Capital Markets Group

Weekly Review—May 9, 2025

The Fed left benchmark interest rates unchanged at this week's policy meeting. Their policy statement as well as the Fed Chair's post meeting comments show that although "the risks of higher unemployment and higher inflation (a.k.a.; stagflation) appear to have risen, policy makers believe that the current stance of monetary policy leaves them well positioned to respond in a timely way to potential economic developments." Echoing previous forward guidance, the Committee is in "no hurry" to adjust overnight rates as there is little hard data to support making a move. From the Fed's perspective, the economy is "still in a solid position." The labor market is "at or near maximum employment" while wage growth is "still outpacing inflation." In terms of inflation, the Fed believes that prices are "moving sideways at a fairly low level," but still "somewhat running above their 2% longer-run target." By relying largely on hard data to determine an appropriate policy response, the Fed is managing their dual mandate reactively rather than proactively. Doing so is akin to driving your car forward by mostly looking in the rearview mirror???

As for the bond market, treasury yields were little changed on the week as the Fed's "no change" policy response came as expected. The two-year treasury yield remains in the 3.85% area while the 10-year hovers near 4.35%. At 50bps, the 2/10 spread has risen to levels not seen since March 2022. [For those keeping score, the 2/10 spread was negative (thus, an inverted curve) for twenty-six consecutive months before turning positive last September.] Based on this increased spread (i.e., the slope/steepness of the yield curve) and the market's rates-down bias, current investment yields should be viewed as an opportunity to add protected duration to the bond portfolio. *(What's protected duration?? It's one thing to add duration now but you don't want to lose it if/when rates decline. Meaning, understand how embedded optionality/negative convexity impacts the performance of newly purchased bonds.)*

Although investment yields will likely remain volatile over the near-term as investors struggle with the direction/timing of future policy response, dollar cost averaging by investing into higher rates now should be considered a best practice. With the curve now positively sloped, investors are once again compensated for adding duration.

Please reach out to your CMG sales rep to discuss ways to add down-side protection.

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
05/12/2025	$1,250,000	Bourbon County KS USD #235 BQ GO	2026-2037
05/13/2025	$3,265,000	Osage City KS BQ GO	2026-2035
05/15/2025	$2,065,000	Fredonia KS Temp Notes	2027
05/15/2025	$44,695,000	Manhattan, KS GO	2026 - 2045
05/15/2025	$27,885,000	Manhattan, KS Temp Notes	2028-2029

Economic Release	Data Period	Date	Survey	Actual	Prior
S&P Global US Services PMI	Apr (F)	05/05/2025	51.2	50.8	51.4
S&P Global US Composite PMI	Apr (F)	05/05/2025	51.2	50.6	51.2
ISM Services Index	Apr	05/05/2025	50.2	51.6	50.8
Trade Balance	Mar	05/06/2025	-$137.2b	-$140.5b	-$123.2b (rev down)
MBA Mortgage Applications	May 2	05/07/2025	NA	11.0%	-4.2%
FOMC Rate Decision (Upper)	May 7	05/07/2025	4.50%	4.50%	4.50%
Consumer Credit	Mar	05/07/2025	$9.387b	$10.172b	-$0.614b (rev up)
Initial Jobless Claims	May 3	05/08/2025	230k	228k	241k
Continuing Claims	Apr 26	05/08/2025	1,895k	1,879k	1,908k
Wholesale Inventories MoM	Mar (F)	05/08/2025	0.5%	0.4%	0.5%

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	7.50	7.50	8.50
Discount Rate	4.50	4.50	5.50
Fed Funds Rate	4.33	4.33	5.33
Interest on Reserve Bal.	4.40	4.40	5.40
SOFR	4.29	4.40	5.31
11th Dist COFI (ECOFC)	2.93	2.94	3.16
1-Yr. CMT	4.05	3.83	5.13
Dow	41,249.38	40,608.45	39,387.76
NASDAQ	17,928.92	17,124.97	16,346.26
S&P 500	5,659.91	5,456.90	5,214.08
Bond Buyer	5.16	4.34	3.93

MUNI AA—BQ

3 Mo.	2.40
6 Mo.	2.49
1-Year	2.91
2-Year	2.92
3-Year	2.93
5-Year	3.01
7-Year	3.15
10-Year	3.42
30-Year	4.60

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+50
2-Year	65	70
3-Year	80	90
5-Year	110	120

MBS Current Coupon Yields

GNMA 30 Yr.	5.63%
FNMA 30 Yr.	5.66%
FNMA 15 Yr.	4.86%

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	4.24	4.04	3.85	3.83	3.96	4.15	4.36	4.86	4.84
Bullets				1	3	4	15	22		
NC-6 Mo.				55	75	88	95	96		
NC-1 Year				24	45	62	70	75		
NC-2 Year					5	25	37	48		