

Page 1 – Speeches & Reports

- Rate Hikes –to Neutral and Beyond.
- Rate Hikes – A History of Tightening Cycles.
- Inflation – Transitory became Persistent

Page 2 – Economic Indicators & Rate Trends

Rate Hikes – To Neutral & Beyond – with a 75bp Hike?

- **Bullard – Neutral & Beyond:** “We want to get to neutral expeditiously ... we should try to get above neutral as early as the 3rd quarter and try to put further downward pressure on inflation at that point.”

Source: St. Louis Fed’s Bullard, Interview on Bloomberg TV, 4/18/22

- **Evans – Neutral & Beyond:** “The first step would be sort of you know, some turn around, further evidence of improvement along the lines of what you suggested, hinted at in the most recent inflation report, way to early, but if it did ... the second stage would be dealing with that 3.0% and 3.5% (inflation at YE), by that time, we’re at neutral and to the extent we don’t see it (inflation) coming down, we’re going beyond neutral, absolutely.”

Source: Chicago Fed’s Evans, Interview with Economic Club of New York (at 18:29 minutes), published on Chicago Fed website, 4/19/22

- **Bullard – 75bp Hike:** “More than 50 basis points is not base case at this point, I would point out that the 1994 cycle, where we raised the policy rate 300 basis points in a year – first of all, that one was successful – and did setup the U.S. economy for a stellar second half of the 1990s, one of the best periods in U.S. macroeconomic history, so it was successful – and in that cycle, there was a 75 basis point increase at one point, so I wouldn’t rule it out, but it’s not my base case here, and I would stress, as I did in my opening statement that the market pricing is doing some of the work for the Fed. for it. What really need to do is just ratify the promised increases in the funds rate that we already got out there that are partially priced into the market.”

Source: St. Louis Fed’s Bullard, Interview on Bloomberg TV, 4/18/22

Rate Hikes – 7th Tightening Episode since ‘81 has Begun

- “The FOMC has commenced the seventh tightening episode since the early 1980s. If the FOMC’s economic projections are accurate, the expected increase in the FFTR by the end of 2023 will be close to the average increase registered over the previous six episodes—slightly less than 300 basis points.”
- “Today’s high inflation rate remains the primary concern for monetary policymakers. Considering the possibility that the FOMC may have to tighten more than expectations, some economic commentators are beginning to worry about a recession in 2023. So far, though, the Treasury yield

curve examined in this essay—an historically accurate predictor of recessions—is not signaling this outcome.”

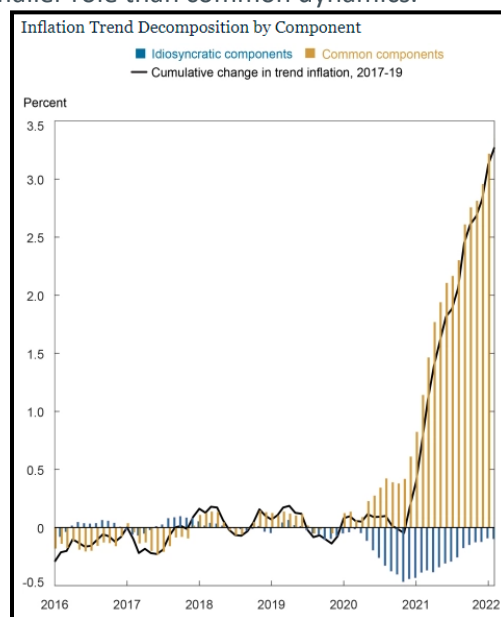
First Tightening Action	Initial FFTR Target (%)	Final Tightening Action	Final FFTR Target (%)	Total Tightening (percentage points)	Yield Curve Inversion?	Business Expansion Peak
March 31, 1983	8.50	Aug. 9, 1984	11.50	3.00	No	N/A
March 29, 1988	6.50	May 16, 1989	9.81	3.31	Yes	July 1990
Feb. 4, 1994	3.00	Feb. 1, 1995	6.00	3.00	No	N/A
June 30, 1999	4.75	May 16, 2000	6.50	1.75	Yes	March 2001
June 30, 2004	1.00	June 29, 2006	5.25	4.25	Yes	December 2007
Dec. 16, 2015	0.00-0.25	Dec. 19, 2018	2.25-2.50	2.25	Yes	February 2020
Average tightening across all six episodes:				2.93		

SOURCES: Federal Reserve Board of Governors, Federal Reserve Bank of St. Louis and NBER.
NOTE: 'N/A' indicates that a recession didn't follow the tightening episode.

Source: St. Louis Fed, A Look at Fed Tightening Episodes since the 1980s: Part I, 4/14/22

Inflation – Transitory became Persistent in the Fall 2021

- “In this post, we provide a model-based perspective on this narrative: large increases and decreases in monthly inflation during 2020 were largely the result of transitory shocks and outliers, with the trend component remaining relatively stable until early 2021, as common and sector-specific forces (aka idiosyncratic components) pulled in opposite directions. Sometime in the fall of 2021, the common persistent component came to dominate the evolution of the trend and today it stands as a significant driver of inflation. Sector-specific movements may have been relevant at the beginning of the pandemic but are currently playing a smaller role than common dynamics.”



Source: NY Fed, Inflation Persistence: How Much Is There and Where Is It Coming From? 4/20/22

Quote of the Week

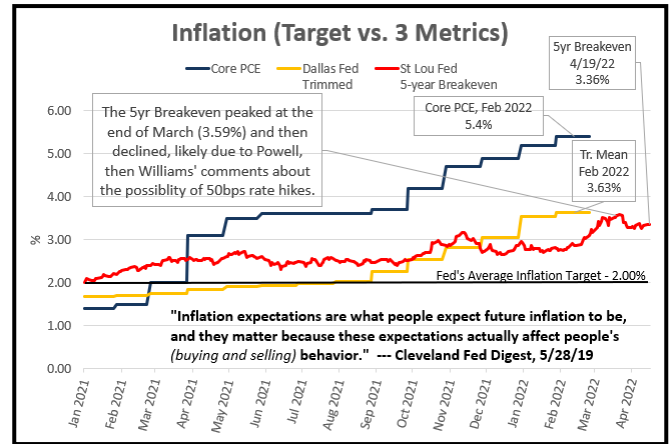
“I think, therefore I am.” --- Rene Descartes

Fed Unfiltered – Subscribe for \$24.00 a Year

- We report on the Federal Reserve Board and the 12 Districts, and their impact on rates.
- Instead of an analysis, read what the Fed actually said in their published reports, speeches and interviews.
- Search a growing database of Fed commentary and receive a Weekly Report outlining the week’s key info.

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: 3.36%.
 - Yield on Treasury minus yield on TIPS.
 - The 5-year breakeven represents what the market participants expect inflation to be in the next five years, on average.
 - March's Core PCE will be released 4/29/22.
- GDP: 6.9% Q4 (3rd Est.) (Fed's Longer Run Rate: 1.8%)
 - Q1 GDP (Adv Estimate) will be released 4/28/22.

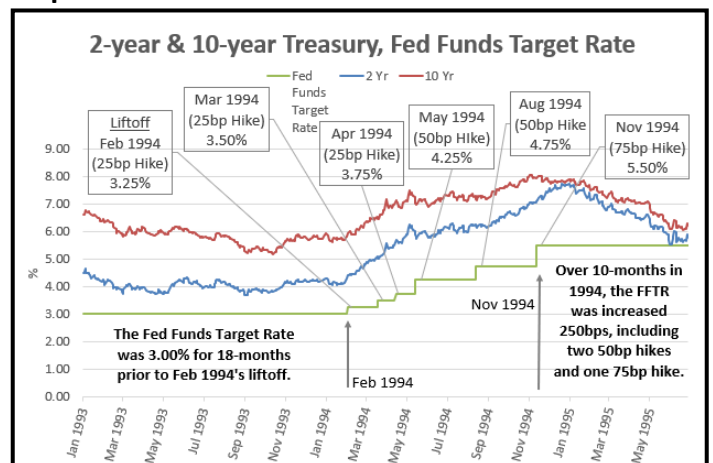
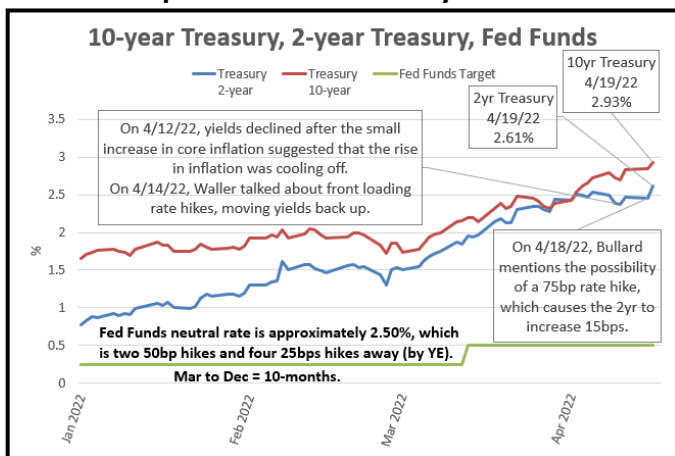


Rates --- 10-Day Trends

Borrowing Rates - Tax Exempt	4/5/22	4/6/22	4/7/22	4/8/22	4/11/22	4/12/22	4/13/22	4/14/22	4/18/22	4/19/22	10-Day Average	10-Day Avg vs 4/19/22	10-Day Change
2-Year Line of Credit (Fixed Rate Line of Credit)	3.51	3.58	3.48	3.52	3.59	3.55	3.44	3.39	3.52	3.52	3.51	↑ 0.01	0.02
10-year Term Loan	3.78	3.89	3.82	3.87	3.94	3.95	3.88	3.82	3.96	3.98	3.89	↑ 0.09	0.21
15-year Term Loan	3.97	4.10	4.05	4.10	4.17	4.20	4.15	4.10	4.23	4.26	4.13	↑ 0.12	0.28
15-year Draw to Term Loan (Fixed Rate Draw Period)													

Key Interest Rates	4/5/22	4/6/22	4/7/22	4/8/22	4/11/22	4/12/22	4/13/22	4/14/22	4/18/22	4/19/22	10-Day Average	10-Day Avg vs 4/19/22	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	0.324	0.322	0.322	0.322	0.319	0.322	0.322	0.322	0.320	0.324	0.322	↑ 0.002	↓ (0.001)
BSBY - 1-month	0.356	0.364	0.376	0.390	0.389	0.401	0.405	0.431	0.456	0.443	0.401	↑ 0.041	↑ 0.086
SOFYR - Overnight	0.300	0.300	0.300	0.300	0.300	0.290	0.290	0.290	0.290	0.000	0.296	↓ (0.006)	↓ (0.010)
SOFYR - 30-Day Average	0.201	0.209	0.217	0.226	0.251	0.259	0.267	0.275	0.290	0.290	0.248	↑ 0.042	↑ 0.089
SOFYR - Term Rate - 1-Month (CME Term SOFYR)	0.358	0.365	0.398	0.414	0.433	0.473	0.509	0.522	0.540	0.571	0.458	↑ 0.113	↑ 0.213
US Treasury - 2-Year	2.51	2.50	2.47	2.53	2.50	2.39	2.37	2.47	2.46	2.61	2.48	↑ 0.13	↑ 0.10
US Treasury - 10-Year	2.54	2.61	2.66	2.72	2.79	2.72	2.70	2.83	2.85	2.93	2.74	↑ 0.20	↑ 0.39
US Treasury - 20-Year	2.74	2.81	2.87	2.94	3.02	2.99	2.97	3.09	3.12	3.19	2.97	↑ 0.22	↑ 0.45
2-Year / 10-year Treasury Yield Curve Spread (10-year Treasury minus 2-year Treasury)	0.03	0.11	0.19	0.19	0.29	0.33	0.33	0.36	0.39	0.32	0.25	↑ 0.07	↑ 0.29

Rates – The Spread between the 2yr and FFTR is now 211bps – and – a look at the Rate Hikes in 1994



Interesting Reads that didn't make the Report:

- Richmond Fed, Barkin speech, Beyond Today's Inflation Storm, 4/12/22

Fed Unfiltered – Subscribe for \$24.00 a Year

- We report on the Federal Reserve Board and the 12 Districts, and their impact on rates.
- Instead of an analysis, read what the Fed actually said in their published reports, speeches and interviews.
- Search a growing database of Fed commentary and receive a Weekly Report outlining the week's key info.