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TheECONOMY

Breaking Point?

The collapse of Silicon Valley Bank, a unique regional bank that experienced a significant deterioration of its depository base, weighs heavily on the market. There is an adage that the Federal Reserve will often raise rates “until something breaks.” With regional banks now firmly under the microscope, the implications of a credit crunch stemming from a tightening of lending standards have led many market participants to believe that the Fed’s battle against inflation is nearly complete.

While some Fed officials have publicly dialed back expectations for future rate hikes, continued tightness in the labor market with inflation that is still too hot for comfort may make it difficult to come to a consensus. However, Fed officials did agree at their March meeting that “some additional policy firming may be appropriate” while raising the Fed Funds target rate to a range of 4.75% - 5.00%.

Due to the long and variable lag between monetary policy and its impact on the economy, there are growing concerns that the Fed will keep rates too high for too long, tipping the economy into a deep recession. The disconnect between the Fed and market is visible when analyzing the yield curve. While the Fed is forecasting its target rate to be well above 5.00% by year-end, the market is pricing in rate cuts, with a year-end target closer to 4.50%. At some point it may be prudent for the Fed to pause and assess the situation, but as recent events have attested, whether it gets that chance remains to be seen.

Treasury Yields

MATURITY	4/13/23	3/13/23	CHANGE
3 Month	4.873%	4.765%	0.108%
6 Month	4.923%	4.613%	0.311%
1 -Year	4.632%	4.147%	0.486%
2 -Year	3.968%	3.976%	-0.008%
3 -Year	3.703%	3.868%	-0.165%
5 -Year	3.500%	3.699%	-0.199%
10 -Year	3.445%	3.573%	-0.128%
30 -Year	3.687%	3.709%	-0.022%

Source: Bloomberg

Agency Yields

MATURITY	4/13/23	3/13/23	CHANGE
3 Month	5.028%	4.922%	0.106%
6 Month	4.927%	4.821%	0.106%
1 -Year	4.704%	4.639%	0.065%
2 -Year	4.177%	4.217%	-0.040%
3 -Year	3.886%	3.983%	-0.096%
5 -Year	3.670%	3.798%	-0.128%

Source: Bloomberg

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

MATURITY	4/13/23	3/13/23	CHANGE
1 Month	4.910%	4.700%	0.210%
3 Month	5.160%	4.890%	0.270%
6 Month	5.280%	5.020%	0.260%
9 Month	5.210%	5.050%	0.160%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q4 '22	2.60%
US Unemployment	Mar '23	3.50%
ISM Manufacturing	Mar '23	46.3
PPI YoY	Mar '23	3.20%
CPI YoY	Mar '23	5.00%
Fed Funds Target	Mar 22, 2023	4.75% - 5.00%

Source: Bloomberg