Capital Markets Group

Weekly Review—January 10, 2025

Although policy makers continue to believe that risks to achieving the Fed's employment and inflation goals "are roughly in balance," it is clear from their December benchmark rate forecast that they are becoming increasingly worried about the lack of inflation progress. According to their December dot plot, the median rate forecast by year end 2025 increased to 3.875% - up from the previous quarter's 3.375%. That suggests 50bps of easing compared with 100bps back in September as policy makers have essentially pushed out the timeframe for getting back to their 2% inflation target. In September, the median core PCE (YoY) estimate by year end 2025 was 2.1% - basically at target. Now inflation is expected to be 2.5% by year end and their 2.1% target expectation has shifted to year end 2026. From the inflation perspective, the Fed is expected to slow walk any additional rate cuts.

As for the Fed's full employment mandate, December's robust jobs report left little to the imagination as non-farm payrolls increased 256k – significantly higher than the median street estimate of 165k - marking its highest level in nine months. At 4.1%, the unemployment rate unexpectedly fell while average hourly earnings rose 0.3% - as expected. Furthermore, annual revisions showed that the labor market was more resilient over the summer than previously thought*. Bottom line: The strength in this round of jobs data is expected to give policy makers even more reason to move cautiously in terms of future policy response.* Fed fund traders have now reduced their 50bps rate cut expectation from two 25bps cuts – one in June and one in September - to one 25bp cut in September.

Next week's inflation data (CPI & PPI) will offer more clues on the direction of prices – just in time for the Fed's next policy meeting which is scheduled for later this month. As an inflation spoiler – in the last five years, CPI has increased 56 out of 60 months. Meaning, consumer prices seldom decline.

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
		No new deals.	

Economic Release	Data Period	Date	Survey	Actual	Prior
Factory Orders	Nov	01/06/2025	-0.3%	-0.4%	0.5% (rev up)
Durable Goods Orders	Nov (F)	01/06/2025	-0.5%	-1.2%	-1.1%
Trade Balance	Nov	01/07/2025	-$78.3b	-$78.2b	-$73.6b (rev up)
ISM Services Index	Dec	01/07/2025	53.5	54.1	52.1
MBA Mortgage Applications	Jan 3	01/08/2025	NA	-3.7%	NA
ADP Employment Change	Dec	01/08/2025	140k	122k	146k
Initial Jobless Claims	Jan 4	01/08/2025	215k	201k	211k
Wholesale Inventories MoM	Nov (F)	01/08/2025	-0.2%	-0.2%	-0.2%
Change in Nonfarm Payrolls	Dec	01/10/2025	165k	256k	212k (rev down)
Unemployment Rate	Dec	01/10/2025	4.2%	4.1%	4.2%

KEY INDICES			
	Current	Last Month	One Year Ago
Prime Rate	7.50	7.75	8.50
Discount Rate	4.50	4.75	5.50
Fed Funds Rate	4.33	4.58	5.33
Interest on Reserve Bal.	4.40	4.65	5.40
SOFR	4.30	4.63	5.31
11th Dist COFI (ECOFC)	3.04	3.11	3.12
1-Yr. CMT	4.25	4.20	4.82
Dow	41,938.45	44,247.83	37,695.73
NASDAQ	19,161.63	19,687.24	14,969.65
S&P 500	5,827.04	6,034.91	4,783.45
Bond Buyer	4.16	3.98	3.31

MUNI AA—BQ	
3 Mo.	2.25
6 Mo.	2.34
1-Year	2.76
2-Year	2.80
3-Year	2.85
5-Year	2.93
7-Year	3.00
10-Year	3.21
30-Year	4.21

CMO Spreads to Treasuries		
	PAC	Vanilla
1-Year	N/A	+45
2-Year	55	65
3-Year	75	90
5-Year	100	110

MBS Current Coupon Yields	
GNMA 30 Yr.	5.91%
FNMA 30 Yr.	6.01%
FNMA 15 Yr.	5.27%

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

	3 Mo.	6 Mo.	1-Yr.	2-Yr.	3-Yr.	5-Yr.	7-Yr	10-Yr	20-Yr	30-Yr
Treasuries	4.31	4.29	4.20	4.36	4.43	4.54	4.65	4.74	5.01	4.94
Bullets				-2	-7	-6	6	16		
NC-6 Mo.				16	25	52	67	75		
NC-1 Year				17	40	41	52	69		
NC-2 Year					-2	20	35	50		