



## TheECONOMY

### Watch That Inflation Number

In January, the Federal Open Market Committee (FOMC) voted unanimously to keep the Federal funds target range at 1.50% - 1.75%. The Fed did raise the interest rate paid on excess reserves by 5 bps and the rate on overnight reverse repurchase (repo) agreement facility by the same amount to help maintain the Fed funds rate within the stated target range. Additionally, the Fed mentioned it will continue supporting the short-term funding market through repo operations at least until April to help reduce volatility during tax-filing season and that it will continue purchasing Treasury Bills at least into the second quarter to help ensure bank reserves remain ample.

Chairman Powell pointed out that the Fed was “not satisfied with inflation running below 2%,” suggesting that rate cuts could be coming this year should inflation remain largely below the 2% target based on the Core PCE index (it was close to 1.6% last December). The Fed funds futures market is currently pricing the next rate cut for July of 2020.

The U.S. economy remains in good shape overall, seeing a 225k job gain in January that beat expectations. Average hourly earnings grew 3.1% YoY, slightly less rapid than most of 2019 as the growing labor force could be keeping wages from rising much faster. The unemployment rate for January rose to 3.6%, up slightly from December’s 50-year low of 3.5%.

Consumer spending continues to support economic growth but has been weakening somewhat. It grew by an annualized rate of 1.8% during Q4 2019, down from 3.2% in Q3 2019 and 4.6% in Q2 2019. Business investment was unimpressive, with a 6.1% decline reported in Q4 compared to a 1% fall in Q3. On a positive note, the ISM Manufacturing index left the contraction territory in January for the first time since July 2019 thanks to a deceleration in the trade war between the U.S. and China. The coronavirus adds some uncertainty to the 2020 outlook. While it is unlikely the virus will have a major impact on economic growth in the U.S. or on financial markets, investors should be prepared for some volatility in the near-term.

### Treasury Yields

MATURITY	2/10/20	1/10/19	CHANGE
3-Month	1.529%	1.531%	-0.002%
6-Month	1.539%	1.542%	-0.003%
1-Year	1.462%	1.519%	-0.057%
2-Year	1.393%	1.570%	-0.177%
3-Year	1.377%	1.583%	-0.206%
5-Year	1.388%	1.632%	-0.244%
10-Year	1.570%	1.820%	-0.250%
30-Year	2.039%	2.279%	-0.240%

Source: Bloomberg

### Agency Yields

MATURITY	2/10/20	1/10/19	CHANGE
3-Month	1.554%	1.527%	0.027%
6-Month	1.579%	1.539%	0.040%
1-Year	1.537%	1.497%	0.040%
2-Year	1.415%	1.575%	-0.160%
3-Year	1.395%	1.585%	-0.190%
5-Year	1.460%	1.689%	-0.229%

Source: Bloomberg

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

MATURITY	2/10/20	1/10/19	CHANGE
1-Month	1.610%	1.610%	0.000%
3-Month	1.670%	1.740%	-0.070%
6-Month	1.660%	1.790%	-0.130%
9-Month	1.710%	1.820%	-0.110%

Source: Bloomberg

### Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q4 '19	2.10%
US Unemployment	Jan '20	3.60%
ISM Manufacturing	Jan '20	50.90
PPI YoY	Dec '19	1.90%
CPI YoY	Dec '19	2.30%
Fed Funds Target	Feb 11, 2020	1.50% - 1.75%

Source: Bloomberg