TheINVESTOR

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TheECONOMY

Until the Job is Done

Containing inflation is currently the top priority for the Federal Open Market Committee (FOMC) and recent data continues to reflect price levels that are well above the FOMC's comfort zone. While the Consumer Price Index (CPI) may have shown some signs of cooling in July, recent releases showed price pressures heating back up with core CPI reaching a 40-year high of 6.6% in September. Drivers of inflation have been broad-based as both headline and core measures have surpassed expectations.

Following the August CPI release, the FOMC felt compelled to strongly reaffirm its commitment to fighting inflation. Voting unanimously, the FOMC raised its target policy rate range up 75 basis points to a new target range of 3.00% to 3.25%. Alongside this jumbo-sized rate increase, Chair Powell continued his efforts to bolster the FOMC's inflation-fighting credibility with a forceful and repeated commitment to "keep at it until the job is done."

Meanwhile, the labor market continues to prove resilient. In September, nonfarm payrolls remained solid with an increase of 263k as the unemployment rate declined to 3.5%, matching a 50-year low. Moreover, wage pressures remain as the labor force participation rate declined to 62.3% and average hourly earnings continues growing at elevated levels coming in at 5%. While typically a welcome sign, the current strength of the labor market complicates the Fed's efforts to tighten financial conditions.

As inflation remains elevated and the labor market maintains its strength, the FOMC still has more work to do. The median dots from the FOMC's most recent projections point to another 150 basis points of rate increases by the end of 2023 resulting in a terminal rate range of up to 4.75%. Although the FOMC is well aware of the risks that an overly restrictive policy poses to the labor market and economic growth, Chair Powell has pointed out there is no "painless" way to do this. As the FOMC continues to monitor the implications of incoming data and assess the appropriate path for monetary policy, challenges await in the management of the tradeoffs between growth, inflation, and any pain that may follow.

Treasury Yields

MATURITY	10/12/22	9/12/22	CHANGE
3 Month	3.535%	3.098%	0.438%
6 Month	4.150%	3.548%	0.602%
1 -Year	4.229%	3.631%	0.598%
2 -Year	4.291%	3.571%	0.720%
3 -Year	4.309%	3.610%	0.699%
5 -Year	4.118%	3.449%	0.668%
10 -Year	3.896%	3.358%	0.538%
30 -Year	3.874%	3.512%	0.362%

Source: Bloomberg

Agency Yields

MATURITY	10/12/22	9/12/22	CHANGE
3 Month	3.937%	3.323%	0.615%
6 Month	4.094%	3.451%	0.643%
1 -Year	4.373%	3.678%	0.696%
2 -Year	4.405%	3.663%	0.742%
3 -Year	4.354%	3.635%	0.719%
5 -Year	4.264%	3.580%	0.684%

Source: Bloomberg

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

MATURITY	10/12/22	9/12/22	CHANGE
1 Month	3.130%	2.760%	0.370%
3 Month	3.980%	3.210%	0.770%
6 Month	4.590%	3.800%	0.790%
9 Month	4.830%	4.060%	0.770%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q2 '22	-0.60%
US Unemployment	Sep '22	3.50%
ISM Manufacturing	Sep '22	50.9
PPI YoY	Sep '22	11.50%
CPI YoY	Sep '22	8.20%
Fed Funds Target	Oct 13, 2022	3.00% - 3.25%

Source: Bloomberg