



TheECONOMY

Cautious Optimism for a New Year

Every new year is a natural time to reflect on the events of the past 12 months and look forward to the opportunities in the year ahead. After nearly two full years of pandemic-related turmoil, 2022 begins amidst a backdrop of cautious optimism and growing hopes that the darkest days of the pandemic have passed. In 2021, the United States made great progress towards recovery and reopening even with an uneven healing process beset by recurrent outbreaks of the virus. The turn of the year brings with it a more hopeful outlook as continued vaccine progress, new therapeutic treatments, and a broadening of population immunity gain traction against what appears to be a less virulent Omicron variant.

While the brightening public health outlook is encouraging, uncertainties remain, and the still-developing economic recovery will likely face tighter financial conditions in 2022. The Federal Reserve is poised to begin unwinding its easy monetary policies this year while the resulting higher interest rates and tighter monetary conditions risk reawakening volatility in richly valued equity and fixed-income markets. Minutes from the Federal Reserve's December meeting confirmed the Fed's more hawkish policy stance that now includes a more aggressive trajectory for rate increases as well as a sooner-than-anticipated start to balance sheet runoff. Pricing in the Federal Funds Futures market now reflects an 82% implied probability of a March 2022 rate hike as well as expectations for 3.5 rate increases over the course of the calendar year.

Incoming economic data remains consistent with the more hawkish outlook for monetary policy in 2022. The Consumer Price Index (CPI) rose 7.0% on a year-over-year basis through December, marking its fastest annual pace since 1982 and underscoring the growing pressure on the Fed to raise interest rates. Similarly, the December jobs report showed the unemployment rate falling to 3.9% despite a somewhat disappointing nonfarm payroll gain of 199k that was counterbalanced by upward revisions to the prior two months. Overall, the outlook for labor markets in 2022 remains constructive as demand for workers remains robust and wages appear biased to the upside as businesses compete for scarce labor resources.

Stay tuned as we enter 2022 with optimism and expectations for an active Fed!

Treasury Yields

MATURITY	01/12/22	12/9/21	CHANGE
3 Month	0.118%	0.065%	0.053%
6 Month	0.272%	0.119%	0.153%
1 -Year	0.432%	0.262%	0.170%
2 -Year	0.895%	0.688%	0.207%
3 -Year	1.210%	1.016%	0.194%
5 -Year	1.493%	1.268%	0.225%
10 -Year	1.722%	1.499%	0.223%
30 -Year	2.059%	1.876%	0.183%

Source: Bloomberg

Agency Yields

MATURITY	01/10/22	12/9/21	CHANGE
3 Month	0.074%	0.077%	-0.003%
6 Month	0.118%	0.100%	0.018%
1 -Year	0.224%	0.161%	0.063%
2 -Year	0.947%	0.736%	0.211%
3 -Year	1.223%	1.024%	0.199%
5 -Year	1.519%	1.315%	0.204%

Source: Bloomberg

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

MATURITY	01/10/22	12/9/21	CHANGE
1 Month	0.100%	0.060%	0.040%
3 Month	0.190%	0.190%	0.000%
6 Month	0.340%	0.270%	0.070%
9 Month	0.480%	0.370%	0.110%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q3 '21	2.30%
US Unemployment	Dec '21	3.90%
ISM Manufacturing	Dec '21	58.70
PPI YoY	Dec '21	9.70%
CPI YoY	Dec '21	7.00%
Fed Funds Target	Jan 12, 2022	0.00% - 0.25%

Source: Bloomberg