

Weekly Review—March 3, 2023

The relatively strong economic news released this week coupled with the inflation numbers from last week resulted in US treasury yields climbing back to levels not seen since last fall. The 10-year bond eclipsed 4% which seems to be a resistance level as today its yield fell back down below 4% as both stocks and bonds rallied. Additionally, some FOMC members spoke about the possibility of additional stronger hikes to tame inflation. A couple of key take aways from this week's movement in yields and the Fed-speak we heard: 1) As yields rose, the inversion between the 2/10-year tenors remains close to 90 basis points and 2) We might need a refresher on who actually votes this year during FOMC meetings.

Short-term yields are hovering close to 5%, not quite the expected peak of 5.25%-5.50% in the Fed Funds futures market, but higher than we've seen, nonetheless. With the 2-year around 4.85%, it remains higher than the FFT upper bound rate of 4.75%. Once the FFT upper bound eclipses the 2-year, calls for recession will be even stronger. Refer to the chart I built using Bloomberg data. Whenever the spread turns red, the 2Y CMT yield is below the Fed Funds Target Upper Bound rate. While not in every case, in most of them, a recession follows. We often track the aforementioned spread between the 2Y and 10Y yields as the main indicator of the likelihood of a recession or at least a negative turn in the economy. This spread has been negative since July 2022. The next logical step is to watch for the 2Y-FFT upper bound spread as additional support for a recession.

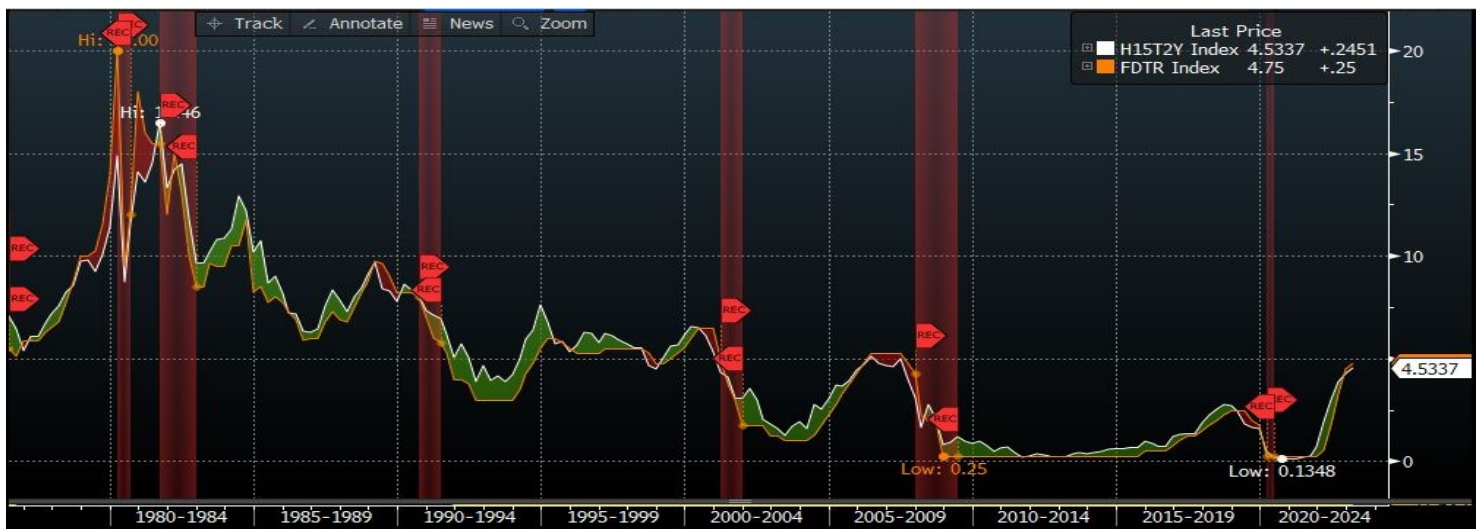
This week we heard from various FOMC meeting attendees. When reading these comments or hearing them from TV or videos releases, I have to remind myself who actually gets to vote this year. So, here's a reminder for me and others:

Powell, Williams, Barr, Bowman, Cook, Goolsbee, Harker, Jefferson, Kashkari, Logan, Waller, and whomever fills the vacancy from Brainard taking a position in the Biden administration.

Therefore, if we hear comments from Barkin, Bostic, Bullard, Collins, Daly, or Mester, they certainly will attend the meetings but will not be able to cast their votes. (Note: Barkin, Bostic, Daly, and Mester are alternate voting members for 2023). While this doesn't mean the non-voting members' comments will not affect the markets, it just means that what they propose will not necessarily be how the FOMC votes.

Have a great weekend!

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
03/09/2023	\$5,145,000	Spring Hill KS 2023A UT GO	2024-2033

Economic Release	Data Period	Date	Survey	Actual	Prior
Durable Goods Orders	Jan (P)	2/27/2023	-4.0%	-4.5%	5.1% (rev down)
Pending Home Sales MoM	Jan	2/27/2023	1.0%	8.1%	1.1% (rev down)
Wholesale Inventories MoM	Jan (P)	2/28/2023	0.1%	-0.4%	0.1%
FHFA House Price Index MoM	Dec	2/28/2023	-0.2%	-0.1%	-0.1%
MNI Chicago PMI	Feb	2/28/2023	45.5	43.6	44.3
Conf. Board Consumer Confid.	Feb	2/28/2023	108.5	102.9	106.0 (rev down)
MBA Mortgage Applications	Feb 24	3/1/2023	NA	-5.7%	-13.3%
S&P Global US Manufact. PMI	Feb (F)	3/1/2023	47.8	47.3	47.8
ISM Manufacturing	Feb	3/1/2023	48.0	47.7	47.4
Initial Jobless Claims	Feb 24	3/2/2023	195k	190k	192k

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	7.75	7.75	3.25	3 Mo.	2.57
Discount Rate	4.75	4.75	0.25	6 Mo.	2.73
Fed Funds Rate	4.57	4.33	0.08	1-Year	3.08
Interest on Reserve Bal.	4.65	4.65	0.15	2-Year	3.05
SOFR	4.55	4.56	0.05	3-Year	2.89
11th Dist COFI (ECOFC)	2.27	2.07	0.24	5-Year	2.78
1-Yr. CMT	5.03	4.64	1.06	7-Year	2.73
Dow	33,390.97	33,926.01	33,794.66	10-Year	2.81
NASDAQ	11,689.01	12,006.96	13,537.94	30-Year	3.97
S&P 500	4,045.64	4,136.48	4,363.49		
Bond Buyer	3.75	3.51	2.53		

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	4.83					1-Year	N/A	+40
6 Mo. Bill	5.12					2-Year	45	55
1-Year Bill	4.99					3-Year	60	70
2-Year Note	4.88	17	82	81		5-Year	85	110
3-Year Note	4.62	12	85	82	81			
5-Year Note	4.27	10	98	94	86			
7-Year Note	4.17	28	105	98	88			
10-Year Note	3.98	49	120	111	99			
20-Year Bond	4.13							
30-Year Bond	3.91							

MBS Current Coupon Yields	
GNMA 30 Yr.	5.26%
FNMA 30 Yr.	5.54%
FNMA 15 Yr.	5.01%

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