



Weekly Review—May 12, 2023

The debt ceiling discussions and lack of progress are taking hold within the treasury market. While most market participants believe 1) a deal will be struck and 2) the US Treasury will prioritize payments to bond holders over other liabilities, looking at the 4wk US T-bill we can see some consternation. First, the yield is the highest along the curve – even above the FFT upper-bound – sending signals of a concern that a US may default on its debt as the deadline quickly approaches. Second, the bid-ask spread is wider than any other T-bill, demonstrating a disconnect between what price investors are willing to pay or sell to each other.

Treasury Secretary Janet Yellen, who has experience with a prior debt ceiling crisis in 2011, told Bloomberg Television, “if Congress fails to do that (raise the debt limit), it really impairs our credit rating. We have to default on some obligation, whether it’s Treasuries or payments to Social Security recipients.” Two things stand out in that quote: 1) “If Congress fails” and 2) “Social Security recipients.” This is a classic positioning of blame just in case an agreement does not occur. Also, a classic use of fear tactic, mentioning the possibility of those on social security not receiving their monthly income.

House Speaker Kevin McCarthy told Fox News, “I have not seen from there a seriousness of the White House that they want a deal...it seems like they want a default more than they want a deal.” Blame and fear. The truth is it takes both Congress and President Biden to agree – not just one party. I tire of the posturing of both sides of our government, where compromise is the last resort and blaming the other party is thought to be not only acceptable but also the best way to gain power. Bottom line: an agreement will be met, the US will not default on its debt, our credit rating will remain strong, retirees will receive their Social Security payments and bond holders will get paid. Because if the US defaults, the world will be worse off, not just the electability of whose party receives the blame.

Next week, we will receive economic releases on Retail Sales for April and the Leading Index. The Leading Index pools data from 10 economic data releases including employment, manufacturing, construction, equity and bond market data, and sentiment indications to provide a direction of near-term economic conditions. The expectation from surveyed economists on Bloomberg is a -0.5% change from March. This would be a less negative change from the larger change from February to March of -1.2%. Here’s to an agreement on the debt ceiling and a more positive (or at least less negative) outlook for our economic future.

Have a great weekend!

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NEW ISSUE MUNICIPAL CALENDAR

Date	Amount (\$)	Description	Maturity
05/16/2023	\$4,185,000	BALDWIN CITY KS-A UT GO BQ A	2028-2042
05/16/2023	\$1,000,000	SALINA KS ARPT AUTH-A-TXBL	2032
05/16/2023	\$8,870,000	SALINA KS ARPT AUTH-B-AMT	2032-2040
05/16/2023	\$6,855,000	SALINA KS ARPT AUTH-C	2039-2043

Economic Release	Data Period	Date	Survey	Actual	Prior
Wholesale Inventories MoM	Mar (F)	05/08/2023	0.1%	0.0%	0.1%
MBA Mortgage Applications	May 5	05/10/2023	NA	6.3%	-1.2%
CPI MoM	Apr	05/10/2023	0.4%	0.4%	0.1%
CPI YoY	Apr	05/10/2023	5.0%	4.9%	5.0%
Real Avg Weekly Earnings YoY	Apr	05/10/2023	NA	-1.1%	-1.5% (rev up)
Real Avg Hourly Earnings	Apr	05/10/2023	NA	-0.5%	-0.6% (rev up)
Initial Jobless Claims	May 6	05/11/2023	245k	264k	242k
PPI Final Demand MoM	Apr	05/11/2023	0.3%	0.2%	-0.4% (rev up)
PPI Final Demand YoY	Apr	05/11/2023	2.5%	2.3%	2.7%
U. of Mich. Sentiment	May (P)	05/12/2023	63.0	57.7	63.5

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	8.25	8.00	4.00	3 Mo.	2.62
Discount Rate	5.25	5.00	1.00	6 Mo.	2.72
Fed Funds Rate	5.08	4.83	0.83	1-Year	3.00
Interest on Reserve Bal.	5.15	4.90	0.90	2-Year	2.70
SOFR	5.05	4.80	0.78	3-Year	2.52
11th Dist COFI (ECOFC)	2.51	2.41	0.30	5-Year	2.39
1-Yr. CMT	4.70	4.67	1.99	7-Year	2.35
Dow	33,300.62	33,646.50	31,730.30	10-Year	2.47
NASDAQ	12,284.74	11,929.34	11,370.96	30-Year	3.73
S&P 500	4,124.06	4,091.95	3,930.08		
Bond Buyer	3.53	3.36	3.27		

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	5.16					1-Year	N/A	+55
6 Mo. Bill	5.11					2-Year	65	80
1-Year Bill	4.76					3-Year	85	95
2-Year Note	3.98	16	81	81		5-Year	100	145
3-Year Note	3.65	18	85	82	81			
5-Year Note	3.43	15	98	93	86			
7-Year Note	3.43	41	105	98	88			
10-Year Note	3.44	57	120	111	100			
20-Year Bond	3.85							
30-Year Bond	3.76							

MBS Current Coupon Yields	
GNMA 30 Yr.	5.00%
FNMA 30 Yr.	5.15%
FNMA 15 Yr.	4.60%

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