



TheECONOMY

Tensions (and Everything Else) Rise

On February 24, Russia invaded the eastern border of Ukraine. As resulting sanctions severely and adversely affect Russia, most commodity prices, particularly oil, approach historic highs. The price of Brent crude oil surpassed \$130/bbl, the highest since July 2008. Crude oil prices doubled in 1973-74, 1978, and 2007-2008, all preceding an impending recession. If crude oil sustains its ~\$20/bbl elevated shock, Wall Street analysts are projecting a 0.6% and 0.3% drop in the Euro-area GDP and the U.S. GDP, respectively. Wheat is also approaching its all-time high price as Ukraine, one of the top global wheat suppliers, faces several production challenges given the escalating conflicts.

The shorter tenors of the yield curve are experiencing an upward shift compared to the previous month which coincides with a flattening in longer durations as investors are avoiding reinvestment risk. With equity markets and high-yield investments proving to be increasingly volatile, investors are making a flight to quality. Commercial paper markets have seen a material uptick in yields from the previous period as well, jumping as high as 50 bps on an issuer-specific level with the highest increase in the average maturity being 6-month CP which increased 35 bps over the period.

Inflation has been steadily increasing and is up 7.9% YoY. Unemployment in the U.S. is only 30 bps above the pre-COVID level; however, the labor participation rate is significantly below pre-COVID levels as many people fled the job market (often referred to as the Great Resignation). As the world continues to face supply chain disruptions and shocking commodity prices, CPI readings are expected to continue the upward trend. On March 16, the Federal Open Market Committee (FOMC) voted to raise the Fed Funds Target Rate by 25 basis points to a new range of 0.25% to 0.50%. Additionally, the FOMC indicated the potential for six additional rate increases this year.

Treasury Yields

MATURITY	3/4/22	2/9/22	CHANGE
3 Month	0.321%	0.330%	-0.009%
6 Month	0.628%	0.577%	0.051%
1 -Year	0.991%	0.883%	0.108%
2 -Year	1.476%	1.364%	0.112%
3 -Year	1.606%	1.629%	-0.023%
5 -Year	1.637%	1.817%	-0.180%
10 -Year	1.731%	1.942%	-0.211%
30 -Year	2.155%	2.245%	-0.090%

Source: Bloomberg

Agency Yields

MATURITY	3/4/22	2/9/22	CHANGE
3 Month	0.513%	0.415%	0.098%
6 Month	0.674%	0.550%	0.124%
1 -Year	1.019%	0.879%	0.140%
2 -Year	1.576%	1.430%	0.146%
3 -Year	1.677%	1.651%	0.026%
5 -Year	1.767%	1.868%	-0.101%

Source: Bloomberg

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

MATURITY	3/4/22	2/9/22	CHANGE
1 Month	0.290%	0.120%	0.170%
3 Month	0.640%	0.350%	0.290%
6 Month	0.970%	0.620%	0.350%
9 Month	1.120%	0.830%	0.290%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q4 '21	7.00%
US Unemployment	Feb '22	3.80%
ISM Manufacturing	Feb '22	58.6
PPI YoY	Feb '22	10.00%
CPI YoY	Feb '22	7.90%
Fed Funds Target	March 17, 2022	0.25% - 0.50%

Source: Bloomberg