



Weekly Review—September 29, 2023

As stated in last week’s commentary, the Fed’s near-term policy response is expected to be “higher for longer.” Meaning, policy makers will keep benchmark rates high until something breaks. Question is - What will break first, inflation or economic growth?

On the inflation front, today’s key economic data showed that core Personal Consumption Expenditures (PCE) rose only 0.1% in August. At 3.9%, last month’s year-over-year core increase in prices fell from July’s 4.2% reading. While both metrics continue to show that inflation appears to be slowing, prices remain elevated. According to Fed Chairman Powell, “We want to see that these good inflation readings that we’ve been seeing for the last three months, we want to see that it’s more than just three months.”

Understanding I’m not an economist by profession and that times I know only enough to be dangerous; I find it interesting that the Fed’s primary focus for measuring inflation has historically been on the core measurements...those metrics that exclude food and energy (& now housing – i.e., “super-core”). Core calculations do not fully measure the full change in consumer prices. As an example, core measurements do not include the 24% increase in food prices since the start of the pandemic. In last week’s post FOMC-meeting press conference, Fed Chairman Powell said the central bank is “aware that high inflation imposes significant hardship... especially for those least able to meet the higher costs of essentials like food, housing, and transportation.” I guess food, energy and housing meet the Fed’s definition of “transitory”???

As for the economy, consumer spending accounts for approximately 70% of overall economic growth. According to the Bureau of Economic Analysis, personal consumption rose an annualized 0.8% in the 2nd quarter marking the weakest quarterly advance in over a year. While 3rd-quarter consumption is expected to remain upbeat at 2.9%, most economists (and consumers) are concerned about the sustainability of consumer spending. According to the latest Federal Reserve study of household finances, personal savings as a percentage of disposable income has fallen to 3.90% - below pre-pandemic levels of 5% & materially less than its almost 7% pre-pandemic ten-year average. Meaning, most consumers have run out of extra savings and now have less cash on hand to support current spending habits. Empty consumer pockets will eventually weigh on economic growth.

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
10/03/2023	\$22,000,000.00	SULLIVAN SD MO UT GO AA+	2024-2043
10/05/2023	\$27,695,000.00	COLUMBIA MO-WTR & ELEC REV-A REVS A+	2024-2053

Economic Release	Data Period	Date	Survey	Actual	Prior
New Home Sales	Aug	09/26/2023	698k	675k	739k (rev up)
Conf. Board Consumer Confid.	Sep	09/26/2023	105.5	103.0	108.7 (rev up)
MBA Mortgage Applications	Sep 22	09/27/2023	NA	-1.3%	5.4%
Durable Goods Orders	Aug (P)	09/27/2023	0.2%	0.4%	0.1% (rev down)
GDP Annualized QoQ	2Q (T)	09/28/2023	2.2%	2.1%	2.1%
Initial Jobless Claims	Sep 23	09/28/2023	215k	204k	202k (rev up)
Personal Income	Aug	09/29/2023	0.4%	0.4%	0.2%
Personal Spending	Aug	09/29/2023	0.5%	0.4%	0.9% (rev up)
MNI Chicago PMI	Sep	09/29/2023	47.6	44.1	48.7
U. of Mich. Sentiment	Sep (F)	09/29/2023	67.7	68.1	67.7

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	8.50	8.50	6.25	3 Mo.	3.35
Discount Rate	5.50	5.50	3.25	6 Mo.	3.45
Fed Funds Rate	5.33	5.33	3.08	1-Year	3.75
Interest on Reserve Bal.	5.40	5.40	3.15	2-Year	3.71
SOFR	5.31	5.30	2.98	3-Year	3.58
11th Dist COFI (ECOFC)	2.97	2.89	0.87	5-Year	3.49
1-Yr. CMT	5.46	5.44	3.99	7-Year	3.50
Dow	33,507.50	34,852.67	29,225.61	10-Year	3.59
NASDAQ	13,219.32	13,943.76	10,737.51	30-Year	4.67
S&P 500	4,288.05	4,497.63	3,640.47		
Bond Buyer	4.09	3.84	4.02		

Treasuries & New Issue Agencies (Spread to Treasuries)					CMO Spreads to Treasuries			
	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year		PAC	Vanilla
3 Mo. Bill	5.45					1-Year	N/A	+55
6 Mo. Bill	5.53					2-Year	60	70
1-Year Bill	5.45					3-Year	85	100
2-Year Note	5.03	10	81	81		5-Year	120	145
3-Year Note	4.77	13	84	81	80			
5-Year Note	4.57	7	98	94	86			
7-Year Note	4.57	27	105	99	89			
10-Year Note	4.52	45	120	111	99			
20-Year Bond	4.85							
30-Year Bond	4.66							

MBS Current Coupon Yields	
GNMA 30 Yr.	6.26%
FNMA 30 Yr.	6.32%
FNMA 15 Yr.	5.81%

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