Capital Markets Group

Weekly Review—July 7, 2023

May's key inflation data released last week suggested that prices continue to increase month over month as core PCE (personal consumption expenditure index) increased 0.3%. Although May's increase came as expected the fact that prices are still increasing at levels consistent with their post pandemic average monthly pace is concerning. On a more positive note, annualized core inflation came in at 4.6% in May - slightly below street estimates of 4.7%. While May's year-over-year decline in inflation show that policy makers are making some progress in the inflation battle, the rate of increase remains well above their 2% target. That said, policy makers anticipate hiking benchmark rates as much as 50bps yet this year.

Despite high prices, the jobs market remains relatively strong as this morning's release of June's employment data showed payrolls increased 209k. Although the 209k marked its lowest reading since December 2020 and was just below the street's median forecast of 230k, June's job growth was consistent with its 10-year pre-pandemic monthly average of 193k. As expected, the unemployment rate held steady at 3.6%. Perhaps the biggest takeaway from last month's employment data was the increase in wages. Specifically, wages increased 0.4% last month – beating expectations of a 0.3% increase while annualized wage growth at 4.4% exceeds estimates of 4.2% and is now approaching the annualized 4.6% increase in core inflation. From the Fed's perspective, increasing wage pressures could drive inflation higher.

While a 25bps rate increase at the July meeting was pretty much expected, today's employment data makes the rate hike all but guaranteed (now at 91% probability) as the jobs market isn't anywhere close to breaking. In terms of recession expectations, low unemployment and steady wage growth have allowed many Americans to continue to spend (regardless of whether they have the money as outstanding credit card debt has increased to historic levels – but that is a topic for another week!) on a range of goods and services. So, if the consumer remains healthy and happy, the economy will continue to grow as consumer spending accounts for nearly 70% of overall economic growth.

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount ($)	Description	Maturity
07/10/2023	$5,000,000	ST JOSEPH MO UT GO BQ AA-	2024-2034
07/10/2023	3,910,000	HAYSVILLE KS-TEMP NTS-A UT GO BQ MIG2	2025
07/11/2023	3,370,000	ANDOVER KS-A UT GO BQ AA-	2024-2043
07/13/2023	1,260,000	KECHI KS-A UT GO BQ AA-	2024-2043
07/13/2023	10,000,000	O'FALLON MO FIRE PROT DT UT GO BQ Aa2	2024-2043

Economic Release	Data Period	Date	Survey	Actual	Prior
S&P Global US Manufact. PMI	Jun (F)	07/03/2023	46.3	46.3	46.3
ISM Manufacturing	Jun	07/03/2023	47.1	46.0	46.9
Factory Orders	May	07/05/2023	0.8%	0.3%	0.3% (rev down)
Durable Goods Orders	May (F)	07/05/2023	1.7%	1.8%	1.7%
MBA Mortgage Applications	Jun 30	07/06/2023	NA	-4.4%	3.0%
ADP Employment Change	Jun	07/06/2023	225k	497k	267k (rev down)
Trade Balance	May	07/06/2023	-$69.0b	-$69.0b	-$74.4b(rev up)
Initial Jobless Claims	Jul 1	07/06/2023	245k	248k	236k (rev down)
Change in Nonfarm Payrolls	Jun	07/07/2023	225k	209k	306k (rev down)
Unemployment Rate	Jun	07/07/2023	3.6%	3.6%	3.7%

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	8.25	8.25	4.75
Discount Rate	5.25	5.25	1.75
Fed Funds Rate	5.08	5.08	1.58
Interest on Reserve Bal.	5.15	5.15	1.65
SOFR	5.06	5.05	1.54
11th Dist COFI (ECOFC)	2.73	2.57	0.38
1-Yr. CMT	5.41	5.20	2.82
Dow	33,734.88	33,665.02	31,384.55
NASDAQ	13,660.71	13,104.89	11,621.35
S&P 500	4,398.95	4,267.52	3,902.62
Bond Buyer	3.64	3.67	3.37

MUNI AA—BQ

3 Mo.	2.74
6 Mo.	2.84
1-Year	3.12
2-Year	3.01
3-Year	2.89
5-Year	2.75
7-Year	2.71
10-Year	2.77
30-Year	3.91

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	5.34				
6 Mo. Bill	5.39				
1-Year Bill	5.40				
2-Year Note	4.93	5	81	80	
3-Year Note	4.64	6	84	81	80
5-Year Note	4.32	6	98	94	86
7-Year Note	4.20	30	105	98	89
10-Year Note	4.04	50	120	111	99
20-Year Bond	4.25				
30-Year Bond	4.02				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+55
2-Year	60	75
3-Year	90	115
5-Year	110	145

MBS Current Coupon Yields

GNMA 30 Yr.	5.29%
FNMA 30 Yr.	5.93%
FNMA 15 Yr.	5.45%