

Fed Unfiltered

DAILY TRENDS

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2-year Treasury, 10-year Treasury, Fed Funds

- The 2yr was down 23bps – likely recession fears – today, the Bank of England started a bond buying program to stabilize their financial system, and in general, there’s a fear that if a European recession occurs, it might be contagious. The 10yr was down 25bps.

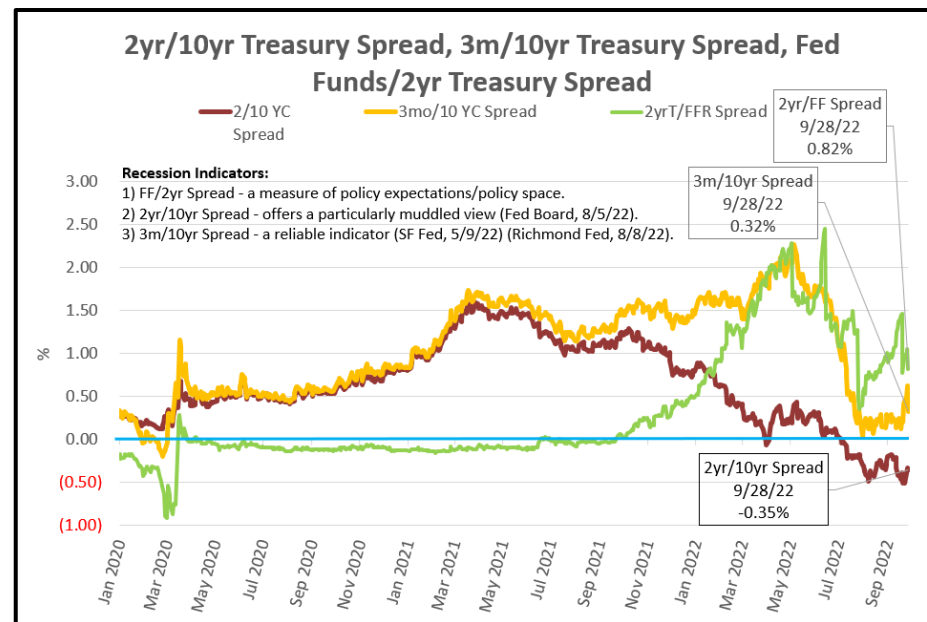
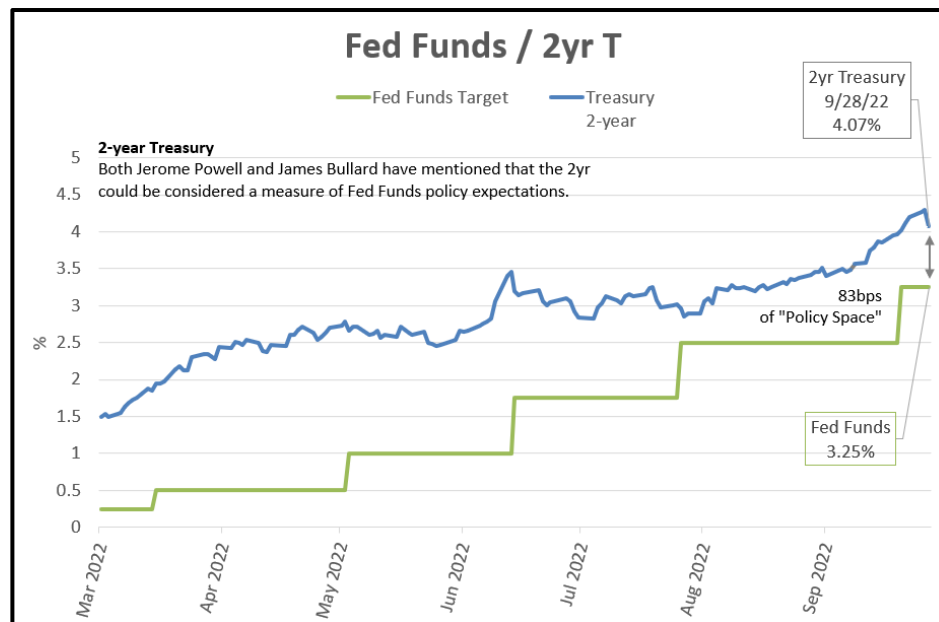
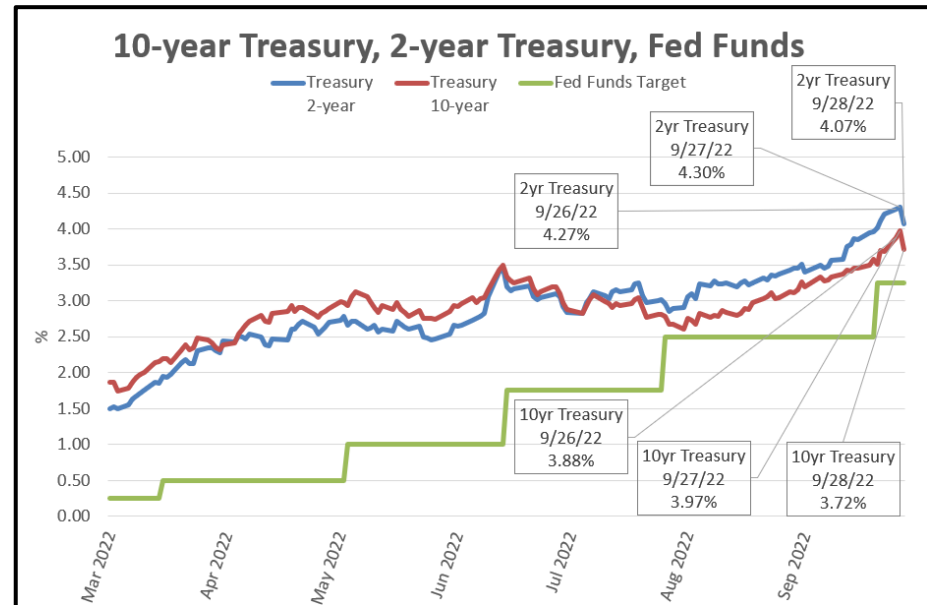
Fed Funds, 2yr

- A falling 2yr is not good for the Fed’s upcoming rate hikes. This shrinking “policy space” adds another complexity to the Fed’s decision process. The last time the Fed moved FF above the 2yr was just before the GFC.

YC Spreads

- The 3m/10yr had a little breathing room yesterday (62bps). Today, the spread is 32bps. The 30-year historical average is 168bps.

The Meaning of the Daily Rate Change is a Best Guess --- Treasury rates reflect a lot of different conditions, including: (1) where people expect the economy to go; (2) where they expect interest rates to go; and (3) the amount of risk they associate with the uncertainty of #1 and #2.



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