



VIP

Virginia Investment Pool  
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## TheECONOMY

### To Hike or Not To Hike.

Economic data continues to make the Fed's job challenging as we enter the last two meetings of the year. Inflation was slightly hotter than expected in September with CPI increasing 3.7% from a year prior and increasing 0.4% quarter over quarter. While the pace of inflation slowed from its recent August high, the numbers suggest that the Fed may still have work to do to tame higher prices.

Shelter and energy prices were the main catalysts for September's inflation reading as rents and home prices bucked trend and showed an acceleration. A surge in energy prices felt during September led to an 8.5% increase from the prior quarter which was already on top of August's 9.1% spike. Core inflation, which strips out the volatile food and energy segments, reached a two-year low which is positive considering it is the Fed's preferred gauge. However, with core inflation still above the Fed's 2% level, CPI above its June low, and unemployment below 4%, the Fed may still have some work to do.

The US consumer has displayed consistent strength despite high inflation which we believe has provided a boost to the economy along with low levels of unemployment. Though we note that there is evidence that this could be starting to shift. Consumer sentiment via the University of Michigan Index has declined for three months in a row now (though it is higher than a year ago) and consumer savings have also been on a decline since May. Credit card usage is also accelerating which can flow through to credit quality at the banks.

To cap it all off, geopolitical tensions have again flared with the recent escalation in Israel which has the ability to destabilize the economic outlook globally. At home, a prolonged fight for the Speaker of the House could push Congress up against its funding deadline again in November leading to a potential shutdown. The market now places only a 25% chance of another rate hike this year and with all the conflicting forces in the US economy right now, what the Fed chooses to do next is anyone's guess.

### Treasury Yields

MATURITY	10/12/23	9/13/23	CHANGE
3 Month	5.343%	5.448%	-0.106%
6 Month	5.560%	5.521%	0.039%
1 -Year	5.395%	5.396%	-0.001%
2 -Year	5.069%	4.969%	0.099%
3 -Year	4.846%	4.645%	0.201%
5 -Year	4.692%	4.384%	0.309%
10 -Year	4.697%	4.249%	0.448%
30 -Year	4.854%	4.343%	0.511%

Source: Bloomberg

### Agency Yields

MATURITY	10/12/23	9/13/23	CHANGE
3 Month	5.505%	5.509%	-0.004%
6 Month	5.553%	5.533%	0.021%
1 -Year	5.489%	5.443%	0.047%
2 -Year	5.151%	5.012%	0.139%
3 -Year	4.952%	4.733%	0.219%
5 -Year	4.815%	4.487%	0.329%

Source: Bloomberg

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

MATURITY	10/12/23	9/13/23	CHANGE
1 Month	5.360%	5.360%	0.000%
3 Month	5.580%	5.500%	0.080%
6 Month	5.760%	5.760%	0.000%
9 Month	5.810%	5.820%	-0.010%

Source: Bloomberg

### Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q2 '23	2.10%
US Unemployment	Sep '23	3.80%
ISM Manufacturing	Sep '23	49.0
PPI YoY	Sep '23	2.20%
CPI YoY	Sep '23	3.70%
Fed Funds Target	Oct 13, 2023	5.25%-5.50%

Source: Bloomberg

Source: Bloomberg. Data as of October 12, 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. VIP is not a bank. An investment in VIP is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although VIP seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. 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 and unforeseen 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.