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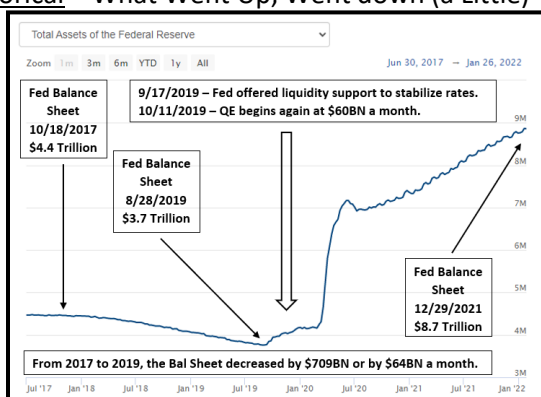
Page 2 – Economic Indicators & Rate Trends

Rate Hikes

- **Analysts Forecasts:**
 - *After the Fed’s meeting last week, liftoff is still expected to be March (potentially by 50bps).*
 - *Acknowledging the uncertainty, the number of rate hikes analysts forecast by YE 2022 range between four and seven.*
- **FOMC – 7 mtgs remain in 2022, next one March 16th.**
 - *The Dec SEP forecasts three rate hikes in 2022.*
 - *An updated (and much anticipated) SEP will be released at the March meeting.*
 - *Neutral Rate (which can change over time) is the rate that supports the economy operating at its potential output w/o increasing inflation.*
 - *The neutral rate is also called the natural rate, long run rate and terminal rate.*
 - *Since June 2019, Fed’s longer run rate has been 2.50% (which is 9 rate hikes away).*

Balance Sheet Normalization / Quantitative Tightening

- **Fed Announcement** – after the Jan meeting, the FOMC announced that holdings would be reduced in “a predictable manner primarily by adjusting the amounts reinvested of principal payments”.
- **Historical – What Went Up, Went down (a Little)**



- A temporary market disruption in Sept 2019 (overnight funding rates spiked) caused the Fed to restart QE, which increased the balance sheet to \$4.1TN by Jan 2020, the level of the Fed balance sheet prior to the pandemic.
Source for Graph and Bullet Point: Federal Reserve Website
- **Balance Sheet Level** – Unknown, but High is Handy
 - “Second the current framework is robust to environments where the Fed needs to expand its balance sheet to address shocks or economic downturns, which has the effect of

substantially increasing reserves in the banking system. This was a key benefit of the framework in 2008 and it proved valuable again in March 2020, when the financial system was buffeted by stress related to the coronavirus pandemic. In addition, this framework allows the Fed to use LSAPs to provide accommodation during zero lower bound periods without being concerned about the need to reestablish reserve scarcity before interest rates can be lifted.”

Source: NY Fed, How the Federal Reserve’s Monetary Policy Implementation Framework Has Evolved, 1/10/22

Inflation – Durables are Driving Inflation

- “While the rate of inflation for services has increased recently, it is still well within recent historical experience. By contrast, the inflationary pressure coming from durables is a sharp reversal of the general deflation in durable prices over the past 20 years.”
- “We expect inflation to gradually return to the Federal Open Market Committee’s target rate of 2%. Current inflation across durables and services is quite different from the 1970-80s inflationary episodes, when inflation rates were tightly linked across sectors. The recent divergence in inflation between durables and services suggests that reducing overall inflationary pressure will depend in part on resolving the supply chain issues and on households shifting expenditures back to services, in addition to pullbacks of monetary and fiscal stimulus.”

Source: SF Fed, Fed Views, published 1/28/22

Inflation – Monetary Policy’s Limited Effect

- “The persistence of recent inflationary pressures at the goods CPI and PPI levels are importantly related to the evolution of global supply factors such as production or shipping bottlenecks and input prices: their global nature and their source (that is, supply as opposed to demand) suggest that domestic monetary policy actions would have only a limited effect on these sources of inflationary pressures.”

Source: NY Fed, The Global Supply Side of Inflationary Pressures, 1/28/22

Quote of the Week:

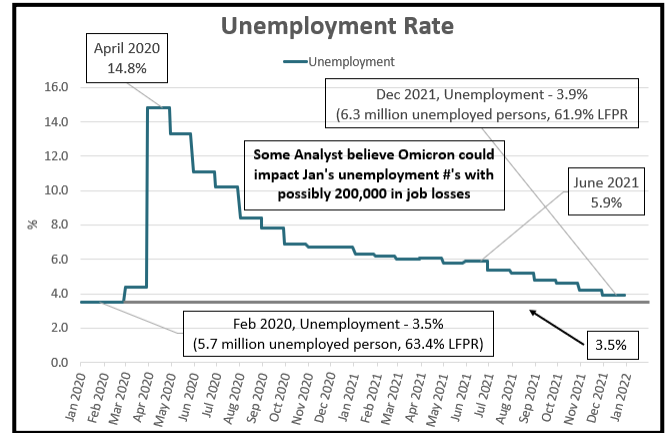
“A mind is a fire to be kindled, not a vessel to be filled.”
--- Plutarch (Greek philosopher)

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Economic Indicators:

- **Unemployment: 3.9% Dec** (CBO's Natural Rate: 4.2%)
 - Median consensus is job growth of 178,000.
 - Jan unemployment #'s will be released Friday.
- **Core PCE: 4.9% Nov** (Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for Dec: 3.05%,
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 2.82%.
 - Yield on Treasury minus yield on TIPS.
 - Jan's Core PCE will be released 2/25/22.
- **GDP: 6.9% Q4 (Adv. Est.)** (SF Fed Long Trend: 1.70%)
 - Capital Economics: the acceleration "mainly reflects a massive surge in inventories, which will be at least partly reversed in the first quarter of this year."
 - 4Q GDP (2nd Estimate) will be released 2/24/22.

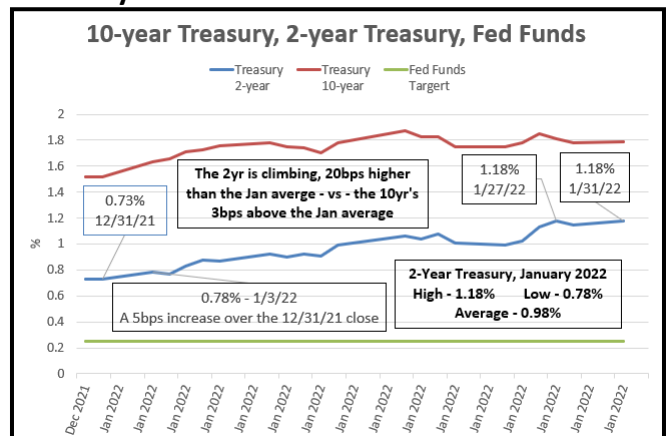
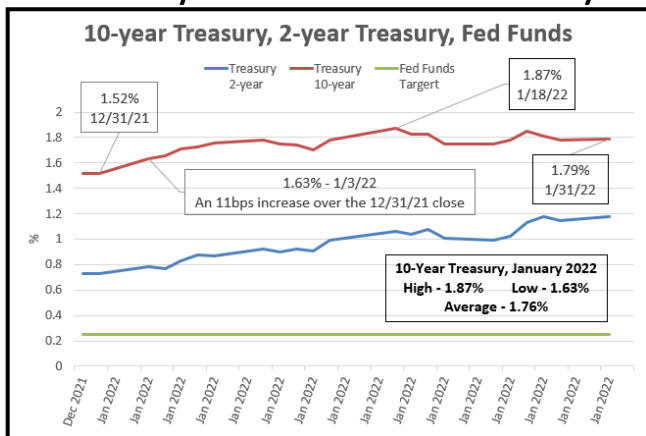


Rates --- 10-Day Trends

Borrowing Rates - Tax Exempt	1/18/22	1/19/22	1/20/22	1/21/22	1/24/22	1/25/22	1/26/22	1/27/22	1/28/22	1/31/22	10-Day Average	10-Day Avg vs 1/31/22	10-Day Change
2-Year Line of Credit (Fixed Rate Line of Credit)	2.55	2.58	2.56	2.54	2.54	2.50	2.52	2.63	2.61	2.58	2.56	↑ 0.02	0.03
10-year Term Loan 10-year Draw to Term Loan (Fixed Rate Draw Period)	3.17	3.21	3.18	3.14	3.13	3.14	3.14	3.22	3.18	3.16	3.17	↓ (0.01)	(0.01)
15-year Term Loan 15-year Draw to Term Loan (Fixed Rate Draw Period)	3.49	3.54	3.50	3.47	3.45	3.47	3.48	3.52	3.51	3.48	3.49	↓ (0.01)	(0.01)

Key Interest Rates	1/18/22	1/19/22	1/20/22	1/21/22	1/24/22	1/25/22	1/26/22	1/27/22	1/28/22	1/31/22	10-Day Average	10-Day Avg vs 1/31/22	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	0.074	0.080	0.080	0.080	0.082	0.081	0.078	0.080	0.080	0.081	0.080	↑ 0.002	↑ 0.008
BSBY - 1-month	0.083	0.084	0.084	0.087	0.086	0.087	0.086	0.091	0.092	0.092	0.087	↑ 0.004	↑ 0.009
SOFR - Overnight	0.050	0.050	0.040	0.050	0.040	0.050	0.040	0.040	0.050	0.000	0.041	↓ (0.041)	↓ (0.050)
SOFR - 30-Day Average	0.050	0.050	0.050	0.050	0.050	0.049	0.049	0.049	0.049	0.049	0.049	↓ (0.001)	↓ (0.001)
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.057	0.060	0.063	0.061	0.059	0.059	0.058	0.056	0.051	0.048	0.057	↓ (0.009)	↓ (0.009)
US Treasury - 2-Year	1.06	1.04	1.08	1.01	0.99	1.02	1.13	1.18	1.15	1.18	1.08	↑ 0.10	↑ 0.12
US Treasury - 10-Year	1.87	1.83	1.83	1.75	1.75	1.78	1.85	1.81	1.78	1.79	1.80	↓ (0.01)	↓ (0.08)
US Treasury - 20-Year	2.24	2.20	2.19	2.13	2.15	2.18	2.22	2.17	2.14	2.17	2.18	↓ (0.01)	↓ (0.07)
10-year Treasury Spread (aka 2/10 Yield Curve) (10-year Treasury minus 2-year Treasury)	0.81	0.79	0.75	0.74	0.76	0.76	0.72	0.63	0.63	0.61	0.72	↓ (0.11)	↓ (0.20)

Rates --- January's Numbers – 10-Year Treasury & 2-Year Treasury



Interesting reads that didn't make the Report:

- New York Fed, Pricing Liquidity without Preemptive Runs, 1/31/22.

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