

## Overview

### FOMC – Still on Track for a 50bps Hike at the Dec Mtg

- **Rate Hikes:** With ongoing comments about a terminal rate of 5.00% (or higher), the stepping down to a 50bps hike and wrapping up rate hikes early next year – 50bps is still most likely in Dec.
- **Pace of Hikes:** After Dec, expect a slower pace of rate hikes and a drop back to the 25bps level as Fed officials assess the impact of rate hikes on inflation – it takes between 12-24 months for rate hikes to impact inflation – the clock started Dec 2021, as rates started increasing with forward guidance.
- **Sufficiently Restrictive:** Although currently undefined, on Wed Mary Daly said it would be about 5.25% and Bullard on Thurs put it as high as 7.00% - expect a robust debate the next few weeks.

### Key Metrics

	Current	SEP Forecast for YE22	SEP Target or Long Run	Next Release Date
GDP	2.6	0.2	1.8	11/30/22
Core PCE	5.1	4.5	2.0	12/1/22
Unemployment Rate	3.7	3.8	4.0	12/2/22
Fed Funds (FOMC)	4.00	4.40	2.50	12/14/22

### Calendar

November	
11/23/2022	FOMC - Minutes of the FOMC, November 1-2, 2022
11/30/2022	Gross Domestic Product, 3rd Quarter 2022 (Second Estimate)
11/30/2022	Biege Book, October 2022
December	
12/1/2022	Personal Income and Outlays, October 2022 (aka Core PCE)
12/2/2022	Employment Situation - November 2022
12/3/2022	FOMC, Blackout Period, December 3-15
12/13/2022	Consumer Price Index, November 2022
12/14/2022	FOMC Meeting, December 13-14
12/14/2022	FOMC, Summary of Economic Projects (SEP), December 2022

## Speeches and Interviews

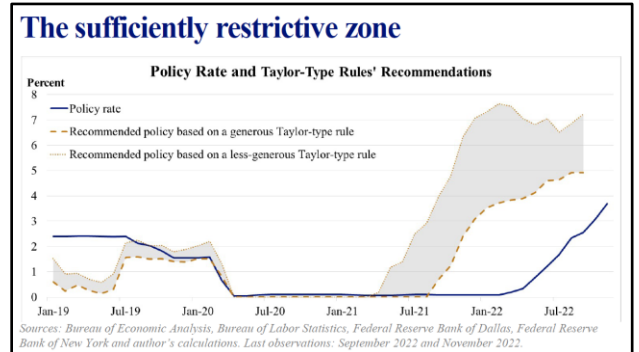
### Daly – Sufficiently Restrictive could be 125bps Away

- “We are in a slightly restrictive space by most people’s calculations. Now we’re really talking about the level that is sufficiently restrictive.”
  - “Somewhere between 4.75% and 5.25% seems a reasonable place to think about as we go into the next meeting ... (*where*) we would get to the point where we’d raise and hold.”
- Mary Daly, Interview: CNBC, 11/16/22

### Bullard – Sufficiently Restrictive could be 300bps Away

- **Regarding the restrictive rate:** “My approach to this question is based on ‘generous’ assumptions—assumptions that tend to favor a more dovish policy over a more hawkish one. Even under these generous assumptions, the policy rate is not yet in a zone that may be considered sufficiently restrictive.”
- “To attain a sufficiently restrictive level, the policy rate will need to be increased further. The chart suggests that while the policy rate has increased substantially this year, it has not yet reached a level that could be justified as sufficiently restrictive,

according to this analysis, even with the generous assumptions.”



James Bullard, Speech: Getting into the Zone, 11/17/22

## Reports

### QT – QE Depressed Long-Term Rates by 1.60%

- “In this article, we attempt to quantify the accommodation stemming from the expansion of the Federal Reserve’s balance sheet from 2020 to 2022 and discuss the challenges policymakers may face in removing it. We present evidence that the Federal Reserve’s expanded balance sheet, with a large portfolio of long-duration assets, has provided a significant amount of policy accommodation in recent years, depressing long-term interest rates by about 1.60 percentage points as of early 2022. We also argue that the FOMC’s plan to remove this accommodation through the passive runoff of maturing securities, rather than outright asset sales, may prove limiting. Based on the 2017 episode of QT, as only soon-to-mature Treasury securities run off the balance sheet and prepayments of the Federal Reserve’s mortgage holdings slow, we project that the downward pressure the balance sheet is currently placing on longer-term interest rates will only gradually reverse.”

KC Fed, Report: The Evolving Role of the Fed’s Balance Sheet: Effects and Challenges, 11/17/22

## Trends

Some volatility last week with the 2yr finishing 11bps higher and the 10yr 6bps lower. A geopolitical blip on Tuesday (Russia-Poland) was offset by commentary from eight Fed officials about the continuation of rate hikes.

Key Interest Rates	11/14/22	11/15/22	11/16/22	11/17/22	11/18/22	5-Day Change
Fed Funds Target Rate (FFTR)	4.00	4.00	4.00	4.00	4.00	0.00
BSBY - Overnight	3.869	3.871	3.872	3.869	3.869	↓ (0.001)
BSBY - 1-month	3.812	3.826	3.835	3.850	3.854	↑ 0.042
SOFR - Overnight	3.790	3.800	3.810	3.800	0.000	↑ 0.010
SOFR - 30-Day Average	3.316	3.341	3.367	3.392	3.418	↑ 0.101
SOFR - Term Rate - 1-Month	3.811	3.864	3.874	3.911	3.932	↑ 0.121
US Treasury - 3-Month	4.34	4.31	4.32	4.32	4.34	0.00
US Treasury - 2-Year	4.40	4.37	4.35	4.43	4.51	↑ 0.11
US Treasury - 10-Year	3.88	3.80	3.67	3.77	3.82	↓ (0.06)
US Treasury - 20-Year	4.28	4.20	4.03	4.10	4.13	↓ (0.15)
YC Spread - 3-Month / 10-year Treasury	(0.46)	(0.51)	(0.65)	(0.55)	(0.52)	↓ (0.06)
YC Spread - 2-Year / 10-year Treasury	(0.52)	(0.57)	(0.68)	(0.66)	(0.69)	↓ (0.17)

## Quote of the Week

"Success is getting what you want, happiness is wanting what you get." --- Ingrid Bergman

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