Capital Markets Group

Weekly Review—September 15, 2023

We're living in historic times. The current treasury curve has been inverted 213 consecutive days surpassing it's 1980 high mark for the longest inversion ever recorded. With 10-year yields less than 3-month yields, an inverted curve has historically been a predictor of economic slowdown as investors expect that the Fed will be forced to ease policy to stimulate growth. Understanding that such inversions have forecasted the last eight recessions with 100% accuracy, there remains a disconnect between the market's recession warning and policy maker's economic outlook as Fed officials are turning more optimistic that they can reduce inflation without causing serious economic pain. Speaking in Florida, Atlanta Fed President Bostic said he hopes the economy can continue to gradually slow without a disorderly surge in unemployment. "If we can avoid that kind of dynamic, that would be a pretty amazing thing," he told reporters. While the Fed's optimism is growing, others are slow to follow. Economists surveyed this week by Bloomberg showed no strong consensus in terms of their economic outlook. Only 27% believe that the economy will continue to expand over the next 12 months (i.e., a soft landing) while 45% felt the economy will fall into recession within a year. The remaining 27% believe the economy would contract with zero or no growth but fall short of a formally declared recession (i.e., a hard landing but not a crash!).

Next week's market focus will be on Wednesday's Fed policy meeting. While policy makers are expected to make no changes in benchmark rates, an updated dot plot forecast contained in their quarterly Summary of Economic Projections could show another rate hike. Stronger-than-expected economic data will keep rates higher for longer in hopes of reducing inflationary pressure. With inflation still well-above target, the Fed will likely err on the hawkish side over the near term. Interestingly, while the Fed's current benchmark rate stands at 5.25%-5.50%, their longer-term equilibrium rate – the fed fund rate that neither stimulates nor restrains economic growth - stands at 2.5%. That's an obvious rates-down bias! If you haven't already, start positioning for lower rates…

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
9/18/23 – 9/22/23		No local issues this week	

Economic Release	Data Period	Date	Survey	Actual	Prior
MBA Mortgage Applications	Sep 8	09/13/2023	NA	-0.8%	-2.9%
CPI MoM	Aug	09/13/2023	0.6%	0.6%	0.2%
CPI YoY	Aug	09/13/2023	3.6%	3.7&	3.2%
Retail Sales Advance MoM	Aug	09/14/2023	0.1%	0.6%	0.7%
PPI Final Demand MoM	Aug	09/14/2023	0.4%	0.7%	0.4% (rev up)
PPI Final Demand YoY	Aug	09/14/2023	1.4%	1.6%	0.8%
Initial Jobless Claims	Sep 9	09/14/2023	225k	220k	217k (rev up)
Empire Manufacturing	Sep	09/15/2023	-10.4	1.9	-19.0
Industrial Production MoM	Aug	09/15/2023	0.1%	0.4%	0.7% (rev down)
U. of Mich. Sentiment	Sep (P)	09/15/2023	69.4	67.7	69.5

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	8.50	8.50	5.50
Discount Rate	5.50	5.50	2.50
Fed Funds Rate	5.33	5.33	2.33
Interest on Reserve Bal.	5.40	5.40	2.40
SOFR	5.30	5.30	2.27
11th Dist COFI (ECOFC)	2.89	2.82	0.87
1-Yr. CMT	5.43%	5.37	3.95
Dow	34,618.24	34,946.39	30,961.82
NASDAQ	13,708.34	13,631.05	11,552.36
S&P 500	4,450.32	4,437.86	3,901.35
Bond Buyer	3.87	3.71	3.81

MUNI AA—BQ

3 Mo.	2.90
6 Mo.	3.00
1-Year	3.28
2-Year	3.16
3-Year	3.05
5-Year	2.96
7-Year	2.98
10-Year	3.12
30-Year	4.25

Treasuries & New Issue Agencies *(Spread to Treasuries)*

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	5.45				
6 Mo. Bill	5.52				
1-Year Bill	5.42				
2-Year Note	5.02	5	81	81	
3-Year Note	4.71	14	84	81	80
5-Year Note	4.44	6	99	94	86
7-Year Note	4.40	27	106	98	88
10-Year Note	4.31	45	120	111	100
20-Year Bond	4.58				
30-Year Bond	4.40				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+55
2-Year	60	70
3-Year	85	105
5-Year	120	145

MBS Current Coupon Yields

GNMA 30 Yr.	5.96%
FNMA 30 Yr.	6.02%
FNMA 15 Yr.	5.56%

The Weekly Review is a publication of the Capital Markets Group of Commerce Bank.