



Weekly Review—July 14, 2023

The market was on inflation watch this week. Here is what they saw...

Consumer Inflation

Intermediate-term treasury yields fell as much as 15bps on Wednesday as weaker-than-expected consumer inflation data gave investors hope that the Fed is close to ending their historic rate hikes. Consumer price index (CPI) rose 3% in June from a year ago. The core measure – which extracts the volatile food and energy components – advanced 4.8% below street median estimates of 5% and marking the lowest level in nearly two years. While the Fed is still expected to increase rates 25bps at this month's policy meeting, the market is betting that the 25bps rate hike in two weeks could be the last this cycle as the probability of another Fed rate hike after this month fell below 50%.

Producer Inflation

Like Wednesday, intermediate-term treasury yields fell as much as 14bps on Thursday as weaker-than-expected producer inflation (Producer Price Index – PPI) data provided additional support that this month's expected rate hike could be the last. Furthermore, a slowdown in key PPI categories points to just a modest increase in the Fed's preferred inflation metric – the PCE – which will be released later this month. The probability of another Fed rate hike after this month fell below 30% – vs. yesterday's 50%.

While this week's inflation data suggested that the Fed's benchmark rate may be close to topping out, market focus will shift from how much "higher" to how much "longer" as investors will look for clues as to how long can policy maker's keep overnight rates at current levels. The answer lies in the financial health of the economy – i.e., the consumer!

With this month's key inflation data behind us, the market now waits for the next Fed's policy meeting scheduled for July 25–26.

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
07/19/2023	\$8,000,000	BOONE CO MO FIRE PROT DT UT GO BQ Aa2	2024–2043
07/20/2023	\$1,700,000	PACIFIC MO FIRE PROT DT UT GO BQ Aa3	2026–2042

Economic Release	Data Period	Date	Survey	Actual	Prior
Wholesale Inventories	May (F)	07/10/2023	-0.1%	0.0%	-0.1%
MBA Mortgage Applications	Jul 7	07/12/2023	NA	0.9%	-4.4%
CPI MoM	Jun	07/12/2023	0.3%	0.2%	0.1%
CPI YoY	Jun	07/12/2023	3.1%	3.0%	4.0%
CPI Core YoY	Jun	07/12/2023	5.0%	4.8%	5.3%
PPI Final Demand MoM	Jun	07/13/2023	0.2%	0.1%	-0.4% (rev up)
PPI Final Demand YoY	Jun	07/13/2023	0.4%	0.1%	0.9% (rev down)
Initial Jobless Claims	Jul 8	07/13/2023	250k	237k	249k (rev up)
Continuing Claims	Jul 1	07/13/2023	1720k	1729k	1718k (rev down)
U. of Mich. Sentiment	Jul (P)	07/14/2023	65.5	72.6	64.4

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	8.25	8.25	4.75	3 Mo.	2.68
Discount Rate	5.25	5.25	1.75	6 Mo.	2.78
Fed Funds Rate	5.08	5.08	1.58	1-Year	3.06
Interest on Reserve Bal.	5.15	5.15	1.65	2-Year	2.94
SOFR	5.05	5.05	1.54	3-Year	2.82
11th Dist COFI (ECOFC)	2.73	2.57	0.49	5-Year	2.68
1-Yr. CMT	5.34	5.26	3.21	7-Year	2.67
Dow	34,509.03	33,979.33	30,630.17	10-Year	2.75
NASDAQ	14,113.70	13,626.48	11,251.19	30-Year	3.88
S&P 500	4,505.42	4,372.59	3,790.38		
Bond Buyer	3.66	3.67	3.34		

Treasuries & New Issue Agencies (Spread to Treasuries)						CMO Spreads to Treasuries		
	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year		PAC	Vanilla
3 Mo. Bill	5.37					1-Year	N/A	+55
6 Mo. Bill	5.47					2-Year	60	75
1-Year Bill	5.29					3-Year	85	110
2-Year Note	4.71	10	81	81		5-Year	110	135
3-Year Note	4.32	10	85	82	81			
5-Year Note	3.99	7	98	93	86			
7-Year Note	3.89	30	105	99	89			
10-Year Note	3.78	50	120	111	99			
20-Year Bond	4.08							
30-Year Bond	3.90							

MBS Current Coupon Yields		
GNMA 30 Yr.		5.24%
FNMA 30 Yr.		5.50%
FNMA 15 Yr.		5.00%

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