



TheECONOMY

Three Percent – A Roadblock or Speed Bump?

At the start of the second quarter, financial markets continue to focus on a potential trade war with China and the implications of the additional rate hike from the Federal Reserve in March. First quarter earnings season is underway, and the impact of the tax reform package is certainly visible. Nearly 80% of S&P 500 companies reporting have exceeded analysts' expectations for earnings, causing equity markets to become less focused on geopolitical tensions.

In addition to the earnings calendar, we received our initial look at first quarter GDP. In the last few years, the economy has stalled a bit in the first quarter due to several factors including poor weather and seasonality adjustments. However, first quarter GDP growth beat market expectations, coming in at 2.30% for the period. The strong number caused interest rates to rise across the yield curve with the 10-year U.S. Treasury receiving the most headlines. The benchmark rate touched 3.00% for the first time in four years which is more symbolic than meaningful but raises the question of what economic growth will look like in a higher interest rate environment.

Spending, sentiment, and production releases continue to show the strength in the U.S. economy. Inflation prints of both headline and core above 2.00% will likely keep the Federal Reserve on its current pace of tightening. Markets continue to have a near-sighted focus on the probable June rate hike. Taking more of a wait-and-see stance, the yield curve is greatly underpricing the Fed's dot plot projections of future rate increases.

The predominately positive tone of the economic data and corporate earnings could be a precursor for a serious discussion regarding four total rate hikes from the Fed this year.

Treasury Yields

| MATURITY | 5/7/18 | 4/6/18 | CHANGE |
|----------|--------|--------|--------|
| 3 Month | 1.821% | 1.708% | 0.114% |
| 6 Month | 2.027% | 1.893% | 0.134% |
| 1 Year | 2.233% | 2.045% | 0.188% |
| 2 Year | 2.497% | 2.266% | 0.231% |
| 3 Year | 2.631% | 2.400% | 0.231% |
| 5 Year | 2.787% | 2.586% | 0.201% |
| 10 Year | 2.950% | 2.774% | 0.176% |
| 30 Year | 3.123% | 3.018% | 0.105% |

Source: Bloomberg

Agency Yields

| MATURITY | 5/7/18 | 4/6/18 | CHANGE |
|----------|--------|--------|--------|
| 3 Month | 1.837% | 1.747% | 0.090% |
| 6 Month | 1.950% | 1.816% | 0.134% |
| 1 Year | 2.099% | 1.954% | 0.145% |
| 2 Year | 2.558% | 2.346% | 0.212% |
| 3 Year | 2.703% | 2.488% | 0.215% |
| 5 Year | 2.888% | 2.686% | 0.202% |

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

| MATURITY | 5/7/18 | 4/6/18 | CHANGE |
|----------|--------|--------|---------|
| 1 Month | 1.860% | 1.840% | 0.020% |
| 3 Month | 2.190% | 2.210% | -0.020% |
| 6 Month | 2.420% | 2.440% | -0.020% |
| 9 Month | 2.610% | 2.590% | 0.020% |

Source: Bloomberg

Current Economic Releases

| DATA | PERIOD | VALUE |
|-------------------|------------|---------------|
| GDP QoQ | Q1 '18 | 2.30% |
| US Unemployment | Apr '18 | 3.90% |
| ISM Manufacturing | Apr '18 | 57.3 |
| PPI YoY | Mar '18 | 3.00% |
| CPI YoY | Mar '18 | 2.40% |
| Fed Funds Target | May 08 '18 | 1.50% - 1.75% |

Source: Bloomberg