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Rate Hikes – A 50bps Hike is on the Table in May

- Next FOMC meeting is May 3-4 (20 days away).
- To date, those in favor of 25bp or more rate hike:
 - Powell, Brainard, Waller, Williams, Bullard, Barkin, Evans, Daly and Mester.
 - In speeches or interviews, some are cautious or conditional in their support, some favor a 50bp increase outright – all have suggested that stronger action might be needed in May.

FOMC March Meeting Minutes – Bullard is not Alone

- St Louis Fed’s Jim Bullard has advocated for a target rate of 3.00% by YE, which would mean four 50bp rate hikes over the next six FOMC meetings.
- Bullard was thought to be an outlier; however the March meeting minutes show otherwise: “many participants noted that one or more 50 basis point increases in the target range could be appropriate at future meetings, particularly if inflation pressures remained elevated or intensified.”
- And, the FOMC would have preferred a 50bp hike in March, however “in light of greater near-term uncertainty associated with Russia’s invasion of Ukraine, they judged that a 25 basis point increase would be appropriate at this meeting.”

Source: Fed Board, Minutes of the Federal Open Market Committee March 15–16, 2022, Released 4/6/22

Balance Sheet – May’s Meeting is going to be Busy

- Williams: “I expect that this process of reducing the size of the balance sheet can begin as soon as the May FOMC meeting.”
NY Fed, Williams speech, A Time of Uncertainty, 4/2/22
- Brainard: “Accordingly, the Committee will continue tightening monetary policy methodically through a series of interest rate increases and by starting to reduce the balance sheet at a rapid pace as soon as our May meeting.”
Source: Fed Board, Brainard speech, Variation in the Inflation Experiences of Households, 4/5/22
- FOMC’s March Meeting Minutes: “Participants generally agreed that monthly caps of about \$60 billion for Treasury securities and about \$35 billion for agency MBS would likely be appropriate. Participants also generally agreed that the caps could be phased in over a period of three months or modestly longer if market conditions warrant.”

Inflation – Survey Suggests a Slight Moderation

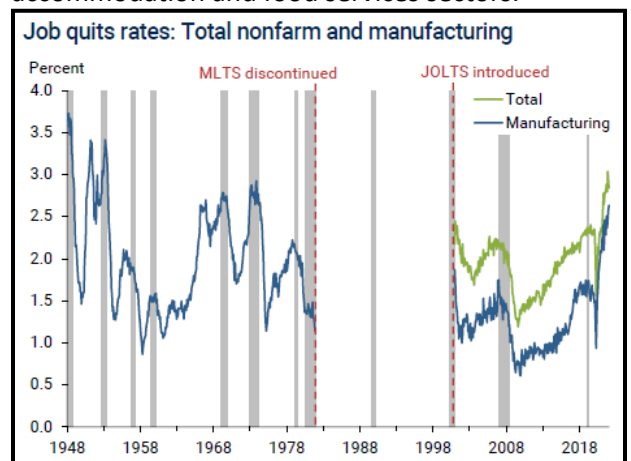
- “The inflation outlook (below) suggests a slight moderation in inflationary pressures. As indicated in the table, firms expect price growth to moderate from 7.8% in 2021 to 5.8% in 2022 ... All of these projections may be viewed as higher rates of inflation than what one would consider price stability, typically measured at about 2% growth in prices paid by households.”

	2021	2022
Survey: Prices Charged	7.8%	5.8%
The CFO Survey: Prices	6.3%	4.2%
BLS: Consumer Prices	7.5%	4.4% (f)
BLS: Producer Prices	12.5%	5.9% (f)
Survey: Employee Compensation	5.6%	5.4%
The CFO Survey: Wages	7.9%	7.2%
BLS: Compensation per Hour	5.1%	5.0% (f)

St Louis Fed, How Eighth District Firms Have Responded to Higher Inflation, 4/5/22

Jobs – From “Great” to the “Kind of Great Resignation”

- “Evidence from both recent worker surveys and historical data on quits shows that the “Great Resignation” is not as unusual as one might think. Waves of quits have been common during fast recoveries in the postwar period ... the recent wave reflects the rapid rebound in labor demand for young and less-educated workers, largely driven by the retail, leisure and hospitality, and accommodation and food services sectors.”



- “The earlier manufacturing data reveal several waves of quits that rival the current wave. Though the 2.3% rate in December 2021 is a record-high since 2000, the manufacturing sector hit comparable highs between 1948 and 1973.”
SF Fed, “Great Resignations” Are Common During Fast Recoveries, 4/4/22

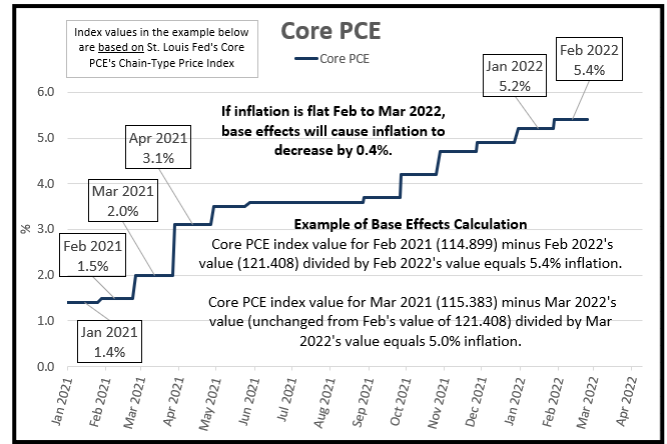
Quote of the Week:
“The important thing is not to stop questioning.”
 --- Albert Einstein

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Economic Indicators:

- Unemployment: 3.6% Mar (Fed's Long Run Rate: 4.0%)
 - Apr's unemployment #'s to be released 5/6/22.
- Core PCE: 5.4% Feb (Fed's Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for Feb: 3.63%,
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 3.31%
 - Yield on Treasury minus yield on TIPS.
 - March's Core PCE will be released 4/29/22.
 - Base Effects refer to the impact of comparing current price levels in a given month against price levels in the same month a year ago.
- GDP: 6.9% Q4 (3rd Est.) (Fed's Longer Run Rate: 1.8%)
 - Q1 GDP (Adv Estimate) will be released 4/28/22.

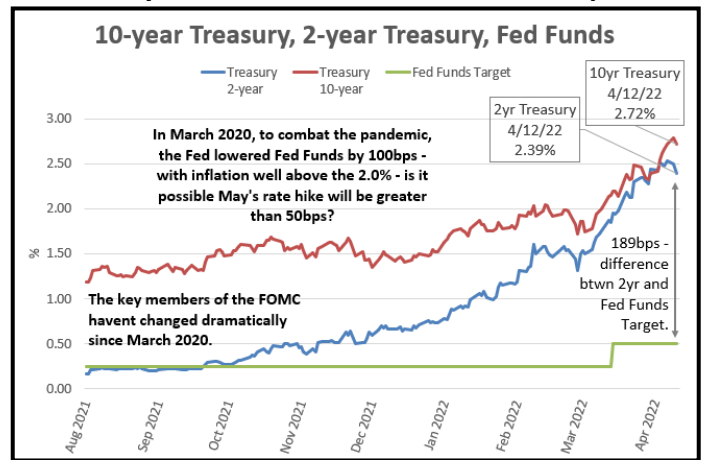


Rates --- 10-Day Trends

Borrowing Rates - Tax Exempt	3/30/22	3/31/22	4/1/22	4/4/22	4/5/22	4/6/22	4/7/22	4/8/22	4/11/22	4/12/22	10-Day Average	10-Day Avg vs 4/12/22	10-Day Change
2-Year Line of Credit (Fixed Rate Line of Credit)	3.41	3.36	3.44	3.48	3.51	3.58	3.48	3.52	3.59	3.55	3.49	↑ 0.06	0.13
10-year Term Loan	3.71	3.65	3.72	3.74	3.78	3.89	3.82	3.87	3.94	3.95	3.81	↑ 0.14	0.24
15-year Term Loan	3.94	3.87	3.94	3.93	3.97	4.10	4.05	4.10	4.17	4.20	4.03	↑ 0.17	0.26
15-year Draw to Term Loan (Fixed Rate Draw Period)													

Key Interest Rates	3/30/22	3/31/22	4/1/22	4/4/22	4/5/22	4/6/22	4/7/22	4/8/22	4/11/22	4/12/22	10-Day Average	10-Day Avg vs 4/12/22	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	0.329	0.326	0.328	0.320	0.324	0.322	0.322	0.322	0.319	0.322	0.323	↓ (0.001)	↓ (0.007)
BSBY - 1-month	0.371	0.392	0.390	0.383	0.356	0.364	0.376	0.390	0.389	0.401	0.381	↑ 0.019	↑ 0.029
SOFR - Overnight	0.270	0.290	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.000	0.294	↑ 0.006	↑ 0.030
SOFR - 30-Day Average	0.152	0.159	0.167	0.192	0.201	0.209	0.217	0.226	0.251	0.259	0.203	↑ 0.056	↑ 0.107
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.306	0.302	0.293	0.310	0.358	0.365	0.398	0.414	0.433	0.473	0.365	↑ 0.107	↑ 0.167
US Treasury - 2-Year	2.31	2.28	2.44	2.43	2.51	2.50	2.47	2.53	2.50	2.39	2.44	↓ (0.05)	↑ 0.08
US Treasury - 10-Year	2.35	2.32	2.39	2.42	2.54	2.61	2.66	2.72	2.79	2.72	2.55	↑ 0.17	↑ 0.37
US Treasury - 20-Year	2.63	2.59	2.60	2.64	2.74	2.81	2.87	2.94	3.02	2.99	2.78	↑ 0.21	↑ 0.36
2-Year / 10-year Treasury Yield Curve Spread (10-year Treasury minus 2-year Treasury)	0.04	0.04	(0.05)	(0.01)	0.03	0.11	0.19	0.19	0.29	0.33	0.12	↑ 0.21	↑ 0.29

Rates – Maybe the Recent YC Inversion is a Blip – and – Could May’s Rate Hike be Greater than 50bps?



Interesting Reads that didn't make the Report:

- IMF, Tight Jobs Market Is a Boon for Workers But Could Add To Inflation Risks, 3/31/22

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