



TheECONOMY

Fed Pause or Conclusion? Debt Ceiling Showdown.

Fed Funds have eclipsed 5.00% for the first time since 2007 as Chair Powell and the Federal Open Market Committee (FOMC) raised rates by 25 basis points on May 3. This is the tenth increase in the Federal Funds rate since March of 2022 and potentially the last as Chair Powell has shifted his rhetoric and stated at the press conference that, “looking ahead, we will take a data-dependent approach in determining the extent to which additional policy firming may be appropriate.” Moving forward it will be critical to watch the next few inflation and labor market readings to assess whether the FOMC is truly done, if this is a pause, or if there are further increases in Fed Funds ahead.

Nonfarm payrolls for April continued to remain strong, with the headline number coming in at +253k for the month, easily beating expectations of +185k. The unemployment rate also ticked down during the month, reaching 3.4%, tying a multi-decade low. The labor market continues to defy expectations even as there are some signs that the supply and demand of workers is starting to shift into better balance.

Inflation data continues to remain stubbornly high but has begun to steadily decrease with both the Consumer Price Index (CPI) and Personal Consumption Expenditures (PCE) Index off their multi-decade high readings from the middle of last year. CPI for April came in at +0.4% month-over-month, in line with expectations but still well above the annualized 2.00% target. PCE readings for April will come out on May 26 and will be critical to watch as this is the FOMC’s preferred measure of inflation. The next labor market and inflation readings will be crucial data points ahead of the FOMC’s rate decision on June 14.

The debt ceiling showdown remains in the headlines with Congress and the Biden Administration continuing discussions on a plan to raise the debt ceiling ahead of an expected early June cash crunch. Secretary Yellen has been vocal about the Treasury’s current cash projections, and both sides remain optimistic that a resolution can be agreed to ahead of the deadline.

Treasury Yields

MATURITY	5/16/23	4/17/23	CHANGE
3-Month	5.029%	4.991%	0.038%
6-Month	5.205%	5.017%	0.188%
1-Year	4.880%	4.802%	0.078%
2-Year	4.082%	4.194%	-0.112%
3-Year	3.745%	3.920%	-0.176%
5-Year	3.526%	3.698%	-0.172%
10-Year	3.534%	3.600%	-0.066%
30-Year	3.854%	3.811%	0.043%

Source: Bloomberg

Agency Yields

MATURITY	5/16/23	4/17/23	CHANGE
3-Month	5.232%	5.144%	0.088%
6-Month	5.111%	5.060%	0.050%
1-Year	4.842%	4.856%	-0.015%
2-Year	4.217%	4.361%	-0.144%
3-Year	3.889%	4.078%	-0.189%
5-Year	3.653%	3.851%	-0.198%

Source: Bloomberg

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

MATURITY	5/16/23	4/17/23	CHANGE
1-Month	5.120%	4.910%	0.210%
3-Month	5.280%	5.160%	0.120%
6-Month	5.360%	5.350%	0.010%
9-Month	5.280%	5.380%	-0.100%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q1 '23	1.10%
US Unemployment	Apr '23	3.40%
ISM Manufacturing	Apr '23	47.1
PPI YoY	Apr '23	2.30%
CPI YoY	Apr '23	4.90%
Fed Funds Target	May 17, 2023	5.00%-5.25%

Source: Bloomberg