



## TheECONOMY

### Gain Without Pain?

Since the start of the Federal Reserve's historically aggressive rate hiking cycle in March of 2022, the critical question has been whether this would tip the U.S. economy into a recession with elevated unemployment or whether a so-called "soft landing" could be feasible. Federal Reserve Chairman Jerome Powell even noted at an August press conference that he was convinced their policies to tame inflation would "bring some pain to households and businesses" but were necessary to stabilize the U.S. economy.

However, November's CPI and unemployment data paint a rosier picture for the U.S. economy than earlier predictions at the start of the hiking cycle. Inflation now sits at 3.10%, just 1.10% above the Fed's stated target, and down meaningfully from when the Fed began tightening. Simultaneously, unemployment rates have remained relatively unchanged since the start of the hikes and decreased 0.2% month-over-month in November. With the data looking increasingly favorable on both sides, it appears that the Fed's desired but once thought unlikely outcome of a soft-landing scenario is becoming more likely.

While the Fed has not yet declared victory, officials are now expecting unemployment to "remain roughly flat" over the next few years, a dramatic change of tune from when economists called for a recession at the start of the cycle. Despite a soft landing seemingly more likely, some economists still forecast a sharp increase in unemployment, leading to severe recession and rate cuts as early as March of 2024. As we enter what appears to be the last leg of the Fed's fight against inflation, the exact timing to lower rates is still to be determined, with important implications for the U.S. economy and the financial markets.

### Treasury Yields

| MATURITY | 12/6/23 | 11/10/23 | CHANGE  |
|----------|---------|----------|---------|
| 3 Month  | 5.245%  | 5.250%   | -0.005% |
| 6 Month  | 5.368%  | 5.456%   | -0.088% |
| 1 -Year  | 5.070%  | 5.374%   | -0.304% |
| 2 -Year  | 4.593%  | 5.062%   | -0.469% |
| 3 -Year  | 4.324%  | 4.837%   | -0.513% |
| 5 -Year  | 4.104%  | 4.684%   | -0.580% |
| 10 -Year | 4.104%  | 4.652%   | -0.548% |
| 30 -Year | 4.214%  | 4.762%   | -0.548% |

Source: Bloomberg

### Agency Yields

| MATURITY | 12/6/23 | 11/10/23 | CHANGE  |
|----------|---------|----------|---------|
| 3 Month  | 5.347%  | 5.457%   | -0.110% |
| 6 Month  | 5.344%  | 5.511%   | -0.167% |
| 1 -Year  | 5.137%  | 5.429%   | -0.292% |
| 2 -Year  | 4.674%  | 5.100%   | -0.427% |
| 3 -Year  | 4.434%  | 4.912%   | -0.477% |
| 5 -Year  | 4.270%  | 4.791%   | -0.521% |

Source: Bloomberg

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

| MATURITY | 12/6/23 | 11/10/23 | CHANGE  |
|----------|---------|----------|---------|
| 1 Month  | 5.370%  | 5.330%   | 0.040%  |
| 3 Month  | 5.500%  | 5.610%   | -0.110% |
| 6 Month  | 5.540%  | 5.740%   | -0.200% |
| 9 Month  | 5.450%  | 5.780%   | -0.330% |

Source: Bloomberg

### Current Economic Releases

| DATA                          | PERIOD        | VALUE |
|-------------------------------|---------------|-------|
| GDP QoQ                       | Q3 '23        | 5.20% |
| US Unemployment               | Nov '23       | 3.70% |
| ISM Manufacturing             | Nov '23       | 46.7  |
| PPI YoY                       | Oct '23       | 1.30% |
| CPI YoY                       | Nov '23       | 3.10% |
| Fed Funds Target Dec 13, 2023 | 5.25% - 5.50% |       |

Source: Bloomberg