Capital Markets Group

Weekly Review—December 15, 2023

The treasury market continued its month-long rally this week as investors believe the Fed's pivot could happen as early as March of next year. With the short end of the treasury curve hitched to Fed policy, this week's price action focused on intermediate and longer-term yields. Specifically, treasury yields starting at the 2-year mark fell as much as 35bps and are down nearly 70bps on the month. When compared to the current October 19 cycle high, treasury yields 5-year and beyond are off as much as 110bps. The catalyst driving this week's impressive downward shift in yields was softening inflation and forward Fed policy guidance.

On the inflation front, there were few surprises in November's CPI data. Consumer prices rose only 0.1% for the month and were up 3.1% on the year, as expected. At the producer level, PPI data showed producer price gains slowed last month largely driven by lower energy costs. When taken together, the CPI and PPI data reinforces the notion that inflation continues to slowly trend towards the Fed's 2% goal. When asked about the inflation, Fed Chairman Powell told reporters at the post FOMC press conference that "although inflation is still too high, it is really good to see the progress we are making on inflation." It appears that inflation risks are becoming more balanced with growth concerns.

Another driver in this week's market move was the appearance of a more dovish Fed. While the Fed held benchmark rates steady this week, changes in their policy statement strengthened the markets resolve that the tightening cycle could be over. The committee softened its previously hawkish language towards further rate hikes by adding the word "any" to their policy statement. According to their statement, policy makers "will assess extent of 'any' additional firming needed."   The Fed's newly added skepticism about the need to further increase rates signaled that policy makers are not seriously thinking to raise rates anytime soon. This is an important acknowledgement.

While the above-described subtle-but-important change in the Fed's policy statement was viewed as dovish, their updated dot plot was further evidence of shifting Fed policy. September's 1-2 rate cuts in 2024 guidance increased to three rate cuts next year according to their December dot plot. While Chairman Powell describes current policy as being "well into restrictive territory," time will tell whether the Fed's increased rate cut guidance was more a function of normalizing policy vs. aiding a flailing economy. If you haven't already, check out this month's Points to Ponder article by CMG's Ross Elford – it's a good read!

As a heads-up, next week's CMG Weekly Commentary will be published on Thursday.

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount ($)	Description	Maturity
12/19/2023	$1,210,000	HOWARD COUTNY MO REGL WTR-REV	2024-2048

Economic Release	Data Period	Date	Survey	Actual	Prior
CPI MoM	Nov	12/12/2023	0.0%	0.1%	0.0%
CPI YoY	Nov	12/12/2023	3.1%	3.1%	3.2%
MBA Mortgage Applications	Dec 8	12/13/2023	NA	7.4%	2.8%
PPI Final Demand MoM	Nov	12/13/2023	0.0%	0.0%	-0.4% (rev up)
FOMC Rate Decision (Upper)	Dec 13	12/13/2023	5.50%	5.50%	5.50%
Retail Sales Advance MoM	Nov	12/14/2023	-0.1%	0.3%	-0.2% (rev down)
Initial Jobless Claims	Dec 9	12/14/2023	220k	202k	221k (rev up)
Empire Manufacturing	Dec	12/15/2023	2.0	-14.5	9.1
Industrial Production MoM	Nov	12/15/2023	0.3%	0.2%	-0.9% (rev down)
S&P Global US Manufact. PMI	Dec (P)	12/15/2023	49.5	48.2	49.4

KEY INDICES

	Current	Last Month	One Year Ago
Prime Rate	8.50	8.50	7.50
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	4.40
SOFR	5.31	5.32	3.80
11th Dist COFI (ECOFC)	3.09	3.01	1.59
1-Yr. CMT	4.95	5.24	4.64
Dow	37,309.22	34.991.21	33,202.22
NASDAQ	14,813.92	14,103.84	10,810.53
S&P 500	4,719.19	4,502.88	3,895.75
Bond Buyer	3.46	3.93	3.59

MUNI AA—BQ

3 Mo.	2.85
6 Mo.	2.85
1-Year	2.74
2-Year	2.59
3-Year	2.46
5-Year	2.36
7-Year	2.37
10-Year	2.43
30-Year	3.75

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

	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year
3 Mo. Bill	5.38				
6 Mo. Bill	5.32				
1-Year Bill	4.29				
2-Year Note	4.43	5	81	81	
3-Year Note	4.12	7	84	81	80
5-Year Note	3.92	7	98	94	86
7-Year Note	3.95	27	106	99	89
10-Year Note	3.93	42	120	111	100
20-Year Bond	4.21				
30-Year Bond	4.03				

CMO Spreads to Treasuries

	PAC	Vanilla
1-Year	N/A	+50
2-Year	60	65
3-Year	95	100
5-Year	110	125

MBS Current Coupon Yields

GNMA 30 Yr.	5.21%
FNMA 30 Yr.	5.32%
FNMA 15 Yr.	4.75%

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