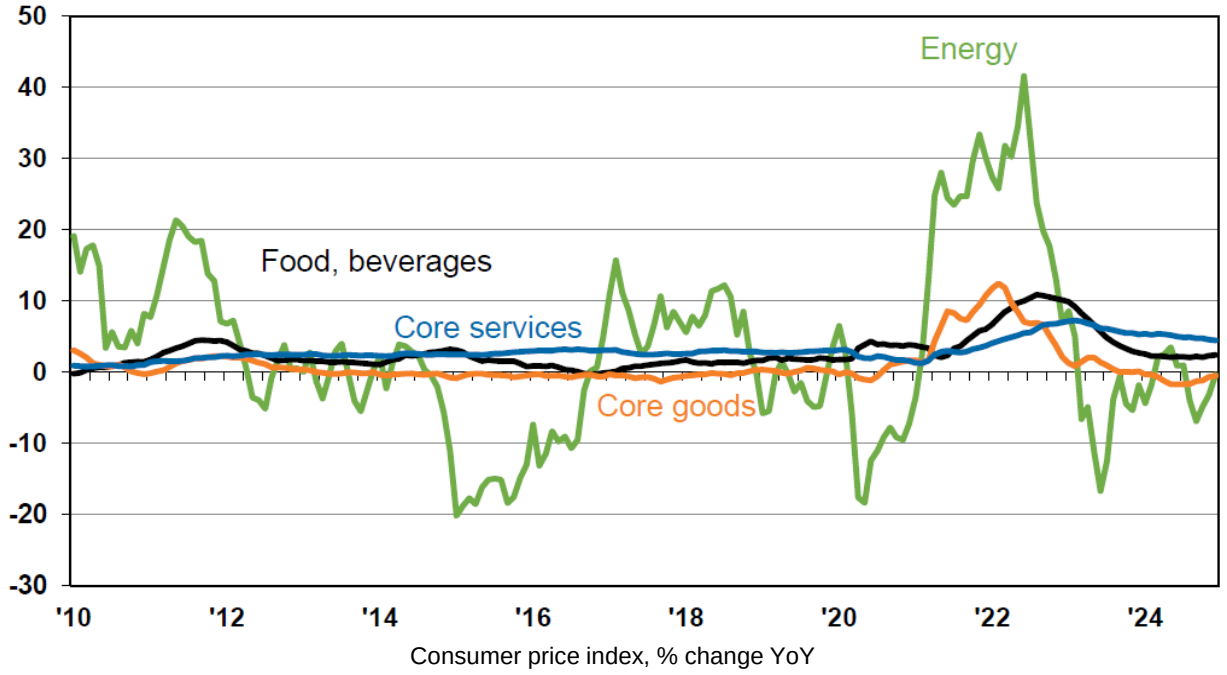
Corporate IG Credit Spread



Sources: Federal Reserve Board, OECD, ONS, Japan's Cabinet Office, NBER, BEA, BLS, Bloomberg, LUACTRUU Index, Thomson Reuters TM3

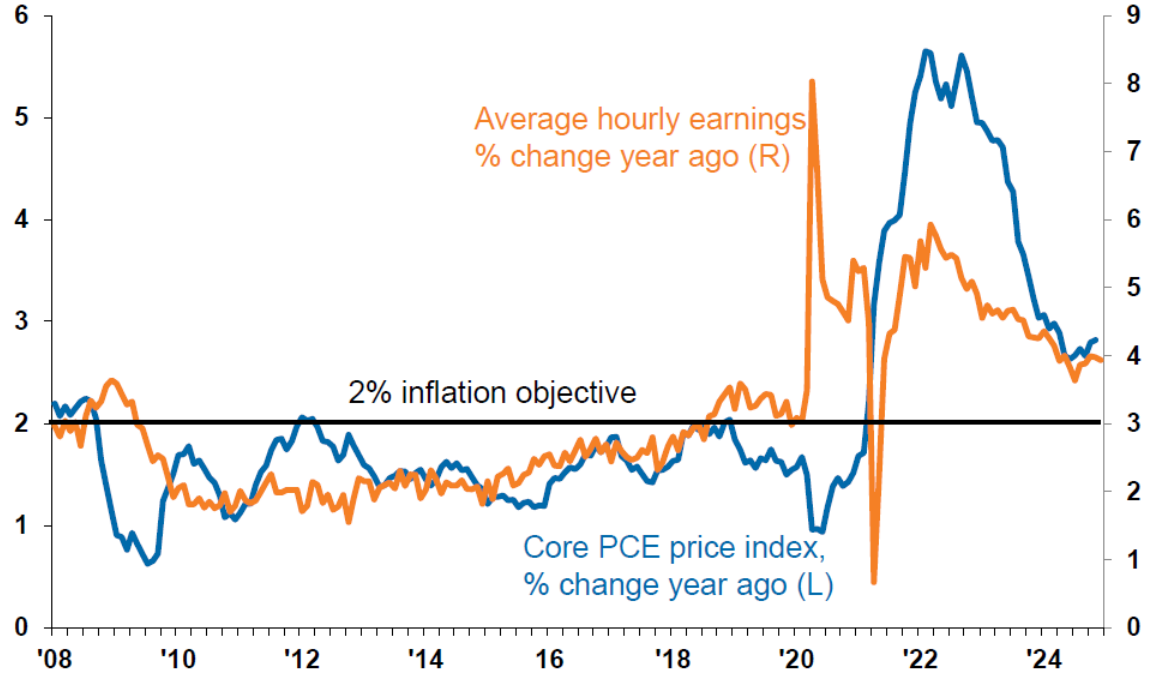
Labor Markets

High Core Services Inflation is Still a Concern



Consumer price index, % change YoY

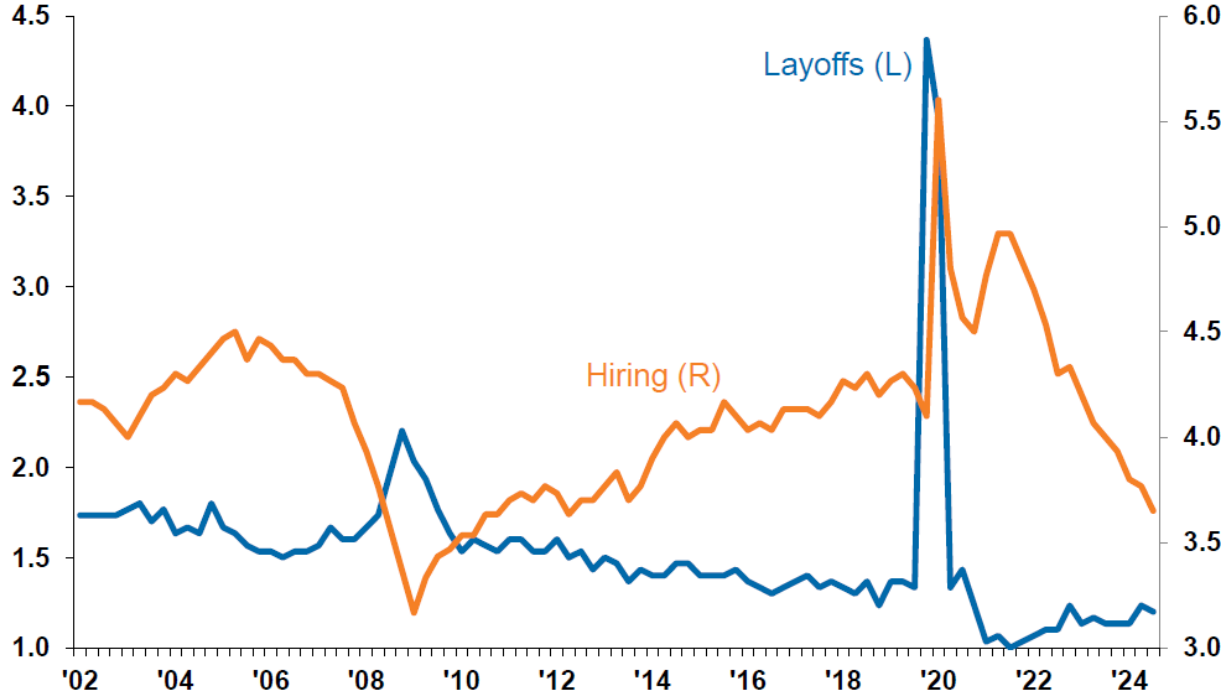
Wage Growth is Slowing to A More Sustainable Pace



Sources: BLS, BEA

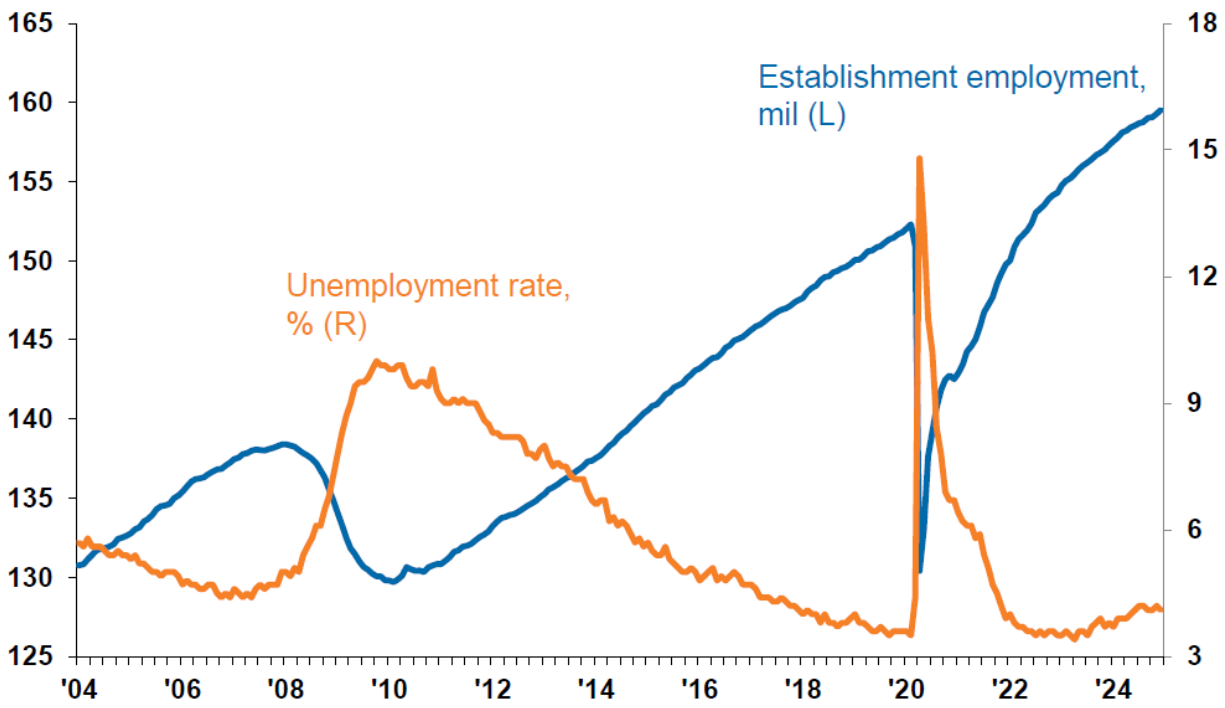
Labor Markets

Layoffs Are Low, But Hiring Has Slowed



Rate, % of private employment

Job Growth Is Slowing; Labor Market Remains Solid

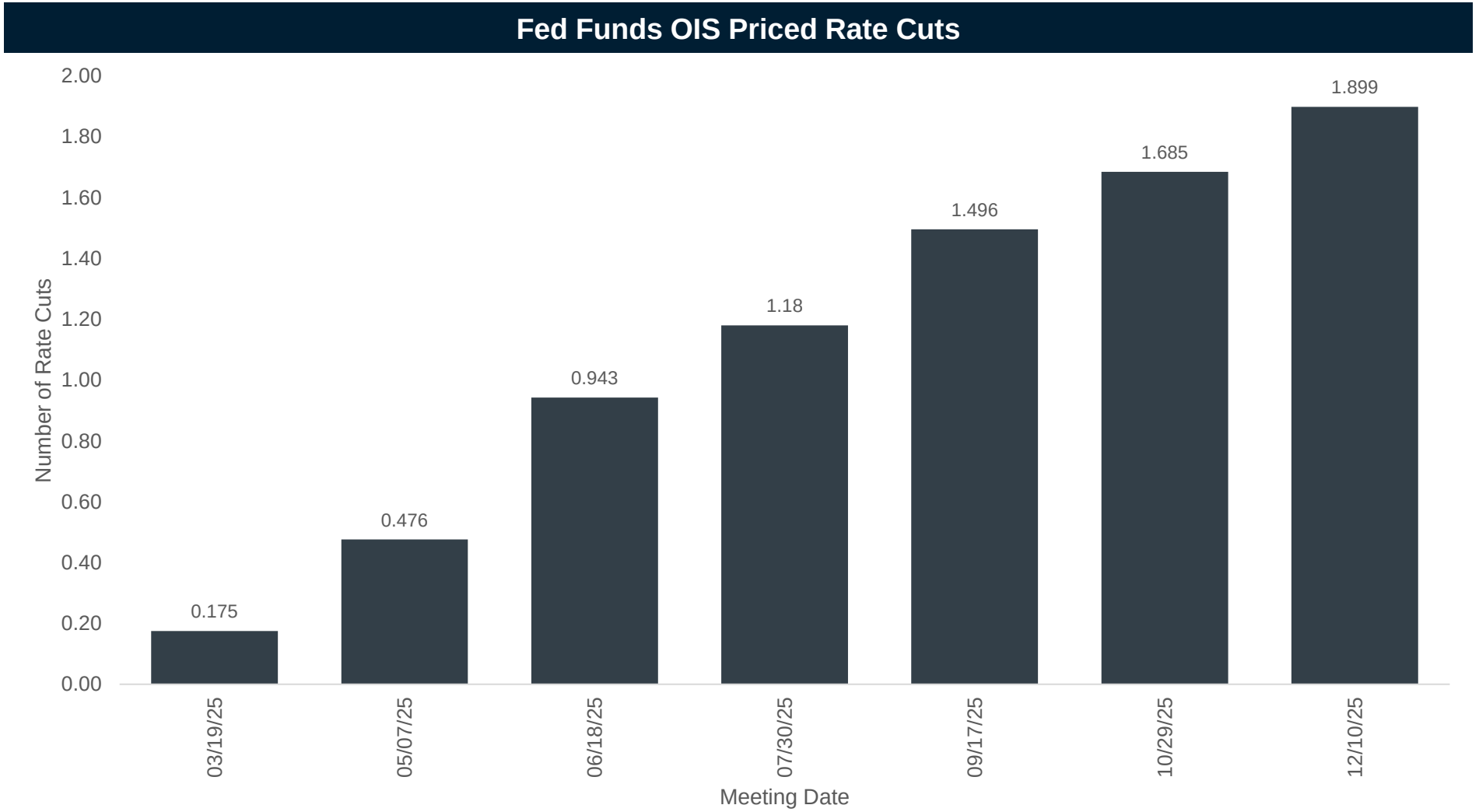


Sources: BLS, BEA

Rate Expectations and Volatility

Market Pricing in Slower Pace of Rate Cuts

- Potential 2025 bond market volatility contributors include:
  - Inflation
  - Interest rate policy
  - Potential for tax reform and policy changes
- The Fed cut its target rate 25bps on December 18, 2024
  - Target range is now 4.25-4.50%
- Market is currently pricing in only one rate cut projected for the July meeting, with a 66% chance of an additional cut before year end



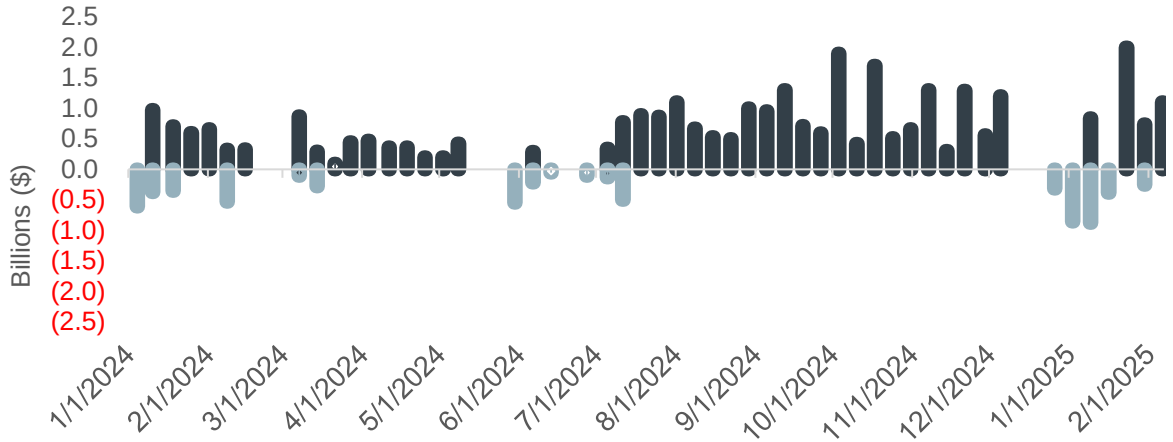
As of February 6, 2025 | For illustrative purposes only
Sources: Federal Reserve | LSEG Lipper Global Fund Flows | Thomson Reuters TM3

Municipal Market Snapshot

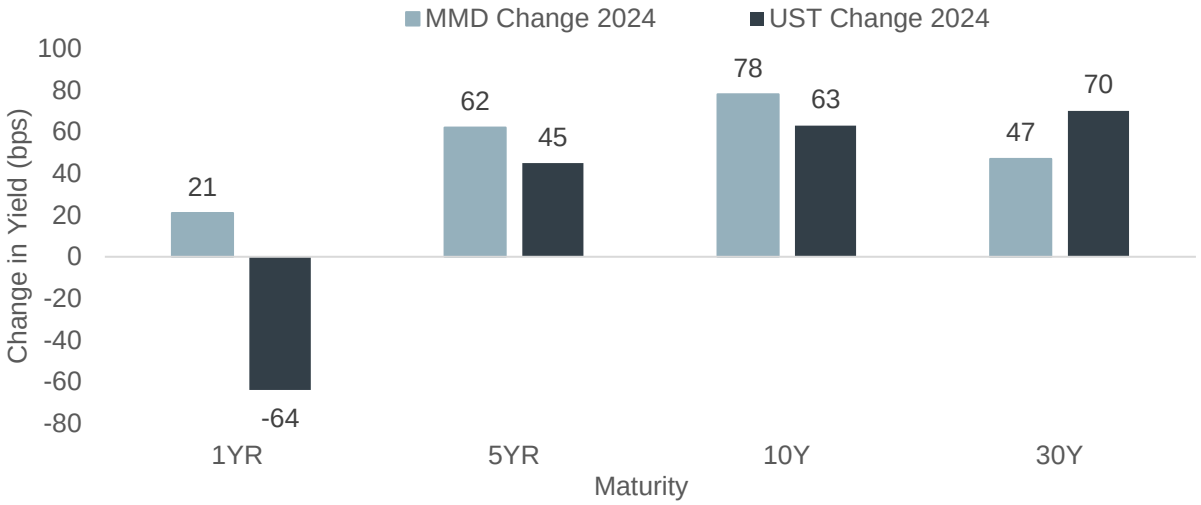
New Municipal Issuance is Receiving Steady Investor Demand

- Despite seasonal outflows in December, bond fund flows were positive in 2024 after experiencing significant outflows in 2023
  - 2023: -$16.8 Billion
  - 2024: $22.3 Billion
- MMD/UST ratios remain historically low
- Tax-exempt credit spreads remain narrow despite rich ratios given steady investor demand for new issuance supply
- While the yield curve flattened and normalized in 2024, rates generally moved higher

Weekly Municipal Fund Flows, 2024



2024 MMD and UST Rate Changes



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Sources: Federal Reserve | LSEG Lipper Global Fund Flows | Thomson Reuters TM3

Tax-Exempt and Taxable Interest Rates

Maturity	February 6, 2025			20-Year Average		
	AAA MMD	US Treasury	Ratio	AAA MMD	US Treasury	Ratio
1 Year	2.58%	4.19%	61.58%	1.30%	1.80%	97.78%
2 Year	2.60%	4.21%	61.76%	1.44%	1.91%	88.40%
3 Year	2.63%	4.23%	62.17%	1.56%	2.05%	84.68%
5 Year	2.69%	4.28%	62.85%	1.83%	2.37%	81.42%
7 Year	2.71%	4.36%	62.16%	2.13%	2.65%	83.15%
10 Year	2.89%	4.45%	64.94%	2.48%	2.91%	88.24%
30 Year	3.90%	4.65%	83.87%	3.41%	3.49%	98.37%

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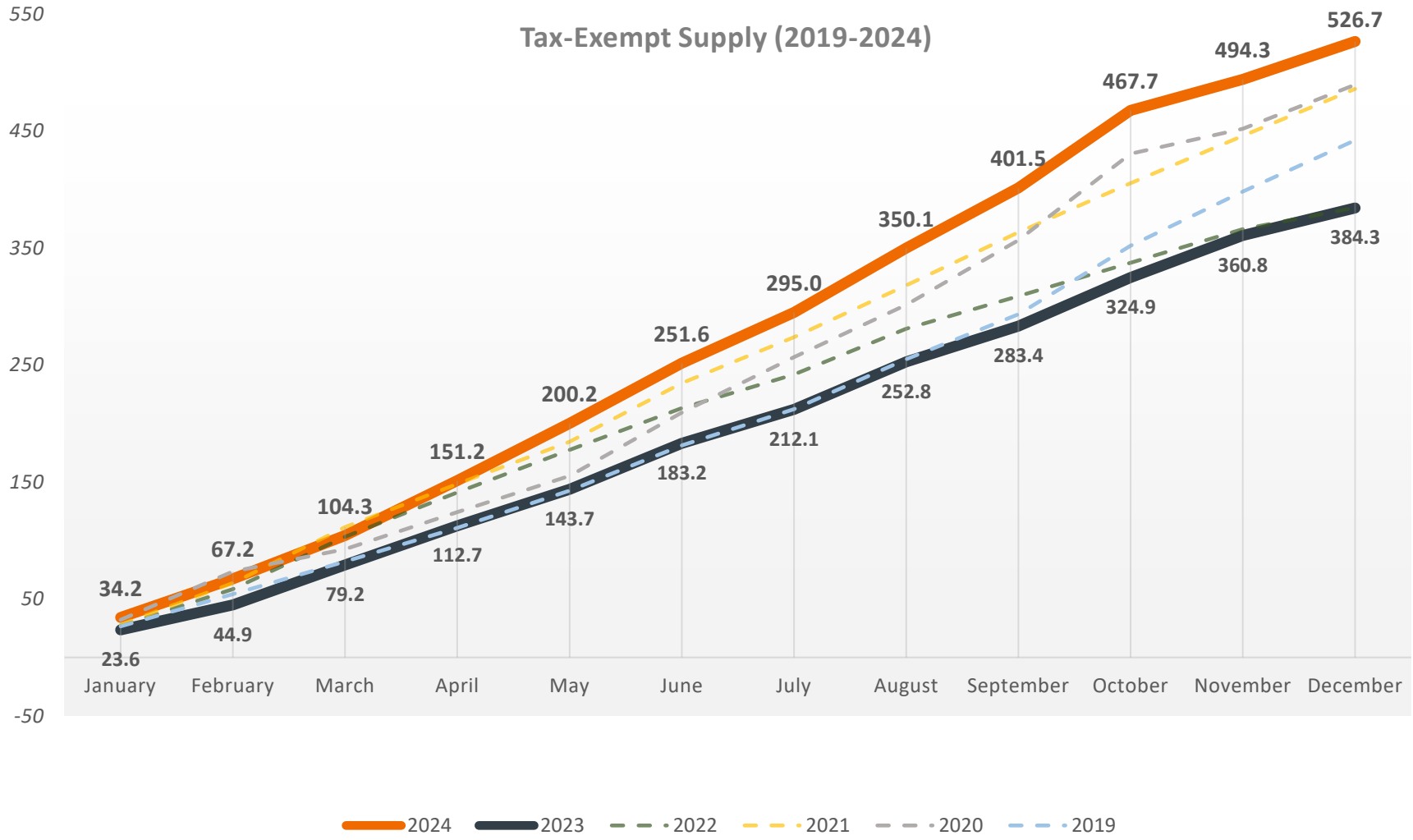
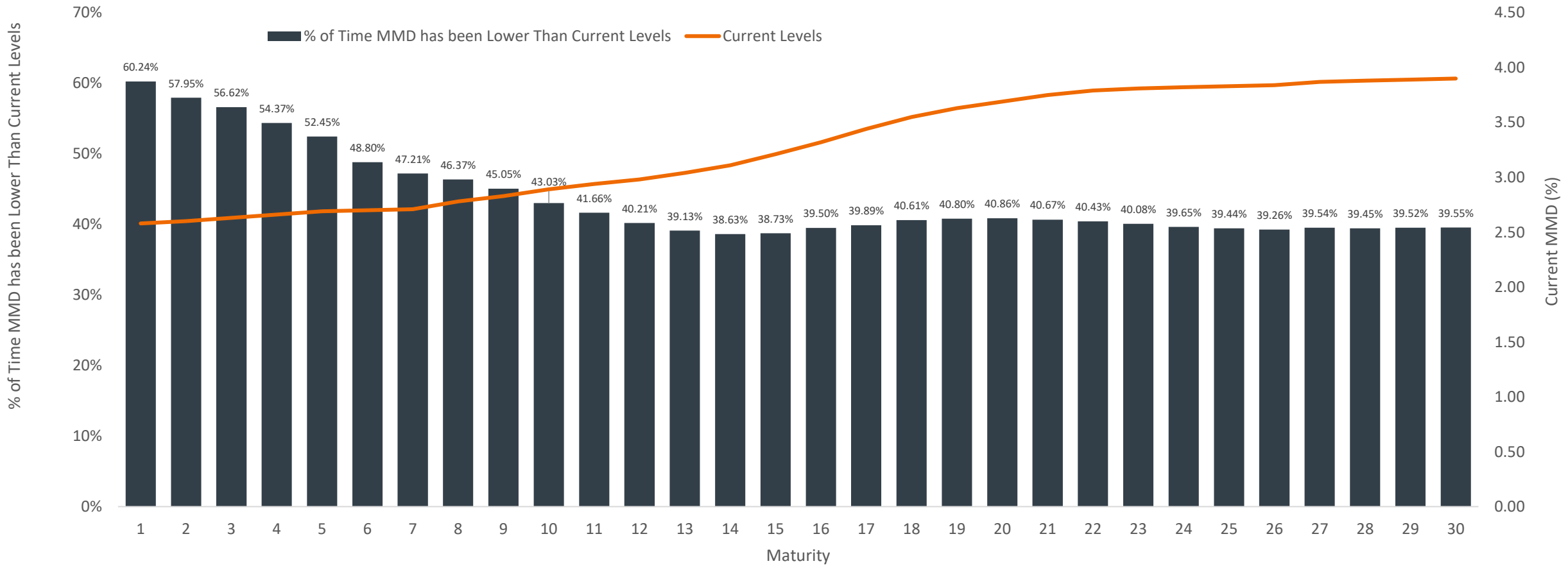
Historical Municipal Bond Supply (2019-2024)



Tax-Exempt Interest Rates

% of Time MMD has been Lower Since 1993

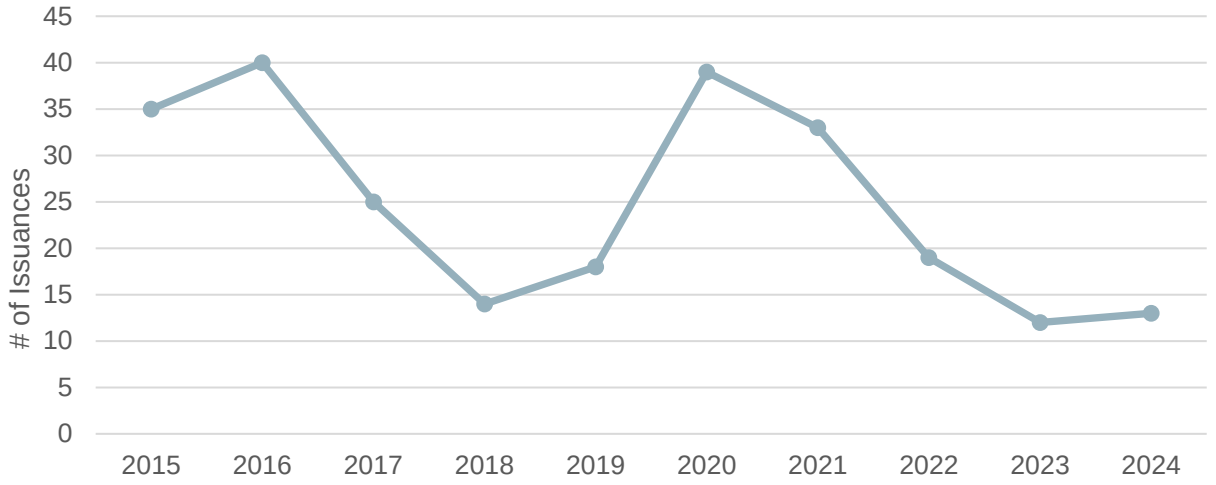


As of February 6, 2025 | For illustrative purposes only
Sources: Federal Reserve | LSEG Lipper Global Fund Flows | Thomson Reuters TM3

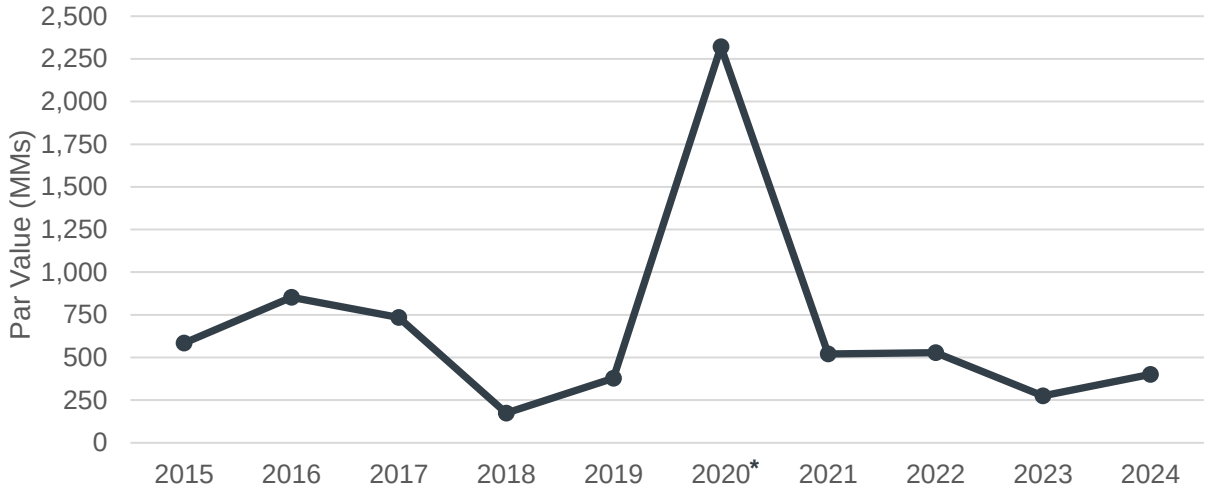
Alabama K-12 Capital Markets Summary

Market Activity From 2015-2024

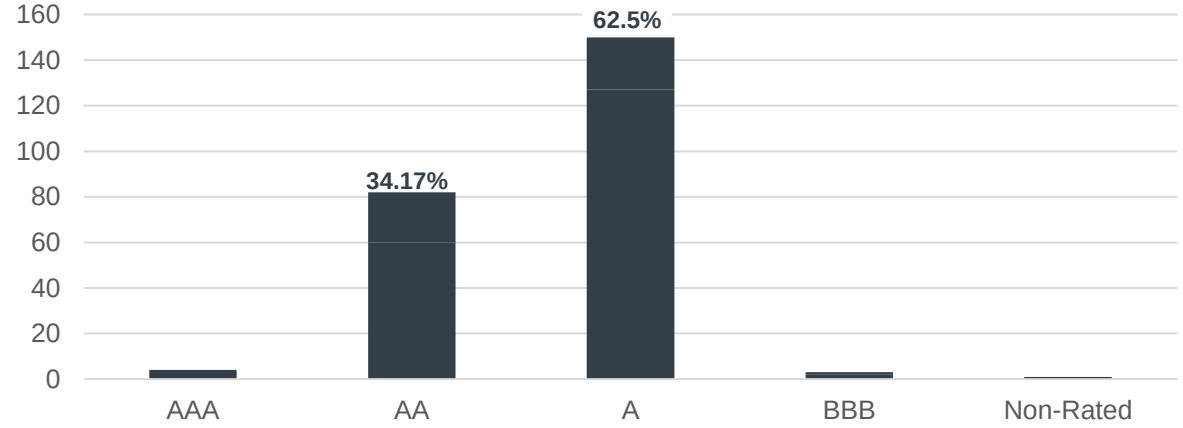
AL K-12 Issuances



AL K-12 Issuance Par Value



K-12 Ratings



K-12 Sector

248 Issuances	$6.77BN Par Value	$27.31MM Avg Deal Size
$9.66MM Median Deal Size	53.6% Partially or Fully Insured	96.77% Negotiated

Sources: Refinitiv; SDC Platinum
From Bloomberg as of 2/3/25. Differences may exist between the total holdings as reported by Bloomberg and total actual par outstanding.

**$1.2B Alabama Pub School & College Authority deal done in October 2020*

Alabama K-12 Market Participants

Top 20 AL K-12 Bondholders

Issuer	Held Bond Value (USD)	Investor Type
Vanguard Group	187,594,169	Investment Manager
BlackRock	121,238,305	Investment Manager
Franklin Resources	50,614,061	Investment Manager
AllianceBernstein Holding LP	33,675,834	Investment Manager
FMR LLC	32,020,000	Investment Manager
JP Morgan Chase & Co	30,348,109	Bank
Tennessee Farmers Group	28,725,000	Insurance Company
Olive Street Investment Adv	22,840,000	Investment Manager
TIAA-CREF	20,390,000	Investment Manager
Blackstone Group LP	20,038,268	Investment Manager
Securian Asset Management Inc	17,449,239	Investment Manager
Hartford Financial Serv Grp Inc	16,150,000	Insurance Company
Barings LLC	15,840,781	Investment Manager
Goldman Sachs Group Inc	15,091,079	Investment Manager
Wedge Capital Management LLP	14,710,000	Investment Manager
Apollo Global Management Inc	13,830,804	Investment Manager
State Street Corp	13,559,363	Investment Manager
Allspring Global Investments HLD	13,532,796	Investment Manager
Berkshire Hathaway Inc	13,180,177	Hold Co
Dimensional Fund Advisors LP	13,175,000	Investment Manager

Source: Bloomberg as of 2/3/25. Differences may exist between the total holdings as reported by Bloomberg and total actual par outstanding.

Major forces in the driver's seat for markets

- New Presidential Administration
- Federal Debt Ceiling
- Credit or Default Cycle
- Financial Stresses
- Tariffs
- Changes in Regulation
- Tax Cuts
- Fed Action & Interest Rate Changes
- Geopolitical and Event Risk
- Concern Over US Spending, Debt, & Deficit
- AI

Considerations for Alabama K-12 bond issuers

- Volatility
- Opportunities in the Bank Market
- Cyber Risk & Resilience
- Tax Bill: Tax Exemption?
- Fixed Rate vs. Floating Rate
- Investor Priorities
  - Liquidity – Size, Sector
  - Relative Value of Tax-exempt Bonds vs. Taxables
  - Clarity and Ease of Disclosure

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An underwriter has a duty to purchase securities from an issuer at a fair and reasonable price, but must balance that duty with its duty to sell those securities to investors at prices that are fair and reasonable.

An underwriter will review the official statement, if any, for those securities in accordance with, and as part of, its responsibilities to investors under the federal securities laws, as applied to the facts and circumstances of the transaction.

The issuer may choose to engage the services of a municipal advisor with a fiduciary obligation to represent the issuer’s interests in the transaction.

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