



Weekly Review—November 3, 2023

This week's market focus: Fed monetary policy response and employment data. Here's an overview of what the market saw...

Fed Policy

The U.S. central bank's policy-setting Federal Open Market Committee (FOMC) held interest rates at a 22-year high for a second straight meeting earlier this week stating that "tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring and inflation." Although policy makers made no changes in benchmark rates, they did not explicitly take future rate hikes off the table. When asked about future policy response, Fed Chairman Powell reiterated that the Fed is moving at a "meeting-by-meeting" pace and that more data is needed to show inflation is coming down substantially. According to Powell, policy makers are not yet confident that inflation is meaningfully on a path to 2%.

Based on Wednesday's post Fed-announcement bond market rally, the Fed's attempt to deliver a hawkish "pause" message was interpreted more like a "hold" as the threshold for additional rate hikes continues to increase. According to the Fed Chair, although "we're still trying to gain confidence" in what the appropriate stance of policy is, the risks of doing too little vs. doing too much are now getting more balanced. In response to this week's Fed announcement, treasury yields fell across the curve as investors believe that policy makers are more apt to wait and see what the economic impact is of the recent increase in intermediate and longer-term treasury yields rather than embarking on additional rate hikes. Assuming higher rates are here to stay, increased borrowing costs are expected to weigh on economic activity. Bloomberg Economics estimates that persistently higher bond yields are equivalent to 25-50bps of rate hikes!

Recent increases in intermediate and longer-term treasury yields (i.e., "tighter financial conditions" according to the Fed) gave investors hope that the Fed would do less monetary tightening. Interestingly, the fact that in the past two days treasury yields have materially declined - which loosens financial conditions - may result in additional rate hikes.

Employment Situation

Non-farm payrolls increased 150k in October on estimates of 180k while August & September payroll gains were revised 101k lower. October's headline unemployment rate increased to 3.9% - higher than expected and up from September's 3.8% while the labor force participation rate came in lower than expected. Bottom line: Weaker-than-expected jobs data showing that the labor market could be cooling gives support that benchmark rates have likely peaked, and that Fed policy will shift sooner than later - replacing the "higher for longer" expectation. Based on this morning's fed fund futures trading, investors have priced in nearly 100bps in rate cuts in 2024. Understanding that no single economic data set should be overemphasized, future economic data will determine the degree in which the market's current "rates down" bias holds...

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
11/06/2023	\$11,840,000	MAIZE KS -B-TEMP NTS UT GO SP-1+	2026
11/07/2023	\$5,540,000	BEL AIRE KS -A UT GO AA-	2025-2044
11/07/2023	\$6,850,000	BEL AIRE KS -TEMP NTS UT GO SP-1+	2026
11/07/2023	\$10,790,000	AURORA MO-COPS-REV A-	2025-2046
11/07/2023	\$4,945,000	GARDEN CITY KS-A UT GO Aa3	2024-2033
11/08/2023	\$10,795,000	DERBY KS-1-TEMP NTS UT GO SP-1+	2025
11/08/2023	\$12,915,000	DERBY KS-A UT GO AA	2025-2044

Economic Release	Data Period	Date	Survey	Actual	Prior
Conf. Board Consumer Confid.	Oct	10/31/2023	100.5	102.6	104.3 (rev up)
MBA Mortgage Applications	Oct 27	11/01/2023	NA	-2.1%	-1.0%
ADP Employment Change	Oct	11/01/2023	150k	113k	89k
ISM Manufacturing	Oct	11/01/2023	49.0	46.7	49.0
FOMC Rate Decision (Upper)	Nov 1	11/01/2023	5.50%	5.50%	5.50%
Initial Jobless Claims	Oct 28	11/02/2023	210k	217k	212k (rev up)
Factory Orders	Sep	11/02/2023	2.3%	2.8%	1.0% (rev down)
Durable Goods Orders	Sep (F)	11/02/2023	4.7%	4.6%	4.7%
Change in Nonfarm Payrolls	Oct	11/03/2023	180k	150k	297k (rev down)
Unemployment Rate	Oct	11/03/2023	3.8%	3.9%	3.8%

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	8.50	8.50	7.00	3 Mo.	3.59
Discount Rate	5.50	5.50	3.25	6 Mo.	3.59
Fed Funds Rate	5.33	5.33	3.08	1-Year	3.55
Interest on Reserve Bal.	5.40	5.40	3.90	2-Year	3.44
SOFR	5.33	5.32	3.05	3-Year	3.35
11th Dist COFI (ECOFC)	3.01	2.97	1.35	5-Year	3.31
1-Yr. CMT	5.29	5.49	4.76	7-Year	3.36
Dow	34,061.32	33,002.38	32,001.25	10-Year	3.44
NASDAQ	13,478.29	13,059.47	10,342.94	30-Year	4.64
S&P 500	4,358.34	4,229.45	3,719.89		
Bond Buyer	4.17	4.09	3.65		

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	5.40					1-Year	N/A	+50
6 Mo. Bill	5.47					2-Year	60	70
1-Year Bill	5.29					3-Year	100	120
2-Year Note	4.86	9	81	80		5-Year	125	145
3-Year Note	4.63	10	84	80	80			
5-Year Note	4.47	7	98	94	86			
7-Year Note	4.51	27	105	98	88			
10-Year Note	4.51	44	120	111	100			
20-Year Bond	4.87							
30-Year Bond	4.69							

MBS Current Coupon Yields		
GNMA 30 Yr.		6.03%
FNMA 30 Yr.		6.16%
FNMA 15 Yr.		5.69%

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