



Weekly Review—September 20, 2024

This week was all about the Fed as policy makers delivered an aggressive 50bp rate cut – marking the first reduction in benchmark rates in four years. Only twice in the past 30 years – January 2001 & September 2007 – did the Fed launch an easing campaign by reducing rates a half point. All other down rate cycles were started with quarter rate cuts. This week’s front-loaded policy action has been the center of attention. Earlier this month, Morgan Stanley’s chief strategist stated that front-loading interest rate cuts materially reduces the chances of a soft landing. Conversely, Piper Sandler’s investment strategist believes that a 50bps cut instills more confidence in a soft-landing outlook or at least assures investors that if a recession does occur, the Fed will be aggressive. JPMorgan strategist warned that a 50-basis point cut could introduce volatility in the coming weeks as investors believe that actions speak louder than words. Meaning, if the Fed wasn’t worried about the economy, they would not have done 50.

From the Fed’s perspective, their hope is that they can orchestrate a soft-landing – a rare feat in which rate hikes lower inflation without triggering a recession. When shifting policy, reducing rates too aggressively could cause inflation to rekindle while cutting rates too slowly runs the risk of increased unemployment. According to Fed Chairman Powell, the economy is “basically fine” as policy makers are confident that the job market can avoid the rise in unemployment seen in past battles against inflation. The half –point cut should be viewed as a “sign of our commitment not to get behind” the curve in normalizing rates.

What’s next? Based on their updated Dot Plot projections, policy makers anticipate another 50bps in cuts this year – quarter point rate reductions in both November and December. As for next year, their median forecast shows another 100bps in cuts. When asked about their projections, Powell said that these forecasts are not a “plan,” although they are a good starting point based on where policy makers see things right now.

At 4.75–5%, the benchmark rate is still considered restrictive based on the Fed’s own forecasts. The speed in which they cut rates will be data dependent. Meaning, any further weakness in the labor market will cause policy to shift from restrictive to neutral (and possibly into accommodative territory) sooner than currently projected. At this point, accommodative territory is expected to have a two handle.

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount (\$)	Description	Maturity
09/23/24	\$1,700,000	Otterville R-VI MO School District GO BQ (LJ Hart deal)	2025 - 2044
09/23/24	\$9,950,000	Girard KS Temp Notes GO	2027
09/23/24	\$77,000,000	Platte County MO Park Hill School District GO	2026 - 2044
09/24/24	\$270,625,000	Kansas Dev Fin Auth (Health & Environment) Rev	2025 - 2044

Economic Release	Data Period	Date	Survey	Actual	Prior
Empire Manufacturing	Sep	09/16/2024	-4.0	11.5	-4.7
Retail Sales Advance MoM	Aug	09/17/2024	-0.2%	0.1%	1.1% (rev up)
Industrial Production MoM	Aug	09/17/2024	0.2%	0.8%	-0.9% (rev down)
MBA Mortgage Applications	Sep 13	09/18/2024	NA	14.2%	1.4%
Housing Starts	Aug	09/18/2024	1,318k	1,356k	1,237k (rev down)
FOMC Rate Decision	Sep 18	09/18/2024	5.25%	5.00%	5.50%
Initial Jobless Claims	Sep 14	09/19/2024	230k	219k	231k (rev up)
Continuing Claims	Sep 7	09/19/2024	1,850k	1,829k	1,843k
Leading Index	Aug	09/19/2024	-0.3%	-0.2%	-0.6%
Existing Home Sales	Aug	09/19/2024	3.90m	3.86m	3.96m (rev up)

KEY INDICES				MUNI AA-BQ		CMO Spreads to Treasuries		
	Current	Last Month	One Year Ago				PAC	Vanilla
Prime Rate	8.00	8.50	8.50	3 Mo.	2.03	1-Year	N/A	+45
Discount Rate	5.00	5.50	5.50	6 Mo.	2.12	2-Year	60	65
Fed Funds Rate	4.83	5.33	5.33	1-Year	2.54	3-Year	75	95
Interest on Reserve Bal.	4.90	5.40	5.40	2-Year	2.34	5-Year	95	105
SOFR	4.82	5.32	5.31	3-Year	2.34	MBS Current Coupon Yields		
11th Dist COFI (ECOFC)	3.27	3.24	2.89	5-Year	2.36	GNMA 30 Yr.	4.74%	
1-Yr. CMT	3.92	4.48	5.45	7-Year	2.55	FNMA 30 Yr.	4.79%	
Dow	42,061.85	40,834.97	34,440.88	10-Year	2.73	FNMA 15 Yr.	4.01%	
NASDAQ	17,948.32	17,816.94	13,469.13	30-Year	3.73			
S&P 500	5,702.59	5,597.12	4,402.20					
Bond Buyer	3.81	3.88	3.90					

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	4.69	4.48	3.98	3.63	3.52	3.53	3.63	3.76	4.13	4.08
Bullets				2	3	4	10	30		
NC-6 Mo.				83	100	119	120	117		
NC-1 Year				33	60	81	72	93		
NC-2 Year					17	40	52	60		

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