



TheECONOMY

Inflation Remains a Problem

Inflation continues to be top of mind for consumers, investors, and the Federal Reserve. The June month-over-month headline CPI reading of +1.3% and year-over-year reading of +9.1% both marked cycle highs. Chairman Powell in his June press conference indicated that although core inflation is a better metric to forecast long-term inflation, headline is important as it's what consumers feel and what drives inflation expectations. While the supply-side shocks that have continued to play a major part in inflation are out of the Fed's control, it has a mandate to fulfill for stable prices and will use the full range of tools at its disposal to try to reign in this current bout of inflation.

The June nonfarm payroll report illustrated that the labor market remains strong as the headline number came in above expectations at +372k and the unemployment rate remained stable at 3.6%, a near five decade low. Job openings remain near all-time highs with the May report showing that there were nearly 11.3 million job openings, or roughly 1.9 jobs for every unemployed person. The strength of the labor market has allowed the Fed to focus solely on the challenge of taming inflation, as we are at maximum employment.

The Federal Open Market Committee (FOMC) met on July 26th-27th. With both the strong labor report and multi-decade high CPI reading in hand, the FOMC enacted another jumbo-sized rate hike of 75 basis points to the federal funds target rate. This is the second 75 basis point hike in a row and now brings the target rate to 2.25 - 2.50 basis points, a range that's near where Fed officials have said is the "neutral rate." Expectations remain that the FOMC will have to continue to increase the federal funds rate above neutral in the near-term to cool inflation.

Treasury Yields

MATURITY	7/19/22	6/21/22	CHANGE
3-Month	2.438%	1.830%	0.608%
6-Month	2.987%	2.346%	0.641%
1-Year	3.151%	2.849%	0.302%
2-Year	3.237%	3.196%	0.041%
3-Year	3.238%	3.347%	-0.109%
5-Year	3.154%	3.363%	-0.210%
10-Year	3.021%	3.275%	-0.254%
30-Year	3.175%	3.337%	-0.163%

Source: Bloomberg

Agency Yields

MATURITY	7/19/22	6/21/22	CHANGE
3-Month	2.827%	2.266%	0.561%
6-Month	2.970%	2.490%	0.480%
1-Year	3.226%	2.935%	0.291%
2-Year	3.294%	3.259%	0.035%
3-Year	3.301%	3.390%	-0.090%
5-Year	3.293%	3.519%	-0.226%

Source: Bloomberg

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

MATURITY	7/19/22	6/21/22	CHANGE
1-Month	2.160%	1.610%	0.550%
3-Month	2.720%	2.130%	0.590%
6-Month	3.320%	2.800%	0.520%
9-Month	3.600%	3.280%	0.320%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q2 '22	-0.9%
US Unemployment	Jun '22	3.60%
ISM Manufacturing	Jun '22	53.0
PPI YoY	Jun '22	18.60%
CPI YoY	Jun '22	9.10%
Fed Funds Target	Jul 27, 2022	2.25% - 2.50%

Source: Bloomberg