



TheECONOMY

Battling Inflation: No Pain, No Gain

While the labor market remains strong, recent data suggests that it could be starting to cool. The labor market has proven resilient in this high-inflation economic environment, with the December unemployment rate declining slightly to 3.5%. However, an increasing number of layoffs especially in the tech and finance sectors, in addition to slowing payroll growth, could indicate that labor markets are beginning to show signs of stress from increasing interest rates. The Labor Department reported that employers added 223,000 jobs in December, the smallest gain over the past two years. The current market expectation is for the Fed to continue raising interest rates over the medium term, and while the recent labor market softening doesn't change that expectation, it creates the potential that the size of future rate increases could be lower than previously expected.

Taming inflation remains a top priority for the Federal Reserve and after a slight decline in the December inflation rate, inflation still remains uncomfortably high. In December, inflation declined to 6.5% year-over-year, falling by 0.6% since November. The lower inflation rate was driven down in part by lower energy and used vehicle prices which offset continued price increases for groceries, apparel, and communications. Despite the recent decline, it doesn't appear the U.S. has "turned the corner yet" according to a top International Monetary Fund official who went on to say that it's too early for the Federal Reserve to declare victory in the fight against soaring prices. As a result of persistently high inflation, markets expect the Fed to continue raising rates through the first half of 2023. Overall, U.S. economic activity is expected to slow in 2023 in response to higher interest rates. However, uncertainty persists about the pace with which the Fed will increase interest rates as it balances combating high inflation with the potential for an economic recession.

Treasury Yields

MATURITY	1/6/22	12/5/22	CHANGE
3 Month	4.493%	4.171%	0.321%
6 Month	4.786%	4.700%	0.086%
1 -Year	4.671%	4.719%	-0.049%
2 -Year	4.247%	4.387%	-0.140%
3 -Year	3.979%	4.118%	-0.139%
5 -Year	3.698%	3.778%	-0.080%
10 -Year	3.558%	3.574%	-0.016%
30 -Year	3.687%	3.584%	0.103%

Source: Bloomberg

Agency Yields

MATURITY	1/6/22	12/5/22	CHANGE
3 Month	4.825%	4.671%	0.154%
6 Month	4.794%	4.710%	0.084%
1 -Year	4.711%	4.759%	-0.048%
2 -Year	4.391%	4.512%	-0.121%
3 -Year	4.146%	4.272%	-0.126%
5 -Year	3.884%	4.042%	-0.158%

Source: Bloomberg

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

MATURITY	1/6/22	12/5/22	CHANGE
1 Month	4.370%	4.100%	0.270%
3 Month	4.710%	4.590%	0.120%
6 Month	5.100%	5.020%	0.080%
9 Month	5.280%	5.290%	-0.010%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q3 '22	3.20%
US Unemployment	Dec '22	3.50%
ISM Manufacturing	Dec '22	48.4
PPI YoY	Nov '22	10.60%
CPI YoY	Dec '22	6.50%
Fed Funds Target	Jan 09, 2023	4.25% - 4.50%

Source: Bloomberg