TheINVESTOR



The **ECONOMY**

Only Time Will Tell

With a new debt ceiling bill through Congress, the marketplace has refocused its attention towards the future state of monetary policy. For the first time in 15 months, the Federal Open Market Committee (FOMC) opted not to raise the Fed Funds rate following 10 consecutive rate hikes. While the debate over whether the Fed's decision should be considered a pause versus a skip is largely a game of semantics, Chairman Powell remained adamant at the June meeting that further rate hikes may be appropriate, albeit at a more moderate pace.

Recently hawkish rhetoric from FOMC members aligns with an inflation backdrop that remains well above the Fed's longer-term objective while a pause allows the committee more time to assess a clearly decelerating economy. However, in a surprise to the markets, the Fed's latest rate projection signals a median estimate of 5.6% for the target rate, the equivalent of two more 25 basis point hikes from the current level. Though there seems to be no real consensus on the path forward from here, the market is no longer pricing in rate cuts this year, in line with the Fed's prevailing sentiment.

The latest round of economic releases offers mixed signals on the current state of the U.S. economy. Despite rising modestly to 3.7% in May, the unemployment rate remains at a historically low level while core inflation runs hot at 5.3%. On the other hand, ISM Services PMI continues to trend closer to contractionary territory while average weekly hours decline to levels more consistent with a recession, a sign of cooling in an otherwise still-too-tight labor market.

Acknowledging the long and variable lag of its impact on the economy, the Fed believes monetary policy is nearing a sufficiently restrictive level. Rates have sold off across the curve with the 2-year approaching year-to-date highs as the market digests a potentially higher for longer interest rate environment.

Treasury Yields

| MATURITY | 6/21/23 | 5/19/23 | CHANGE |
|----------|---------|---------|---------|
| 3-Month | 5.139% | 5.217% | -0.078% |
| 6-Month | 5.395% | 5.287% | 0.108% |
| 1-Year | 5.237% | 4.978% | 0.258% |
| 2-Year | 4.715% | 4.266% | 0.449% |
| 3-Year | 4.294% | 3.950% | 0.344% |
| 5-Year | 3.957% | 3.732% | 0.225% |
| 10-Year | 3.719% | 3.673% | 0.046% |
| 30-Year | 3.807% | 3.927% | -0.120% |
| | | | |

Source: Bloomberg

Agency Yields

| MATURITY | 6/21/23 | 5/19/23 | CHANGE |
|----------|---------|---------|---------|
| 3-Month | 5.607% | 5.324% | 0.283% |
| 6-Month | 5.452% | 5.229% | 0.223% |
| 1-Year | 5.301% | 5.017% | 0.284% |
| 2-Year | 4.659% | 4.440% | 0.219% |
| 3-Year | 4.202% | 4.119% | 0.082% |
| 5-Year | 3.853% | 3.880% | -0.027% |
| | | | |

Source: Bloomberg

Source: Bloomberg

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

| MATURITY | 6/21/23 | 5/19/23 | CHANGE |
|----------|---------|---------|---------|
| 1-Month | 5.080% | 5.110% | -0.030% |
| 3-Month | 5.390% | 5.310% | 0.080% |
| 6-Month | 5.640% | 5.440% | 0.200% |
| 9-Month | 5.760% | 5.430% | 0.330% |

Current Economic Releases

| DATA | PERIOD | VALUE |
|-------------------|--------------|-------------|
| GDP QoQ | Q1 '23 | 1.30% |
| US Unemployment | May '23 | 3.70% |
| ISM Manufacturing | May '23 | 46.9 |
| PPI YoY | May '23 | 1.10% |
| CPI YoY | May '23 | 4.00% |
| Fed Funds Target | Jun 22, 2023 | 5.00%-5.25% |

Source: Bloomberg

Data as of June 22, 2023. Data unaudited. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen evant unforceseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. **Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.**