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- Rate Hikes – 50bps is likely in May.
- Monetary Policy – Tangible vs. Intangible.
- Inflation – Fiscal Support likely a Culprit.

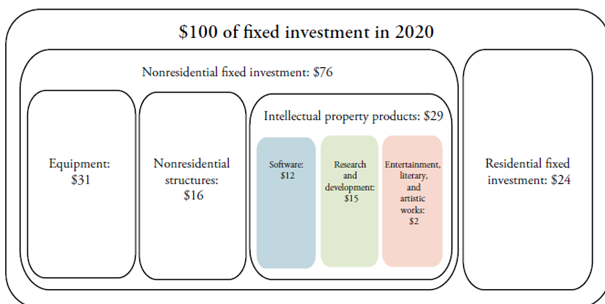
Page 2 – Economic Indicators & Rate Trends

Rate Hikes – We Just Might See a 50bps Hike in May

- Next FOMC meeting is May 3-4 (36 days away).
- Both doves (those less inclined to hike rates) and hawks (those more inclined to hike rates) have gotten behind a 25bps or higher rate hike.
 - If needed, Williams and Daley (doves) have expressed an openness to a rate hike greater than 25bps. Powell & Waller are open to it as well, while Bullard advocates for a 50bps hike.
- Based on the March SEP, the Fed’s current terminal rate (end point for rate hikes) is 2.80% in 2023.
 - One 50bps rate hike in May would take Fed Funds to 1.00%, while a 25bps hike at each of the remaining five meetings would put Fed Funds at 2.25% --- two would remain for 2023.

Monetary Policy – The Impact of Intangible Goods

- “The effect of interest rates on investment activity is one of the primary channels through which monetary policy affects the broader economy. Since 1980, however, the nature of investment has changed significantly, with almost one-third of investment now consisting of intangible products. Researchers have argued that this shift has made the economy less sensitive to monetary policy. We illustrate why the reduced interest rate sensitivity of intangible investment is a natural consequence of its lower reliance on bank financing and higher depreciation rates. Going forward, understanding the unique properties of intangible investment will be crucial for the effective conduct of monetary policy in an increasingly intangible economy.”

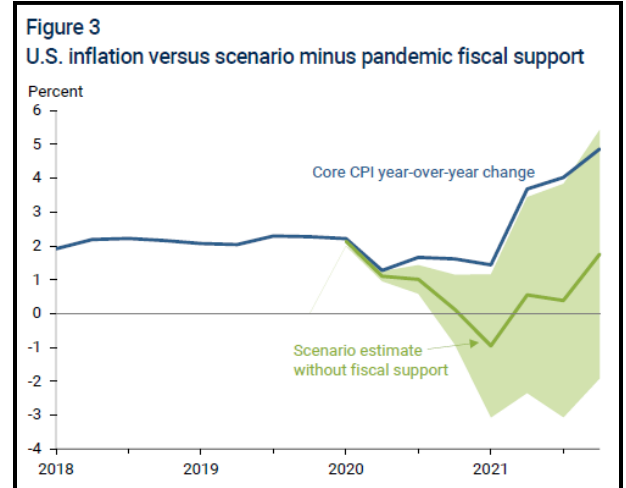


- “Prior to 1980, about 90% of investment in the United States was in “tangible” physical capital goods such as airplanes or office buildings. But over the past four decades, the share of business investment in non-physical or “intangible” goods, such as software or research and development

(R&D), has tripled; currently, intangible products account for almost 30% of all investment spending.”
Source: KC Fed, Monetary Policy and Intangible Investment, 3/24/22

Inflation – The Pluses and Minuses of Fiscal Support

- “The United States is experiencing higher rates of inflation than other advanced economies. In this *Economic Letter* we argue that, among other reasons explored by the literature, the sizable fiscal support measures aimed at counteracting the economic collapse due to the COVID-19 pandemic could explain about 3 percentage points of the recent rise in inflation. However, without these spending measures, the economy might have tipped into outright deflation and slower economic growth, the consequences of which would have been harder to manage.”



Source: SF Fed, Why Is U.S. Inflation Higher than in Other Countries? 3/28/22

Housing – A Brewing Bubble, but Nothing like the GFC’s

- “Based on present evidence, there is no expectation that fallout from a housing correction would be comparable to the 2007–09 Global Financial Crisis in terms of magnitude or macroeconomic gravity. Among other things, household balance sheets appear in better shape, and excessive borrowing doesn’t appear to be fueling the housing market boom.”

Source: Dallas Fed, Real-Time Market Monitoring Finds Signs of Brewing U.S. Housing Bubble, 3/29/22

Quote of the Week:

“Life is my college. May I graduate well, and earn some honors!”

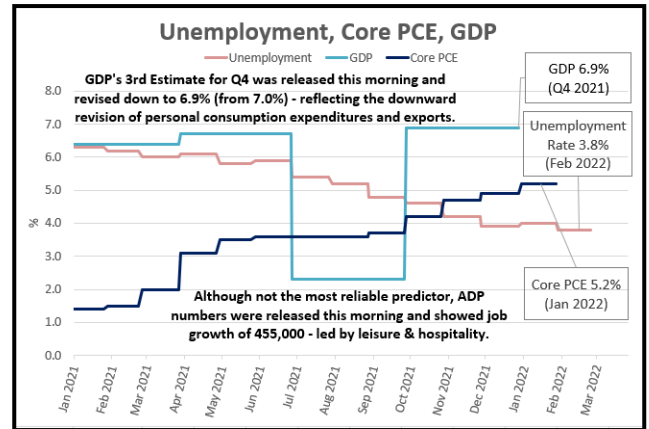
--- Louisa May Alcott (American writer)

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Economic Indicators:

- Unemployment: 3.8% Feb (Fed's Longer Run Rate: 4.0%)
 - Mar's unemployment #'s to be released Friday.
 - Median consensus is job growth of 450,000.
- Core PCE: 5.2% Jan (Fed's Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for Jan: 3.53%,
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 3.40%.
 - Yield on Treasury minus yield on TIPS.
 - February's Core PCE will be released tomorrow.
- GDP: 6.9% Q4 (3rd Est.) (Fed's Longer Run Rate: 1.8%)
 - Q1 GDP (Adv Estimate) will be released 4/28/22.
 - Current forecasts for Q1 GDP are a slowdown to somewhere between 1.5% and 2.0%.

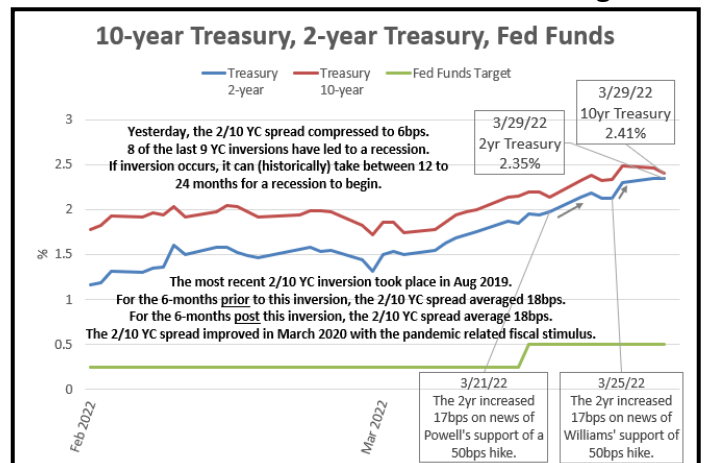
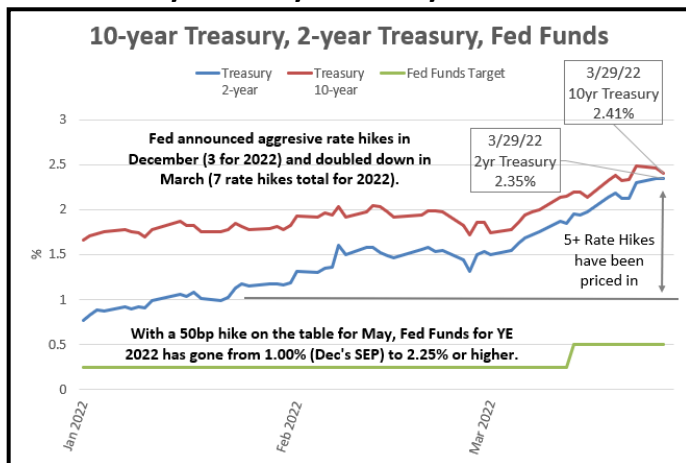


Rates --- 10-Day Trends

Borrowing Rates - Tax Exempt	3/16/22	3/17/22	3/18/22	3/21/22	3/22/22	3/23/22	3/24/22	3/25/22	3/28/22	3/29/22	10-Day Average	10-Day Avg vs 3/29/22	10-Day Change
2-Year Line of Credit (Fixed Rate Line of Credit)	3.05	3.11	3.09	3.18	3.29	3.28	3.28	3.31	3.45	3.52	3.26	↑ 0.27	0.47
10-year Term Loan	3.49	3.50	3.49	3.55	3.66	3.66	3.67	3.68	3.79	3.87	3.64	↑ 0.23	0.38
15-year Term Loan	3.78	3.77	3.78	3.82	3.92	3.93	3.93	3.93	4.01	4.04	3.89	↑ 0.15	0.26

Key Interest Rates	3/16/22	3/17/22	3/18/22	3/21/22	3/22/22	3/23/22	3/24/22	3/25/22	3/28/22	3/29/22	10-Day Average	10-Day Avg vs 3/29/22	10-Day Change
Federal Funds (Target Range - Upper Limit)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.00	0.00
Interest on Reserve Balances (IORB) (Formerly IOER - name changed July 2021)	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.00	0.00
BSBY - Overnight	0.071	0.071	0.134	0.301	0.320	0.326	0.329	0.331	0.330	0.331	0.254	↑ 0.077	↑ 0.260
BSBY - 1-month	0.381	0.404	0.395	0.385	0.407	0.430	0.417	0.414	0.375	0.368	0.397	↓ (0.029)	↓ (0.013)
SOFYR - Overnight	0.050	0.300	0.300	0.290	0.280	0.270	0.270	0.280	0.280	0.000	0.237	↑ 0.043	↑ 0.230
SOFYR - 30-Day Average	0.050	0.050	0.058	0.083	0.091	0.099	0.106	0.114	0.137	0.144	0.093	↑ 0.051	↑ 0.094
SOFYR - Term Rate - 1-Month (CME Term SOFR)	0.335	0.330	0.307	0.306	0.312	0.317	0.310	0.304	0.307	0.313	0.314	↓ (0.001)	↓ (0.022)
US Treasury - 2-Year	1.95	1.94	1.97	2.14	2.18	2.13	2.13	2.30	2.35	2.35	2.14	↑ 0.21	↑ 0.40
US Treasury - 10-Year	2.19	2.20	2.14	2.32	2.38	2.32	2.34	2.48	2.46	2.41	2.32	↑ 0.09	↑ 0.22
US Treasury - 20-Year	2.56	2.60	2.53	2.67	2.71	2.65	2.63	2.74	2.72	2.68	2.65	↑ 0.03	↑ 0.12
2-Year / 10-year Treasury Yield Curve Spread (10-year Treasury minus 2-year Treasury)	0.24	0.26	0.17	0.18	0.20	0.19	0.21	0.18	0.11	0.06	0.18	↓ (0.12)	↓ (0.18)

Rates – The 2yr and 10yr Treasury – How Rate Hikes have been Priced In and How YC Inversion is Nigh



Interesting Reads that didn't make the Report:

- St Louis Fed, Bullard Statement, Why Removing Monetary Policy Accommodation is Necessary, 3/29/22

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