



TheECONOMY

On Track for Hikes

The January Federal Open Market Committee (FOMC) meeting has set the stage for liftoff from the current zero interest rate policy. As was widely expected, the FOMC made no policy adjustments to the Federal Funds Target Rate at its January meeting. Per its assessment, the risks to the economy are not balanced; the labor market is strong, but inflation remains well above the Fed's 2% target. The FOMC intends to wind down its asset purchases as scheduled in early March, paving the way for the first rate hike of 2022. As such, the market has fully priced in an increase of at least 0.25% at the March FOMC meeting.

Recent economic data for January continues to reinforce the FOMC's comments. Supply chain disruptions and wage increases are expected to keep inflation at elevated levels. The Consumer Price Index (CPI) surged higher to 7.5% and average hourly earnings reflected continued wage pressure with an increase to 5.7%. Furthermore, the labor market showed strength and resilience despite the prevalence of the omicron variant. Nonfarm payrolls surprised to the upside at 467k versus expectations of only 125k and two-month payroll net revisions of 709k revealed additional strength and momentum at the close of 2021. While the unemployment rate ticked slightly higher to 4.0%, it still remains at historic lows.

With inflation high and the labor market strong, the FOMC is on track for commencing rate increases in March. While the median dots from the FOMC's last quarterly projections in December indicated three 25-basis-point increases for 2022, current market pricing estimates at least six. Chair Jerome Powell has mentioned that there is no preset path for policy and that the FOMC will be "humble and nimble" in its approach. Accordingly, the FOMC will continue to monitor the implications of incoming data as it engineers the start of its hiking campaign.

Treasury Yields

MATURITY	02/8/22	1/12/22	CHANGE
3 Month	0.270%	0.158%	0.112%
6 Month	0.569%	0.272%	0.297%
1 -Year	0.870%	0.445%	0.425%
2 -Year	1.341%	0.919%	0.422%
3 -Year	1.580%	1.232%	0.348%
5 -Year	1.817%	1.519%	0.298%
10 -Year	1.963%	1.743%	0.220%
30 -Year	2.257%	2.086%	0.171%

Source: Bloomberg

Agency Yields

MATURITY	02/8/22	1/12/22	CHANGE
3 Month	0.412%	0.208%	0.204%
6 Month	0.541%	0.285%	0.256%
1 -Year	0.860%	0.477%	0.383%
2 -Year	1.408%	0.957%	0.451%
3 -Year	1.630%	1.231%	0.399%
5 -Year	1.863%	1.518%	0.345%

Source: Bloomberg

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

MATURITY	02/8/22	1/12/22	CHANGE
1 Month	0.120%	0.100%	0.020%
3 Month	0.340%	0.200%	0.140%
6 Month	0.620%	0.350%	0.270%
9 Month	0.830%	0.510%	0.320%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q4 '21	6.90%
US Unemployment	Jan '22	4.00%
ISM Manufacturing	Jan '22	57.60
PPI YoY	Dec '21	12.20%
CPI YoY	Jan '22	7.50%
Fed Funds Target	Feb 10, 2022	0.00% - 0.25%

Source: Bloomberg