



## TheECONOMY

### Italian Disruption

Since last fall, yields on the front end of the curve have consistently printed at higher levels than where they started each month. In May, this trend came to an abrupt end as geopolitical concerns regarding the Italian election brought contagion fears back into the market. U.S. Treasury bonds rallied with rates falling roughly 8 to 10 basis points across the yield curve. Italy's appetite for change fits into the recent global theme as displayed in Greece and the U.K. As Italy is the third largest European Union economy, the financial markets will definitely be watching this story closely as it develops over the summer.

As risk appetite faded around the globe, the U.S. economic numbers continued to display strength across the entire economic spectrum. May unemployment numbers were better than expected as the U.S. economy added 223k new jobs pushing the unemployment rate to 3.80%, a level not witnessed for nearly four decades. Evidenced by the low unemployment rate, finding skilled workers is becoming more difficult and may finally drive wages higher in the coming months.

Consumer sentiment remains strong on the back of the positive jobs outlook, tight housing market, and prolonged period of low interest rates. Inflation certainly is not derailing consumer or business spirits as April headline CPI came in at 2.50%, rounding out nearly a year of above 2% prints.

Based on strong employment and inflation data, the Federal Reserve Board decided to increase the Fed funds target rate another 25 basis points at their recent June meeting. Market participants widely anticipated this action and appropriately priced in the market impact. The median forecast for future rate increases moved from three to four over calendar year 2018. Starting next year, Fed Chairman Jerome Powell will take questions from the media after every meeting instead of the current every other schedule. This move is another welcome step in the increased transparency efforts of the Fed.

### Treasury Yields

MATURITY	6/7/18	5/7/18	CHANGE
3 Month	1.893%	1.825%	0.067%
6 Month	2.111%	2.027%	0.083%
1 Year	2.288%	2.233%	0.055%
2 Year	2.488%	2.497%	-0.009%
3 Year	2.616%	2.631%	-0.014%
5 Year	2.763%	2.787%	-0.024%
10 Year	2.920%	2.950%	-0.029%
30 Year	3.068%	3.123%	-0.055%

Source: Bloomberg

### Agency Yields

MATURITY	6/7/18	5/7/18	CHANGE
3 Month	1.926%	1.877%	0.049%
6 Month	2.035%	1.950%	0.085%
1 Year	2.178%	2.099%	0.079%
2 Year	2.555%	2.558%	-0.003%
3 Year	2.679%	2.703%	-0.024%
5 Year	2.861%	2.888%	-0.027%

Source: Bloomberg

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

MATURITY	6/7/18	5/7/18	CHANGE
1 Month	1.970%	1.860%	0.110%
3 Month	2.230%	2.190%	-0.040%
6 Month	2.420%	2.420%	-0.000%
9 Month	2.590%	2.610%	-0.020%

Source: Bloomberg

### Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q1 '18	2.20%
US Unemployment	May '18	3.80%
ISM Manufacturing	May '18	58.7
PPI YoY	Apr '18	2.40%
CPI YoY	Apr '18	2.50%
Fed Funds Target	Jun 13 '18	1.75% - 2.00%

Source: Bloomberg