Fed Talk Fills Light Data Week

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U.S. Treasury yields climbed across the curve this week as investor nerves calmed, lessening the demand for full-faith-and-credit assets. Recent economic releases were mostly second tier, but the overall theme was slightly slower growth and continued easing of price pressures.

This morning, core PCE, a preferred inflation measure of Fed officials, rose by just +0.3% in the month of February, while the January increase was trimmed from +0.6% to +0.5%. Both were below forecasts. This improvement combined to lower the annual rate of core PCE from +4.7% to +4.6%. Higher gas prices boosted the overall number, while used car prices and cost of airfare both fell last month.

Also this morning, growth in personal income declined from +0.6% to +0.3% in February, while personal spending growth retreated from a revised +2.0% to +0.2%. When adjusted for inflation, real spending fell -0.1% in February, following a revised +1.5% gain in January. Although this seems to indicate a substantial cooling in both consumer spending and capacity to spend, it probably has more to do with a retrenchment from the weather-fueled January spending boom.

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A parade of Fed speakers filled the data gap this week, offering early insight into the May FOMC decision. Minneapolis Fed President Neel Kashkari, appearing last Sunday on *CBS: Face the Nation*, weighed-in on banking concerns. Kashkari predicted further losses in the financial sector, saying the Fed is aware of other banks with exposure. Although Kashkari has been a consistent advocate for higher rates, he was reluctant to make a call on the May policy decision given the evolving financial situation. He's a current voting member, and *his comments hint at a no-hike vote*.

Yesterday, Richmond Fed President Thomas Barkin told reporters the range of policy outcomes for the May meeting is "pretty wide," but admitted the committee could raise rates further if inflation remains elevated. Barkin Is not a current voting member. He went on to say that it's too early to expect instability in the banking system will cause the credit markets to contract.

Boston Fed President Susan Collins took a hawkish stance in an interview this morning on Bloomberg Television, saying the Fed has "more work to do" to ensure inflation is on a sustained downward path. Collins isn't an FOMC voting member this year, but pointed to the committees' updated interest rate projections as a measure of what to expect going forward. The "dot plot" she's referring to indicates one more quarter point hike, followed by a pause spanning the remainder of the year, with gradual easing to begin in 2024.

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The bond market is telling a different story, but the fact that yields have taken a nosedive this month reflects rattled depositors seeking safe harbor, and not a direct call on Fed policy.

During the week, the two-year Treasury note yield rose from 3.77% to 4.09%, while the 10-year yield increased by 13 basis points to 3.51%.

Next week brings an increased number of key economic releases, including the results of both the ISM factory and service sector surveys and the March employment report. The March CPI and PPI releases are on tap for the following week, along with retail sales. With the next FOMC meeting scheduled for May 3rd, the committee will focus much of their attention on this data.

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Market Indications as of 1:12 P.M. Central Time

DOW	Up 273 to 33,132 (HIGH: 36,800)
NASDAQ	Up 158 to 12,172 (HIGH: 16,057)
S&P 500	Up 33 to 4,084 (HIGH: 4,797)
1-Yr T-bill	current yield 4.62%; opening yield 4.58%
2-Yr T-note	current yield 4.09%; opening yield 4.11%
3-Yr T-note	current yield 3.86%; opening yield 3.89%
5-Yr T-note	current yield 3.64%; opening yield 3.68%
10-Yr T-note	current yield 3.51%; opening yield 3.55%
30-Yr T-bond	current yield 3.70%; opening yield 3.74%