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TheECONOMY

End of Year & Hiking Cycle

After implementing one of the most aggressive interest rate-tightening cycles in decades over the last two years, central bankers across the globe are poised to begin an easing of monetary policy as inflation continues to decline. The Federal Reserve highlighted this change with its release of the dot plot in December. The dot plot illustrates where policymakers estimate interest rates will be at the end of the next several years and over the long run. Each dot represents every committee member's estimate, and the median forecast is evaluated by market participants for future policy direction. The December release showed policymakers anticipate cutting interest rates much sooner than previously forecasted and signaled 75 basis points of cuts for 2024 as the base case. The Fed funds futures market believes the Federal Reserve may be more aggressive in cutting rates than the dot plot has forecasted due to declining growth forecasts.

Ultimately, this rate-cutting philosophy hinges on inflation continuing to slow. The Core Personal Consumption Expenditure (PCE) Price Index, which strips out more volatile food and energy components, moved lower to 3.2% in November from the previous 3.5% October level. Although the figure (in this case PCE representing inflation) is still well above the Federal Reserve's target of 2.00%, the recent trend has been supportive of returning to near these levels. On a six-month annualized basis, the core metric rose 1.9%, the first time in three years that this has been below the Fed's long-term target.

With inflation normalizing and allowing the Federal Reserve to halt the current hiking cycle and pivot toward an easing policy stance, we have noticed longer-term interest rates lowering accordingly. While the likelihood of an economic soft landing remains low, the key ingredients remain present with strong employment and policymakers willing to reverse course quickly. The recent increase in consumer spending, despite higher borrowing costs, shows just how resilient the extremely important consumer has been and why the soft-landing probability has increased.

Treasury Yields

MATURITY	1/10/24	12/11/23	CHANGE
3 Month	5.388%	5.189%	0.199%
6 Month	5.234%	5.391%	-0.157%
1 -Year	4.813%	5.117%	-0.304%
2 -Year	4.360%	4.708%	-0.348%
3 -Year	4.106%	4.457%	-0.351%
5 -Year	3.972%	4.246%	-0.274%
10 -Year	4.023%	4.233%	-0.211%
30 -Year	4.196%	4.327%	-0.131%

Source: Bloomberg

Agency Yields

MATURITY	1/10/24	12/11/23	CHANGE
3 Month	5.421%	5.500%	-0.079%
6 Month	5.302%	5.410%	-0.108%
1 -Year	4.963%	5.173%	-0.210%
2 -Year	4.359%	4.814%	-0.455%
3 -Year	4.447%	4.803%	-0.356%
5 -Year	3.895%	4.397%	-0.502%

Source: Bloomberg

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

MATURITY	1/10/24	12/11/23	CHANGE
1 Month	5.320%	5.360%	-0.040%
3 Month	5.440%	5.490%	-0.050%
6 Month	5.380%	5.500%	-0.120%
9 Month	5.280%	5.430%	-0.150%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q3 '23	4.90%
US Unemployment	Dec '23	3.70%
ISM Manufacturing	Dec '23	47.4
PPI YoY	Dec '23	1.00%
CPI YoY	Dec '23	3.40%
Fed Funds Target	Jan 10, 2024	5.25%-5.50%

Source: Bloomberg