



TheECONOMY

Losing Patience

U.S. Treasury yields collapsed in June as mounting global concerns significantly increased the likelihood of a rate cut from the Federal Reserve in July. The threat of escalating tariffs on U.S. trading partners has placed additional stress on a global economy saddled with plummeting inflation expectations, aging demographics, and weakening productivity growth. Market indicators project roughly one in three odds that the U.S. economy will enter a recession within the next 12 months.

The Federal Reserve, facing intense pressure from President Trump to cut rates in June, dropped its pledge to be “patient” in regard to future rate adjustments in favor of “closely monitoring the implications of incoming information.” While many of the Fed’s FOMC Committee Members now anticipate 25 to 50 basis points of rate cuts over the next two years, this is markedly less than what markets have started to price in.

The much-anticipated June G20 summit meeting between President Trump and China’s Xi Jinping created many headlines while providing few results. Essentially, both sides agreed to more discussions with a final resolution nowhere in sight. Although the de-escalation in trade tensions temporarily put the market at ease, many realize this could all unravel with one sour tweet. With an unpredictable and wide range of possible outcomes, the trade issue will likely impair business investment and global growth for the foreseeable future.

Given this backdrop, consumer spending is poised to be the predominant driver of growth over the medium-term. The labor market, while admittedly choppy on a month-to-month basis, continues to show no sign of recession. The Fed projects the U.S. to grow roughly 2% for the next few years. Despite this forecast, weakness in global growth, trade risks, and middling inflation will likely persuade the Fed to cut rates this year.

Treasury Yields

MATURITY	7/1/19	6/1/19	CHANGE
3-Month	2.109%	2.340%	-0.231%
6-Month	2.087%	2.345%	-0.257%
1-Year	1.930%	2.200%	-0.270%
2-Year	1.787%	1.922%	-0.135%
3-Year	1.739%	1.873%	-0.134%
5-Year	1.789%	1.911%	-0.122%
10-Year	2.024%	2.125%	-0.101%
30-Year	2.548%	2.569%	-0.021%

Source: Bloomberg

Agency Yields

MATURITY	7/1/19	6/1/19	CHANGE
3-Month	2.201%	2.351%	-0.150%
6-Month	2.225%	2.390%	-0.165%
1-Year	2.199%	2.395%	-0.196%
2-Year	1.877%	2.022%	-0.145%
3-Year	1.834%	1.964%	-0.130%
5-Year	1.898%	2.028%	-0.130%

Source: Bloomberg

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

MATURITY	7/1/19	6/1/19	CHANGE
1 Month	2.340%	2.420%	-0.080%
3-Month	2.280%	2.480%	-0.200%
6-Month	2.160%	2.470%	-0.310%
9-Month	2.130%	2.480%	-0.350%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q1 '19	3.10%
US Unemployment	Jun '19	3.70%
ISM Manufacturing	Jun '19	51.70
PPI YoY	May '19	1.00%
CPI YoY	May '19	1.80%
Fed Funds Target	July 2, 2019	2.25% - 2.50%

Source: Bloomberg