Capital Markets Group

Weekly Review—June 13, 2024

When I was five years old my parents signed me up for the Golden Gloves boxing group in our small town. It was 1979, Rocky II was popular and my family usually watched boxing matches together on TV on the weekends. I really do not know why my parents signed me up – maybe it was my father's idea to toughen me up, or maybe I displayed a penchant for pugilism, it is not pertinent. What matters is I learned an early lesson in using my mind and body to fight for myself and others.

The latest rematch between the two heavyweights, the bond market and the FOMC, started yesterday after the release of CPI, the FOMC Dot Plot, and the subsequent Chair Powell press conference. Both the monthly change and the yearly change measures of CPI came in lower than projected. CPI MoM was flat in May versus an expected 0.1% monthly increase while the CPI YoY for May was 3.3% compared to the estimate of 3.4%. This small decrease excited the bond market and yields descended like beads of sweat on faces of the fighters. The market attacked like Mike Tyson, determined, quick, wanting to end the match in the first round and move on to the next opponent. Fed Fund Futures jumped from showing the mere possibility one cut in December to betting on three cuts with the first one in September! Then came the FOMC Dot Plot which had a median forecast of one rate cut this year and four in 2025. While this was initially surprising, the markets eventually interpreted this a positive as the FOMC essentially just moved one cut from 2024 to 2025. The result would be a Fed Funds rate 125bps lower by the end of next year. Chair Powell entered the ring after round two landing jabs and an occasional body blow to the bond market. While scoring some points, he could not knock out his opponent. Bond yields remained lower even after his explanations, extending the fight into later rounds.

Today, PPI Final Demand was released and continued the taming of inflation story. The MoM measure came in at -0.2% versus an estimate of 0.1% while the YoY measure came in at 2.2% versus an estimate of 2.5% and lower than the revised April figure of 2.3%. At time of writing, the 2-year treasury has a yield around 4.70% and the 10-year treasury has a yield of around 4.27%. While both yields are farther away from 5% levels, the inversion will remain as long as the FOMC holds overnight rates steady. Bottom line: the fight continues.

My boxing career did not last long. After winning my first two matches, I lost to a third grader in my final match. He was much bigger than me, but I was spunky. I fought through to the end of the match not knowing it would be my last. The bond market will continue to pressure the FOMC into action. Whether the Fed fights like Buster Douglas or Michael Spinks remains to be seen. Either way, we will be watching and looking for opportunities for our clients – fighting for you.

Have a nice weekend!

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
06/18/2024	45,960,000	Olathe, KS GO	2025 - 2044

Economic Release	Data Period	Date	Survey	Actual	Prior
MBA Mortgage Applications	Jun 7	06/12/2024	NA	15.6%	-5.2%
CPI MoM	May	06/12/2024	0.1%	0.0%	0.3%
CPI YoY	May	06/12/2024	3.4%	3.3%	3.4%
FOMC Rate Decision (Upper)	Jun 12	06/12/2024	5.50%	5.50%	5.50%
Fed IORB	Jun 13	06/12/2024	5.40%	5.40%	5.40%
FOMC Median Rate Forecast 1Y	Jun 12	06/12/2024	4.125%	4.125%	3.875%
Initial Jobless Claims	Jun 8	06/13/2024	225k	242k	229k
Continuing Claims	Jun 1	06/13/2024	1,795k	1,820k	1,790k (rev down)
PPI Final Demand MoM	May	06/13/2024	0.1%	-0.2%	0.5%
PPI Final Demand YoY	May	06/13/2024	2.5%	2.2%	2.3% (rev up)

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	8.50	8.50	8.25
Discount Rate	5.50	5.50	5.25
Fed Funds Rate	533	5.33	5.08
Interest on Reserve Bal.	5.40	5.40	5.15
SOFR	5.31	5.31	5.05
11th Dist COFI (ECOFC)	3.20	3.16	2.57
1-Yr. CMT	5.07	5.17	5.18
Dow	38,647.10	39,431.51	34,212.12
NASDAQ	17,667.56	16,388.24	13,573.32
S&P 500	5,433.74	5,221.42	4,369.01
Bond Buyer	3.97	4.07	3.67

MUNI AA—BQ

3 Mo.	3.33
6 Mo.	3.49
1-Year	3.19
2-Year	3.15
3-Year	3.03
5-Year	2.95
7-Year	2.94
10-Year	2.94
30-Year	3.94

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	5.38				
6 Mo. Bill	5.33				
1-Year Bill	5.07				
2-Year Note	4.70	3	75	66	
3-Year Note	4.44	4	87	83	51
5-Year Note	4.26	4	120	119	90
7-Year Note	4.26	19	132	120	103
10-Year Note	4.27	33	140	135	120
20-Year Bond	4.52				
30-Year Bond	4.44				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+50
2-Year	60	70
3-Year	85	95
5-Year	105	110

MBS Current Coupon Yields

GNMA 30 Yr.	5.47%
FNMA 30 Yr.	5.61%
FNMA 15 Yr.	5.03%

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