



## TheECONOMY

### 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

### 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%

Source: Bloomberg

### 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