Capital Markets Group

Weekly Review—November 10, 2023

Something's Comin' on. I don't know what it is but it's getting stronger. A mysterious contributor to the yield curve is getting airplay again. Term premium. What is it? Classic definitions include the amount investors require for locking up their money longer rather than investing in shorter-dated maturities and rolling them over, or the level of return demanded for the interest rate risk over the life of the bond. On the surface, a term premium seems intuitive: an investor should receive a higher return for taking on more risk. So, what is the problem? No one can clearly measure or identify it.

It's alright. It's alright. She moves in mysterious ways. Premiums are known entities in the investing world, which is not the issue. When buying a bond with a higher coupon than current interest rate levels, it makes sense that the compensation received requires a price that is above par. Investors are receiving a benefit. Benefits require compensation for the seller: receiving more than the par. Premiums also come into play if the investor must give up something. Relinquishing control to the issuer regarding the return of principal – as in bonds with a call feature or mortgage-backed securities. Uncertainty usually rewards the investor for giving up a defined liquidity (liquidity premium) with higher yields than those bonds with a more easily defined structure. Now comes the term premium. Yes, in a normally shaped yield curve (longer-dated maturities have higher yields than those on the short end) the term premium is a little easier to acknowledge. But the US Treasury yield curve has been inverted for over a year causing term premiums to go negative. Recently, term premiums on the 10-year treasury have turned positive (see the Bloomberg/NY Fed chart) which makes them part of the discussion.

Don't call it a comeback – I been here for years. Term premiums are always present, but their contribution to yield are not always clear. Liz Capo McCormick and Michael Mackenzie have been writing about term premiums on Bloomberg over the past couple of months. Check out their articles when you get a chance. My favorite quote is from Minneapolis Fed President Neel Kashkari, "*… I always joke that term premium is the economists' version of dark matter – it's the residual of all the stuff we can't explain.*" Is the return of positive term premiums helping the FOMC in their mission to fight inflation? Was the reaction to the Treasury's auction this week for longer-dated maturities a signal of higher term premiums to come? We can only wait and see; perhaps the mystery will become less opaque? Or maybe, it falls on us to become more comfortable with things we cannot easily explain.

Have a great weekend!

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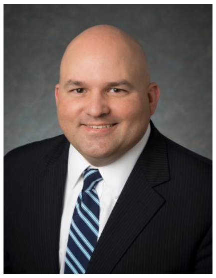

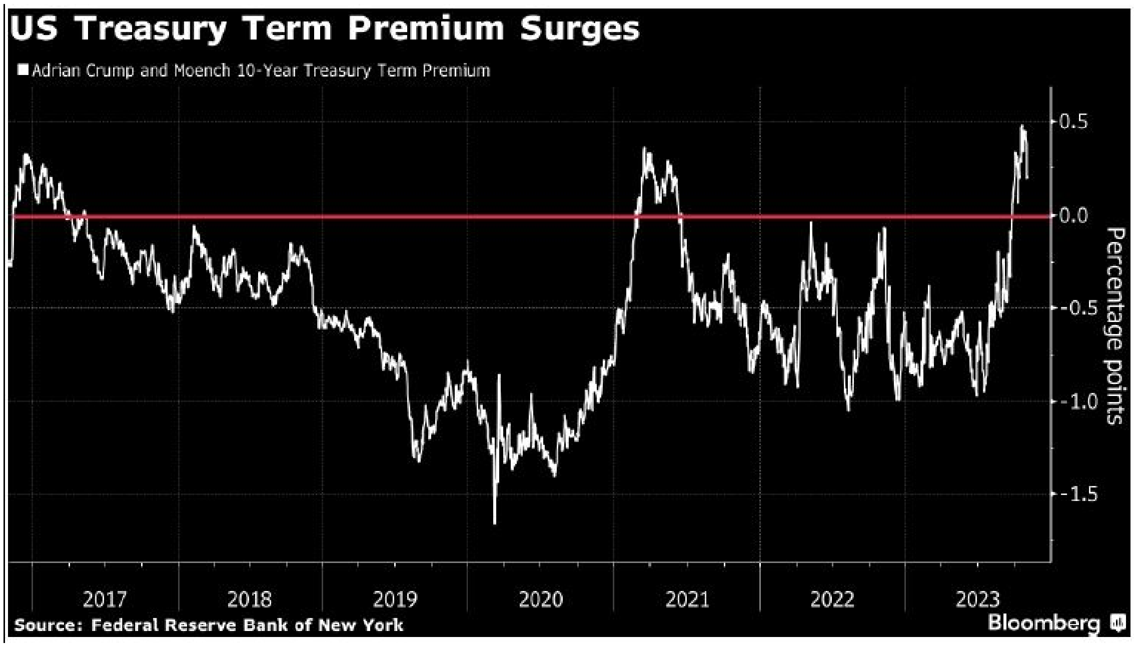

NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
11/14/2023	$9,925,000	EMPORIA KS -LT GO /AA-	2024-2043
11/14/2023	$40,575,000	LAWRENCE KS - REVS Aa2/	2025-2044
11/14/2023	$381,610,000	MO HWYS & TRANSPORTATION REV Aa1/AA+	2024-2026

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Economic Release	Data Period	Date	Survey	Actual	Prior
Trade Balance	Sep	11/07/2023	-$59.8b	-$61.5b	-$58.7b (rev down)
Consumer Credit	Sep	11/07/2023	$9.500b	$9.057b	-$15.788b (rev down)
MBA Mortgage Applications	Nov 3	11/08/2023	NA	2.5%	-2.1%
Wholesale Inventories MoM	Sep (F)	11/08/2023	0.0%	0.2%	0.0%
Wholesale Trade Sales MoM	Sep	11/08/2023	0.9%	2.2%	2.0% (rev up)
Initial Jobless Claims	Nov 4	11/09/2023	218k	217k	220k (rev up)
Continuing Claims	Oct 28	11/09/2023	1,820k	1,834k	1,812k (rev down)
U. of Mich. Sentiment	Nov (P)	11/10/2023	63.8	60.4	63.8
U. of Mich. 1 Year Inflation	Nov (P)	11/10/2023	4.0%	4.4%	4.2%
U. of Mich. 5-10 Year Inflation	Nov (P)	11/10/2023	3.0%	3.2%	3.0%

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	8.50	8.50	7.00
Discount Rate	5.50	5.50	4.00
Fed Funds Rate	5.33	5.33	3.83
Interest on Reserve Bal.	5.40	5.40	3.90
SOFR	5.32	5.31	3.78
11th Dist COFI (ECOFC)	3.01	2.97	1.35
1-Yr. CMT	5.38	5.43	4.75
Dow	34,283.10	33,739.30	33,715.37
NASDAQ	13,798.11	13,562.84	11,114.15
S&P 500	4,415.24	4,358.24	3,956.37
Bond Buyer	3.93	4.12	4.02

MUNI AA—BQ

3 Mo.	3.48
6 Mo.	3.48
1-Year	3.44
2-Year	3.31
3-Year	3.22
5-Year	3.17
7-Year	3.22
10-Year	3.30
30-Year	4.48

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	5.40				
6 Mo. Bill	5.47				
1-Year Bill	5.35				
2-Year Note	5.00	6	81	80	
3-Year Note	4.77	11	84	80	80
5-Year Note	4.61	7	98	94	86
7-Year Note	4.64	27	105	98	88
10-Year Note	4.60	46	120	111	100
20-Year Bond	4.92				
30-Year Bond	4.72				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+50
2-Year	60	70
3-Year	100	120
5-Year	120	140

MBS Current Coupon Yields

GNMA 30 Yr.	6.19%
FNMA 30 Yr.	6.29%
FNMA 15 Yr.	5.84%