



## TheECONOMY

### The Fed's Hawkish Rate Cut

As was widely expected, the Federal Reserve delivered its third consecutive 25 basis point rate cut at the October 30 FOMC meeting. The Fed noted "the implications of global growth developments for the economic outlook as well as muted inflation pressures" as justifications for the decision. Looking ahead, however, the trajectory of future interest rate policy appears less certain as domestic economic activity, while slowing, remains resilient and continues to expand at a roughly 2% annualized rate.

The Fed's decision has generally been characterized as a "hawkish rate cut" by market participants as comments made by Fed Chair Jay Powell at the post-meeting press conference appeared to confirm growing expectations that the Fed would pause its rate-cutting campaign barring further deterioration in economic activity. During the press conference, Fed Chair Jay Powell characterized the current stance of monetary policy as "in a good place," "sufficient to support the economy," and "appropriate." He continued by stating that a "material reassessment" of their outlook would be required for the Fed to act again soon. That certainly sounds like a Fed on hold, at least for now.

Among the rationale for the Fed to pause its late-cycle easing campaign is continued robust consumer spending, accounting for nearly two-thirds of U.S. economic activity and helping offset weakness in manufacturing and business investment. Additionally, service sector activity remains expansionary, increasing modestly in October and exceeding consensus estimates. Labor market activity, while cooling, remains buoyant with 128k jobs created in October and sharp upward revisions (+95k) to the prior two months.

Against this backdrop, the yield curve steepened through October with 3-month Treasury bill rates falling nearly 30 bps and 2- and 5-year Treasury yields declining a more modest nine bps and three bps, respectively.

### Treasury Yields

MATURITY	11/5/19	10/7/19	CHANGE
3-Month	1.518%	1.703%	-0.185%
6-Month	1.565%	1.704%	-0.139%
1-Year	1.591%	1.640%	-0.049%
2-Year	1.625%	1.462%	0.163%
3-Year	1.637%	1.413%	0.225%
5-Year	1.664%	1.391%	0.273%
10-Year	1.858%	1.558%	0.300%
30-Year	2.338%	2.048%	0.290%

Source: Bloomberg

### Agency Yields

MATURITY	11/5/19	10/7/19	CHANGE
3-Month	1.569%	1.802%	-0.233%
6-Month	1.571%	1.824%	-0.253%
1-Year	1.515%	1.768%	-0.253%
2-Year	1.639%	1.516%	0.123%
3-Year	1.642%	1.458%	0.184%
5-Year	1.740%	1.475%	-0.265%

Source: Bloomberg

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

MATURITY	11/5/19	10/7/19	CHANGE
1-Month	1.680%	1.920%	-0.240%
3-Month	1.870%	1.980%	-0.110%
6-Month	1.880%	1.950%	-0.070%
9-Month	1.930%	1.830%	0.100%

Source: Bloomberg

### Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q3 '19	1.90%
US Unemployment	Oct '19	3.60%
ISM Manufacturing	Oct '19	48.3.80
PPI YoY	Sep '19	-0.20%
CPI YoY	Sep '19	1.70%
Fed Funds Target	November 6, 2019	1.50% - 1.75%

Source: Bloomberg