



TheECONOMY

Front Loading for Flexibility.

The minutes from the May Federal Open Market Committee meeting reinforced the Federal Reserve's resolve to fighting inflation, signaling that 50 basis point rate hikes are likely for the next few meetings. While the Fed is concerned with the financial stability of the markets, it also conceded that monetary policy may have to move past "neutral" and into "restrictive territory." As such, the Fed may look to aggressively front-load rate hikes to provide greater flexibility later this year.

With the federal funds target rate moving steadily higher, along with the Fed now actively shedding assets from its balance sheet, there is a growing fear that the Fed will tighten the U.S. economy into a recession as early as next year. If consumer sentiment is any indication, these fears may be well founded. The University of Michigan's sentiment index fell to a record low in June, with persistent inflation eroding American's view on the economy. While low interest rates and massive fiscal stimulus propelled consumption over the past two years, the personal savings rate has now dipped below 5% for the first time since 2009, a possible constraint to future spending.

The labor market remains robust, with the unemployment rate at 3.6% and two job openings for every individual that is looking for work. However, overall wage gains have not kept pace with inflation, and the tightness of the labor market may hinder the Fed's efforts to cool inflation. At a minimum, the strength of the labor market should allay fears that the economy will dip into a recession this year. Inflation remains a significant problem, and the Fed is trying to buy the time and flexibility to adjust its policy as needed. There's still a long way to go. Stay tuned as the FOMC meets June 14 & 15.

Treasury Yields

| MATURITY | 6/10/22 | 5/10/22 | CHANGE |
|----------|---------|---------|--------|
| 3 Month | 1.288% | 1.033% | 0.255% |
| 6 Month | 1.878% | 1.399% | 0.479% |
| 1 -Year | 2.389% | 1.891% | 0.498% |
| 2 -Year | 2.986% | 2.612% | 0.374% |
| 3 -Year | 3.167% | 2.798% | 0.369% |
| 5 -Year | 3.211% | 2.915% | 0.297% |
| 10 -Year | 3.131% | 2.991% | 0.140% |
| 30 -Year | 3.086% | 3.009% | 0.077% |

Source: Bloomberg

Agency Yields

| MATURITY | 6/10/22 | 5/10/22 | CHANGE |
|----------|---------|---------|--------|
| 3 Month | 1.622% | 1.202% | 0.420% |
| 6 Month | 1.872% | 1.474% | 0.399% |
| 1 -Year | 2.365% | 2.032% | 0.332% |
| 2 -Year | 2.831% | 2.673% | 0.158% |
| 3 -Year | 3.017% | 2.827% | 0.191% |
| 5 -Year | 3.200% | 3.040% | 0.160% |

Source: Bloomberg

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

| MATURITY | 6/10/22 | 5/10/22 | CHANGE |
|----------|---------|---------|--------|
| 1 Month | 1.240% | 0.860% | 0.380% |
| 3 Month | 1.680% | 1.350% | 0.330% |
| 6 Month | 2.200% | 1.900% | 0.300% |
| 9 Month | 2.670% | 2.300% | 0.370% |

Source: Bloomberg

Current Economic Releases

| DATA | PERIOD | VALUE |
|-------------------|--------------|---------------|
| GDP QoQ | Q1 '22 | -1.50% |
| US Unemployment | May '22 | 3.60% |
| ISM Manufacturing | May '22 | 56.1 |
| PPI YoY | Apr '22 | 15.70% |
| CPI YoY | May '22 | 8.60% |
| Fed Funds Target | Jun 10, 2022 | 0.75% - 1.00% |

Source: Bloomberg