

Page 1 – Speeches & Reports

- After a 3-week hiatus, a brief review.
- Bullard states his case.
- Why homes appreciated during the pandemic.

Page 2 – Economic Indicators & Rate Trends

Brief Review – Next FOMC Meeting, January 25-26

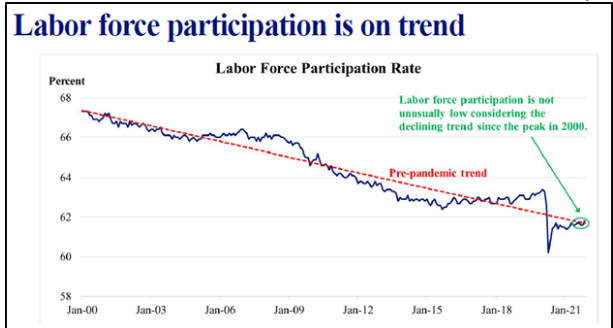
- Taper – at \$30BN a month, LSAP's will end March.
- Rate Hikes – liftoff will likely be in March, if inflation remains elevated (Core PCE is currently 4.7%) and if the economy isn't derailed by a new variant.
- Balance Sheet Normalization – the Fed's effort to reduce \$8.7TN in holdings to a lower (unspecified amount) – this is done by ceasing the reinvestment of securities (Treasuries and MBS) – with a reduction of \$100BN a month, the B.S. would be zero in 7.3yrs.

Bullard – Economic Trends and Rate Hikes

- “The U.S. pandemic recession ended 20 months ago. U.S. real gross domestic product (GDP) has more than fully recovered, and labor market performance continues to improve.”
- “Pandemic risk remains, but omicron variant cases are expected to subside in the weeks ahead.”
- “Omicron variant wave expected to crest 1/27/22.”



- “The labor force participation rate (LFPR) is sometimes cited as a relatively weak aspect of current labor market performance. However, the LFPR has been on a downward trend since 2000 and is not currently unusually low, once the trend is taken into account.”
- “1976, the LFPR was about the same as it is today.”



- “The FOMC took steps at the December 2021 meeting to be in a better position to control inflation over the forecast horizon if inflation does

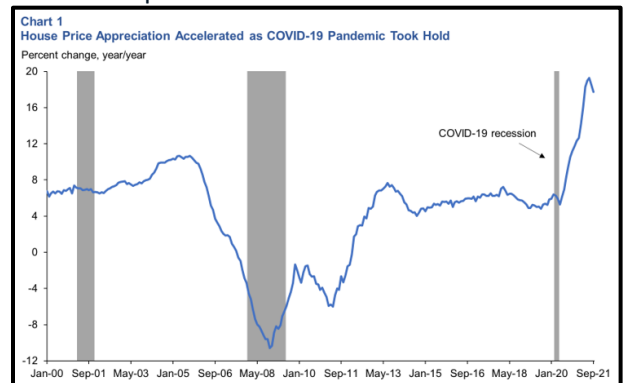
not naturally moderate as much as currently anticipated.”

- “Asset purchases will come to an end in the months ahead, but the FOMC could also elect to allow passive balance sheet runoff in order to reduce monetary accommodation at an appropriate pace.”
- “The FOMC could begin increasing the policy rate as early as the March meeting in order to be in a better position to control inflation.”
- “Subsequent rate increases during 2022 could be pulled forward or pushed back depending on inflation developments.”

St Louis Fed, Bullard speech, The Initial Response to the Inflation Shock of 2021, 1/6/22

Home Price Appreciation – A Perfect Storm of Reasons

- “In the wake of the short but steep COVID-19 recession, house prices have risen at record levels in recent months, hitting the peak increase of 19.3% in July 2021 (Chart 1). These double-digit increases represent a stark departure from what occurred before the pandemic.”



- “These policies prevented recessionary pressures from lowering house prices. Instead, the combination of lower interest rates, support for household incomes, a pandemic-related rise in demand for home offices and single-family homes, supply constraints, widespread mortgage forbearance and moratoriums on evictions pushed up house prices. The gain received support from revived expectations of future price appreciation.”
Dallas Fed, Why House Prices Surged as the COVID-19 Pandemic Took Hold, 12/28/21

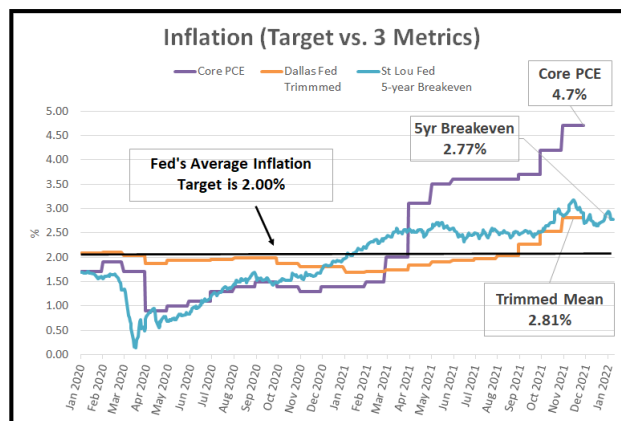
Quote of the Week:
“All men by nature desire knowledge.”
--- Aristotle

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Indicators – Continued High Inflation equals Rate Hikes

- **Unemployment: 3.9% Dec (CBO's Natural Rate: 4.4%).**
 - 199,000 jobs were created in Dec (210,000 jobs were created in Nov) –for the 6-months prior to the pandemic (Sept 2019 to Feb 2020), on average 191,000 jobs were created each month.
 - Jan unemployment #'s will be released 2/4/22.
- **Core PCE: 4.7% Nov (Avg. Inflation Target: 2.0%).**
 - Dallas Fed's Trimmed Mean for Nov: 2.81%,
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 2.77%.
 - Yield on Treasury minus yield on TIPS.
 - Dec's Core PCE will be released 1/28/22.
- **GDP: 2.3% Q3 (SF Fed Long Trend: 1.70%).**
 - 4Q GDP (Adv. Estimate) will be out 1/27/22.



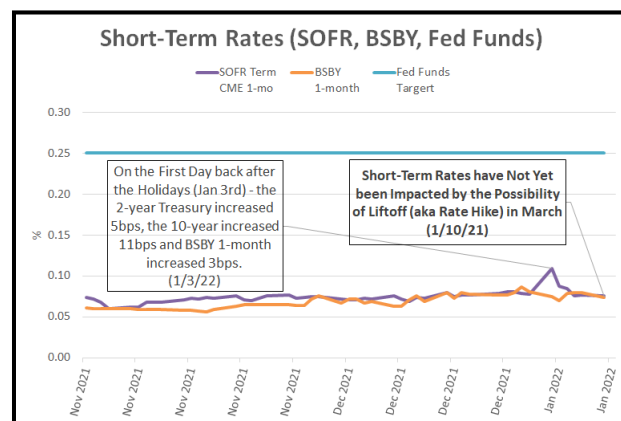
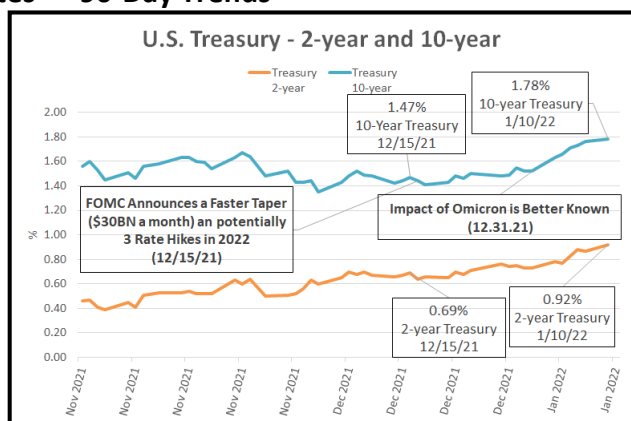
Special Note – thank you to WaFd's Jason Kalager for helping with the build and design of the new graphs.

Rates --- 10-Day Trends

Borrowing Rates - Tax Exempt	12/28/21	12/29/21	12/30/21	12/31/21	1/3/22	1/4/22	1/5/22	1/6/22	1/7/22	1/10/22	10-Day Average	10-Day Avg vs 1/10/22	10-Day Change
2-Year Line of Credit (Fixed Rate Line of Credit)	2.31	2.30	2.31	2.30	2.36	2.39	2.37	2.44	2.46	2.49	2.37	↑ 0.11	0.17
10-year Term Loan 10-year Draw to Term Loan (Fixed Rate Draw Period)	2.89	2.89	2.92	2.90	2.95	3.03	3.02	3.09	3.09	3.12	2.99	↑ 0.13	0.23
15-year Term Loan 15-year Draw to Term Loan (Fixed Rate Draw Period)	3.23	3.24	3.26	3.25	3.29	3.37	3.37	3.44	3.43	3.47	3.34	↑ 0.13	0.24

Key Interest Rates	12/28/21	12/29/21	12/30/21	12/31/21	1/3/22	1/4/22	1/5/22	1/6/22	1/7/22	1/10/22	10-Day Average	10-Day Avg vs 1/10/22	10-Day Change
Federal Funds (Target Range - Upper Limit)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.00	0.00
BSBY - Overnight	0.080	0.080	0.079	0.077	0.109	0.087	0.084	0.075	0.077	0.075	0.082	↓ (0.007)	(0.005)
BSBY - 1-month	0.077	0.079	0.086	0.080	0.075	0.070	0.079	0.080	0.080	0.074	0.078	↓ (0.004)	(0.003)
SOFR - Overnight	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.000	0.045	↓ (0.045)	(0.050)
SOFR - 30-Day Average	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.050	0.000	0.000
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.053	0.051	0.053	0.055	0.056	0.055	0.054	0.055	0.058	0.060	0.055	↑ 0.005	0.007
US Treasury - 2-Year	0.74	0.75	0.73	0.73	0.78	0.77	0.83	0.88	0.87	0.92	0.80	↑ 0.12	0.18
US Treasury - 10-Year	1.49	1.55	1.52	1.52	1.63	1.66	1.71	1.73	1.76	1.78	1.64	↑ 0.15	0.29
US Treasury - 20-Year	1.94	2.00	1.97	1.94	2.05	2.10	2.12	2.12	2.15	2.15	2.05	↑ 0.10	0.21
10-year Treasury Spread (aka 2/10 Yield Curve) (10-year Treasury minus 2-year Treasury)	0.75	0.80	0.79	0.79	0.85	0.89	0.88	0.85	0.89	0.86	0.84	↑ 0.03	0.11

Rates --- 90-Day Trends



Interesting reads that didn't make the Report:

- A Pandemic-Era Startup Boom, Richmond Fed, 12/30/21 (4-pages)
- Remote Schooling and Standardized Test Scores, NBER, 1/3/22 (2 page)

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