Weekly Review—January 27, 2023

The beginning of the end of rate hikes is approaching. Not that the bond market is thinking the Fed is done raising its benchmark rate, this week's inflation data showed that price increases are continuing to soften paving way for less aggressive policy responses. For those tracking the trajectory of rate hikes this cycle, the Fed first increased rates 25bps in March of last year, followed by a 50bp hike in May. Once the Fed realized they were late to the party, policy makers increased their policy response by aggressively hiking rates 75bps at four consecutive policy meetings. Understanding that the effects of policy response on economic activity work with a lag, the Fed's final action of 2023 was an increase of only 50bps. A 425bp increase in overnight rates in a period of nine months! Looking forward, Fed fund futures shows that investors expect the Fed to raise rates 25bps at their next two policy meetings – with the first meeting scheduled for next week.

As for the economy, Gross Domestic Product (GDP) – the broad measure of overall economic output/health – grew at a 2.9% pace in the fourth quarter, down from 3.2% in 3QTR22. Although at the thirty-thousand-foot level it appears that the economy remains resilient, the primary driver of growth – consumer spending – continues to lose momentum. The pressure on consumers continues to increase as wage increases have generally not kept up with increases in the cost of living while the depletion of personal savings has caused consumer debt levels to return to historic highs. Outstanding credit card volume has returned to record highs while credit card rates have increased to levels not seen since 1985. Consumer heartburn doesn't stop with credit cards. Auto loan delinquency rates (borrowers at least 60 days late) have materially increased over the last twelve months and are nearing levels not seen in 25 years. Understanding that consumer spending accounts for nearly 70% of overall economic growth, a healthy and happy consumer is necessary to maintain a strong economy.

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
01/31/2023	$7,500,000	STEPHENSON CO CCD#519-REF IL	2025-2029

Economic Release	Data Period	Date	Survey	Actual	Prior
Leading Index	Dec	1/26/2023	-0.7%	-1.0%	-1.1% (rev)
S&P Global US Manufact. PMI	Jan (P)	1/24/2023	46.0	46.8	46.2
MBA Mortgage Applications	Jan 20	1/25/2023	NA	7.0%	27.9%
GDP Annualized QoQ	4Q (A)	1/26/2023	2.6%	2.9%	3.2%
Initial Jobless Claims	Jan 21	1/26/2023	205k	186k	192k (rev)
Durable Goods Orders	Dec (P)	1/26/2023	2.5%	5.6%	-1.7% (rev)
New Home Sales	Dec	1/26/2023	612k	616k	602k (rev)
Personal Income	Dec	1/27/2023	0.2%	0.2%	0.3% (rev)
Personal Spending	Dec	1/27/2023	-0.2%	-0.2%	-0.1% (rev)
U. of Mich. Sentiment	Jan (F)	1/27/2023	64.6	64.9	64.6

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	7.50	7.50	3.25
Discount Rate	4.50	4.50	0.25
Fed Funds Rate	4.33	4.33	0.08
Interest on Reserve Bal.	4.40	4.40	0.15
1-Month Libor	4.55	4.39	0.11
11th Dist COFI (ECOFC)	1.86	1.59	0.22
1-Yr. CMT	4.68	4.66	0.70
Dow	33,978.08	33,241.56	34,160.78
NASDAQ	11,621.71	10,353.23	13,352.78
S&P 500	4,070.56	3,829.25	4,326.51
Bond Buyer	3.37	3.66	2.33

MUNI AA—BQ

3 Mo.	1.96
6 Mo.	2.04
1-Year	2.38
2-Year	2.23
3-Year	2.17
5-Year	2.15
7-Year	2.23
10-Year	2.37
30-Year	3.55

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	4.65				
6 Mo. Bill	4.82				
1-Year Bill	4.66				
2-Year Note	4.20	18	81	81	
3-Year Note	3.91	10	85	82	81
5-Year Note	3.62	8	98	94	86
7-Year Note	3.57	30	105	98	88
10-Year Note	3.52	55	120	111	99
20-Year Bond	3.76				
30-Year Bond	3.63				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+40
2-Year	45	55
3-Year	60	65
5-Year	80	100

MBS Current Coupon Yields

GNMA 30 Yr.	4.74%
FNMA 30 Yr.	4.81%
FNMA 15 Yr.	4.06%

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