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FOMC – Next Meeting is June 14-15

- 50bp rate hike is widely expected.
- A new SEP will be released, with a new neutral rate.

Bostic – A Word of Caution Regarding Rate Hikes

- “So, as we expeditiously return monetary policy to a more neutral stance to get inflation closer to our 2 percent target, I plan to proceed with intention and without recklessness ... We all must be ready for the unexpected to occur, assess how risks have changed when it does, and stay aware of shifts in the strength of the economy.”
- “Given the very high level of inflation, some might be surprised by my injecting some caution here. But remember this: even firetrucks with sirens blaring slow down at intersections lest they cause further preventable trouble.”

Source: Atlanta Fed, Raphael Bostic essay, Monetary Policy amid Changing Labor Market Dynamics, 5/24/22

Waller – About 150bps of Rate Hikes to Go Before YE

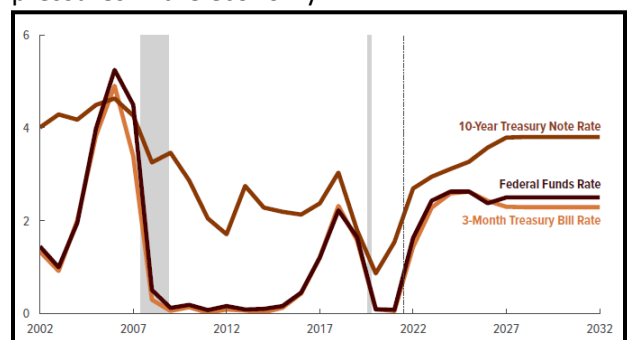
- **Inflation:** “What I care about is getting inflation down so that we avoid a lasting escalation in the public’s expectations of future inflation. Once inflation expectations become unanchored in this way, it is very difficult and economically painful to lower them ... On top of this, I also hope that over time supply problems resolve and help lower inflation. But the Fed isn’t waiting for these supply constraints to resolve. We have the tools and the will to make substantial progress toward our target.”
- **Rate Hikes:** “I support tightening policy by another 50 basis points for several meetings. In particular, I am not taking 50 basis-point hikes off the table until I see inflation coming down closer to our 2 percent target. And, by the end of this year, I support having the policy rate at a level above neutral so that it is reducing demand for products and labor, bringing it more in line with supply and thus helping rein in inflation ... My plan for rate hikes is roughly in line with the expectations of financial markets. As seen in slide 1, federal funds futures are pricing in roughly 50 basis point hikes at the FOMC’s next two meetings and expecting the year-end policy rate to be around 2.65 percent.”

- **QT:** “Although estimates are highly uncertain, using a variety of models and assumptions, the overall reduction in the balance sheet is estimated to be equivalent to a couple of 25-basis-point rate hikes.”

Source: Fed Board, Christopher Waller speech, Responding to High Inflation, with Some Thoughts on a Soft Landing, 5/30/22

CBO – Interest Rate Forecasts w/ a Rate Cut in 2025

- “In CBO’s projections, interest rates on short-term Treasury securities rise in concert with the increases in the target range for the federal funds rate carried out by the Federal Reserve. In 2022 and 2023, the Federal Reserve rapidly increases the target range for the federal funds rate to reduce inflationary pressures in the economy.”



- “The Federal Reserve reduces the target range for the federal funds rate in 2025 to counteract the drag on economic growth stemming from the higher individual income tax rates that take effect at the beginning of 2026 under current law.”

Source: CBO, The Budget and Economic Outlook: 2022 to 2032, 5/25/22

Forbearance – Typical Utilization was 3-months or Less

- “Forbearance allows borrowers to pause or reduce their mortgage payments for a specified period; upon exiting forbearance, borrowers have options to restructure their payment plans.”
- “In conclusion, although many mortgage borrowers used forbearance during the past two years of the pandemic, our estimation suggests that most used it for a very short duration, i.e., 3-months or less.”

Source: St. Louis Fed, Forbearance during COVID-19: How Many Borrowers Used It, and for How Long? 5/31/22

Quote of the Week

“Man is obviously made for thinking. Therein lies all his dignity and his merit; and his whole duty is to think as he ought.”

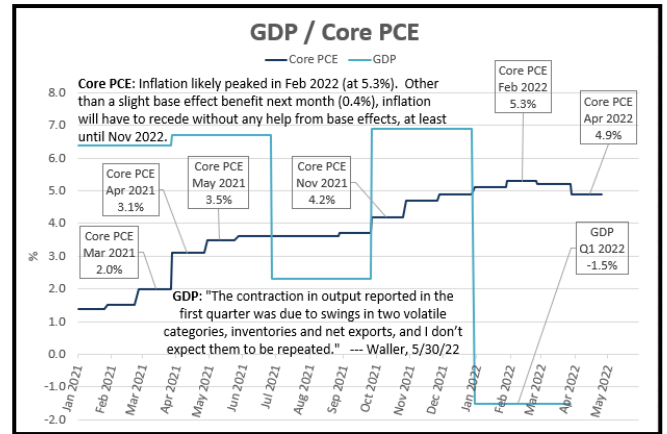
--- Blaise Pascal (French Mathematician)

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Economic Indicators:

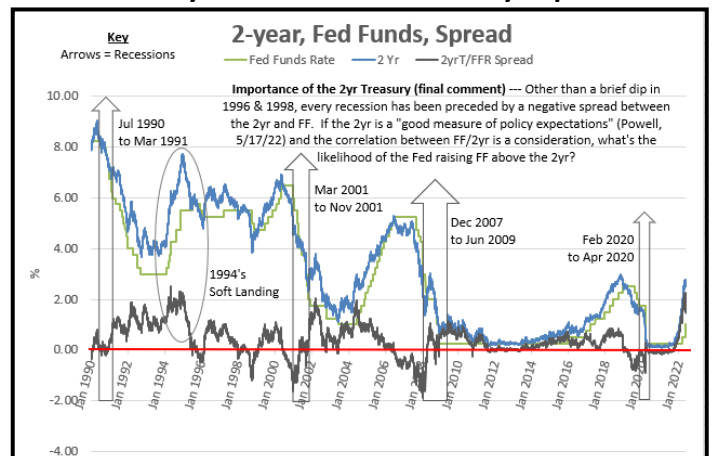
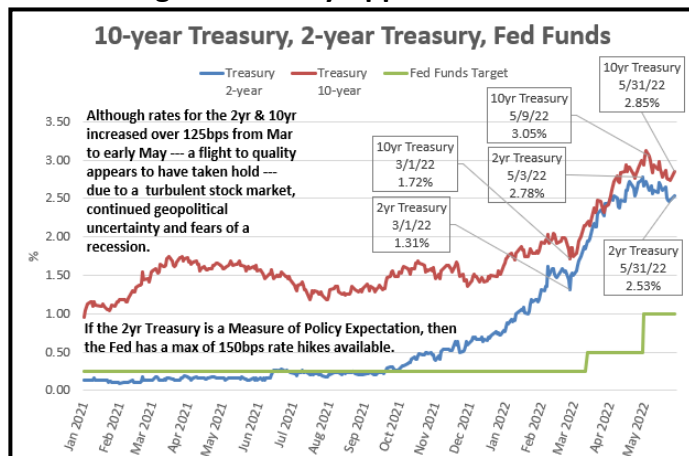
- GDP: -1.5% Q1 (2nd Est.) (Fed's Longer Run Rate 1.8%)
 - Q1 GDP (3rd Estimate) to be released 6/29/22.
- Core PCE: 4.9% Apr (Fed's Avg. Inflation Target: 2.0%)
 - Dallas Fed's Trimmed Mean for Apr: 3.75%.
 - Trims off the lower & upper data spikes.
 - St Lou Fed 5yr Breakeven Inflation Rate: 2.96%.
 - Yield on Treasury minus yield on TIPS.
 - May's Core PCE will be released 6/30/22.
- Unemployment: 3.6% Apr (Fed's Long Run Rate: 4.0%)
 - May's unemployment #'s to be released Friday.
 - The median consensus for May's job growth is 329,000; a slowdown from April's 428,000 jobs created and March's 428,000 jobs created.



Rates --- 10-Day Trends

Key Interest Rates	5/16/22	5/17/22	5/18/22	5/19/22	5/20/22	5/23/22	5/24/22	5/25/22	5/26/22	5/27/22	5/31/22	10-Day Average	10-Day Avg vs 5/31/22	10-Day Change
Fed Funds Target Rate (FFTR)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.00	0.00
Standing Repo Facility (SRF)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.00	0.00
Interest on Reserve Balances (IORB)	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.00	0.00
Effective Fed Funds Rate (EFFR)	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.00	0.83	0.00	0.00
Overnight Reverse Repo Facility (ON RRP)	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.00	0.00
Fed's Balance Sheet (Total Assets in Millions)	8,942,008	8,942,008	8,945,898	8,945,898	8,945,898	8,945,898	8,945,898	8,914,281	8,914,281	8,914,281	8,914,281	8,933,634	19,413	27,727
BSBY - Overnight	0.830	0.821	0.819	0.818	0.822	0.821	0.828	0.828	0.827	0.821	0.825	0.823	0.002	0.004
BSBY - 1-month	0.833	0.835	0.835	0.850	0.856	0.863	0.868	0.869	0.871	0.881	0.920	0.865	0.055	0.085
SOFR - Overnight	0.800	0.800	0.790	0.790	0.780	0.780	0.780	0.780	0.780	0.780	0.000	0.786	(0.006)	(0.020)
SOFR - 30-Day Average	0.465	0.482	0.499	0.516	0.533	0.584	0.601	0.618	0.635	0.653	0.719	0.584	0.135	0.237
SOFR - Term Rate - 1-Month (CME Term SOFR)	0.863	0.864	0.872	0.908	0.922	0.964	0.972	0.975	1.034	1.045	1.081	0.964	0.117	0.216
US Treasury - 3-Month	1.07	1.06	1.03	1.05	1.03	1.07	1.06	1.06	1.07	1.08	1.16	1.07	0.09	0.10
US Treasury - 2-Year	2.58	2.71	2.68	2.63	2.60	2.65	2.50	2.48	2.46	2.47	2.53	2.57	(0.04)	(0.18)
US Treasury - 10-Year	2.88	2.98	2.88	2.84	2.78	2.86	2.76	2.75	2.75	2.74	2.85	2.82	0.03	(0.13)
US Treasury - 20-Year	3.30	3.36	3.24	3.24	3.17	3.26	3.16	3.14	3.18	3.16	3.28	3.22	0.06	(0.08)
3-Month / 10-year Treasury Yield Curve Spread (10yr minus 3mo Treasury) (30yr historical avg: 1.68)	1.81	1.92	1.85	1.79	1.75	1.79	1.70	1.69	1.68	1.66	1.69	1.75	(0.06)	(0.23)
2-Year / 10-year Treasury Yield Curve Spread (10yr minus 2yr Treasury) (30yr historical avg: 1.14)	0.30	0.27	0.20	0.21	0.18	0.21	0.26	0.27	0.29	0.27	0.32	0.25	0.07	0.05

Rates – A Flight to Quality Appears to have Taken Hold – and – The 2yr as a Measure of Policy Expectations



Interesting Reads that didn't make the Report:

- Dallas Fed, Fed Liquidity Successfully Anchored Commercial Real Estate amid Pandemic, 5/24/22
- Fed Board, FOMC Meeting Minutes May 3-4, 2022, Published 5/25/22
- Richmond Fed, Tom Barkin essay, Rethinking the Office, 5/26/22

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