TheINVESTOR January 2020

TheECONOMY

Steady as She Goes

The Federal Reserve (Fed) completed its "mid-cycle" adjustment to monetary policy by cutting the Federal Funds Target Rate a total of 75 basis points in 2019; the range sits at 1.50% to 1.75% to close the year, with the Fed now stating the rate is "appropriate" to support growth and the labor market. The Fed also removed references to "uncertainties" around the outlook, a not-so-veiled way of stating that trade tensions between the U.S. and China have de-escalated over Q4 2019. The Fed does not project any change to its target rate in 2020, followed by one 25bp hike for 2021 and 2022, respectively. The fed funds futures market is largely in agreement with this outlook but leans towards one additional 25bp cut in 2020. Taking comfort in this stable yet accommodative forecast the U.S. economy can continue to grind out solid albeit unspectacular growth.

In 2019, the U.S. economy largely thrived on the back of the consumer as mounting trade war tensions inhibited business investment. A strike at General Motors and ongoing problems at Boeing with its 737 Max airplanes also impacted the manufacturing sector this fall. Although the strike at GM has since been resolved, Boeing's recent decision to halt 737 Max production may cut as much as one percentage point from gross domestic product growth in Q1 2020. Much will depend on the strength of consumer spending which decelerated in the second half of 2019. Hopefully, a tight labor market will be enough to keep the economy on track this year.

The U.S. and China struck a tentative agreement towards a "phase one" deal in December, alleviating concerns that additional tariffs would be applied to imports. While it is debatable who ultimately pays for tariffs, they are passed on to U.S. manufacturers and consumers in the form of higher prices. If a completed phase one deal fails to alleviate fears in 2020 or additional tariffs are discussed, the optimism shared today by market participants may quickly dissipate. However, the consensus view is that the healthy labor market and benign financial conditions will allow the U.S. economy to continue to grow for a record eleventh consecutive year.

Treasury Yields

MATURITY	1/3/20	12/5/19	CHANGE
3-Month	1.483%	1.526%	-0.043%
6-Month	1.529%	1.534%	-0.005%
1-Year	1.524%	1.548%	-0.023%
2-Year	1.525%	1.592%	-0.068%
3-Year	1.540%	1.609%	-0.068%
5-Year	1.590%	1.633%	-0.043%
10-Year	1.788%	1.810%	-0.022%
30-Year	2.244%	2.260%	-0.015%

Source: Bloomberg

Agency Yields

MATURITY	1/3/20	12/5/19	CHANGE
3-Month	1.538%	1.544%	-0.006%
6-Month	1.549%	1.565%	-0.016%
1-Year	1.508%	1.518%	-0.010%
2-Year	1.539%	1.604%	-0.065%
3-Year	1.550%	1.607%	-0.057%
5-Year	1.652%	1.698%	-0.046%

Source: Bloomberg

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

MATURITY	1/3/20	12/5/19	CHANGE
1-Month	1.610%	1.670%	-0.060%
3-Month	1.780%	1.860%	-0.080%
6-Month	1.830%	1.850%	-0.020%
9-Month	1.870%	1.900%	-0.030%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q3 '19	2.10%
US Unemployment	Nov '19	3.50%
ISM Manufacturing	Dec '19	47.20
PPI YoY	Nov '19	1.10%
CPI YoY	Nov '19	2.10%
Fed Funds Target	Jan 6, 2020	1.50% - 1.75%

Source: Bloomberg