Capital Markets Group

Weekly Review—July 27, 2023

As anticipated, the Federal Open Market Committee (FOMC) increased its benchmark overnight rate 25bps on Wednesday to a target range of 5.25%-5.50% while leaving the door open for additional rate hikes. (Although the 5.25%-5.50% fed fund rate marks a 22-year high, this week's increased rate is slightly higher than its 50-year average – how's that for useless trivia!) Based on the Fed's announcement, policy makers "will continue to assess additional information and its implications for monetary policy" while "remaining highly attentive to inflation risks." Meaning, although future policy response will likely be data dependent - "meeting-by-meeting," according to Fed Chairman Powell – policy makers remain focused on driving down inflation as policy has not been "restrictive enough for long enough" to do the job. It sounds like the Fed plans to continue tightening and deal with an economic slowdown vs. stopping now allowing inflation to remain high. **Despite this week's policy response and limited forward guidance, the Fed fund futures market continues to price in a sub-4% benchmark rate as early as January 2025.**

As for the health of the U.S. economy, the Fed was upbeat on its assessment saying that growth is expanding at a "moderate" pace and that Fed staff forecasts no longer include an economic recession. Because of the strength of the economy, Powell believes that "we have a shot at getting inflation back to target without the kind of job loss seen in past cycle." **Despite the Fed's optimistic economic and jobs forecast, street projections currently show a 60% probability of recession within the next twelve months and an unemployment rate increasing to 4.6% (currently 3.6%) by June 2024.**

Back to economic growth - this morning's release of 2nd quarter GDP showed the economy grew at a 2.4% annual pace as consumer spending, which accounts for nearly 70% of economic growth, came in stronger than expected. The 2.4% print exceeded street estimates of 1.8% as well as 1st quarter's 2% growth showing the economy remains resilient even after 525bp of policy rate increases. From the Fed's perspective, the continued strength in the economy gives them the green light for another rate hike, if needed.

Knowing that future policy decisions will be data dependent, there are eight weeks between now and September's policy meeting – ample time for the Fed (and the markets) to review two months of inflation and labor-market reports prior to their next meeting. It's going to be fun watching how all this plays out…

As a heads up, our next Weekly Commentary will be published on Friday, August 11.

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
08/01/2023	$1,900,000	SANTA FE R-X SD MO UT GO BQ AA+ ST AID	2039-2043

Economic Release	Data Period	Date	Survey	Actual	Prior
S&P Global US Manufacturing PMI	Jul	7/24/2023	46.2	49.0	46.3
S&P Global US Services PMI	Jul	7/24/2023	54	52.4	54.4
FHFA House Price Index MoM	Jul	7/25/2023	0.6%	0.7%	0.7%
Conf Consumer Confidence	Jul	7/25/2023	112	117	110.1 (rev up)
MBA Mortgage Applications	Jul	7/26/2023	NA	-1.8%	1.1%
New Home Sales	Jun	7/26/2023	725k	697k	715k (rev down)
FOMC Rate Decision	Jul	7/26/2023	5.50%	5.50%	5.25%
GDP Annualized QoQ	Jul	7/27/2023	1.8%	2.4%	2.0%
Durable Goods Orders	Jun (P)	7/27/2023	1.3%	4.7%	2.0% (rev up)
Initial Jobless Claims	Jul	7/27/2023	235k	221k	228k

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	5.07	1.58
Interest on Reserve Bal.	5.15	5.15	1.65
SOFR	5.06	5.05	1.53
11th Dist COFI (ECOFC)	2.73	2.57	0.49
1-Yr. CMT	5.40%	5.33	3.00
Dow	35,282.72	33,926.74	32,197.59
NASDAQ	14,050.11	13,555.67	12,032.42
S&P 500	4,537.41	4,378.41	4,023.61
Bond Buyer	3.57	3.67	3.36

MUNI AA—BQ

3 Mo.	2.67
6 Mo.	2.77
1-Year	3.05
2-Year	2.77
3-Year	2.73
5-Year	2.58
7-Year	2.54
10-Year	2.62
30-Year	3.78

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	5.48				
6 Mo. Bill	5.49				
1-Year Bill	5.38				
2-Year Note	4.91	5	80	79	
3-Year Note	4.54	13	83	80	80
5-Year Note	4.18	8	97	92	85
7-Year Note	4.07	8	104	98	88
10-Year Note	3.93	49	119	110	98
20-Year Bond	4.19				
30-Year Bond	3.99				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+55
2-Year	60	75
3-Year	85	115
5-Year	110	140

MBS Current Coupon Yields

GNMA 30 Yr.	5.29%
FNMA 30 Yr.	5.81%
FNMA 15 Yr.	5.35%

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