Bond Yields Climb on Hawkish Fed Talk and Debt Ceiling Hope

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The June FOMC meeting is now four weeks away, and a parade of Fed officials are pushing back on any possibility of near-term rate cuts. Although a *pause* is the mostly likely outcome on June 14th, rate hikes remain on the table.

Atlanta Fed President Raphael Bostic told CNBC on Monday that although he's *leaning toward a pause* at the June meeting, he's still *more inclined to raise than lower rates* given persistently high inflation. Bostic went on to say his baseline case doesn't include rate cuts until well into 2024.

Also on Monday, Minneapolis Fed President Neel Kashkari reiterated that the committee still has *a long way to go*, and cautioned that a few months of positive data doesn't mean the job is done.

On Tuesday, Chicago Fed President Austan Goolsbee told Bloomberg TV that while policymakers should consider the 500 basis points of cumulative tightening while discussing the next move, *it's premature to talk about cutting rates*.

That same day, Richmond Fed President Thomas Barkin told Bloomberg News that he'd be comfortable with additional rate hikes if that's what's needed to lower inflation. And, Cleveland Fed President Loretta Mester was even more hawkish, saying she'd like the policy rate to get to a point where it could be held steady for a while, but doesn't think the committee has reached that point yet.

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The number of Fed officials leaving the door open for additional tightening seems to outnumber the few who are comfortable pausing …and no one is calling for cuts. Not yet. The simple fact is inflation is still too high, and the recent bond market rally has undermined Fed policy with lower yields acting as a de facto rate cut. Until easing becomes appropriate, committee members will try to better align the bond market with stated policy.

Yesterday, Treasury Secretary Janet Yellen doubled-down on her heightened debt ceiling concerns. In prepared remarks to the Independent Community Bankers of America, Yellen sounded the alarm that "a default would crack open the foundations upon which our financial system is built." She went on to say "it's very conceivable that we'd see a number of financial markets break – with worldwide panic triggering margin calls, runs and fire sales."

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President Biden and Speaker McCarthy met again yesterday to discuss the mounting crisis. Although there was no agreement, the two sides seemed to genuinely understand the gravity of the situation. At the conclusion of the meeting, Biden said he and McCarthy had reached "an overwhelming consensus ... that defaulting on the debt is simply not an option. Our economy would fall into recession."

Bond yields are rising across the curve for the fifth straight day as investors digest comments from still hawkish Fed officials, paired with renewed hope that Yellen's grim financial system fate will be averted.

Market Indications as of 11:29 A.M. Central Time

DOW	Up 235 to 33,247 (HIGH: 36,800)
NASDAQ	Up 72 to 12,415 (HIGH: 16,057)
S&P 500	Up 22 to 4,132 (HIGH: 4,797)
1-Yr T-bill	current yield 4.91%; opening yield 4.84%
2-Yr T-note	current yield 4.15%; opening yield 4.08%
3-Yr T-note	current yield 3.80%; opening yield 3.74%
5-Yr T-note	current yield 3.58%; opening yield 3.53%
10-Yr T-note	current yield 3.56%; opening yield 3.54%
30-Yr T-bond	current yield 3.87%; opening yield 3.86%

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