

Lawmakers Tout Progress While Debt Ceiling Clock Ticks

The markets have focused this morning on comments by House Representative Michael McCaul who claims party leaders are getting close to a debt ceiling deal and that *it's now down to the details*. Speaker Kevin McCarthy acknowledged that *not everyone will be happy with the agreement*, but that negotiators have been instructed to work around the clock until the work is complete. With just seven days before Treasury Secretary Yellen's "X-date," the time remaining to write, review and vote on an agreement is now stretched to the limit.

Yesterday, Fitch upped the urgency by placing the U.S. on "rating watch negative" signaling it was prepared to downgrade the nation's sovereign debt rating from AAA if lawmakers do not agree to raise the debt limit.

The debt ceiling debate has claimed center stage, but the next Fed meeting is now less than three weeks away. The minutes to the May 3 FOMC meeting were released yesterday with no real surprises. Committee members were generally split on whether another rate hike would be necessary, indicating that *incoming data would drive the decision*.

On Wednesday, Fed Governor Christopher Waller admitted his main focus remains on lowering inflation, and "whether we should hike or skip at the June meeting will depend on how the data comes in over the next three weeks." Fed officials will have another 10 days to make comments before the pre-FOMC quiet period begins.

Two weeks ago, the bond market had indicated the Fed was done. Since then, warmer-than-expected economic data and hawkish Fed talk have combined to ratchet yields upward. As of this morning, the market had priced-in *one more quarter point increase* at either the June or July meeting.

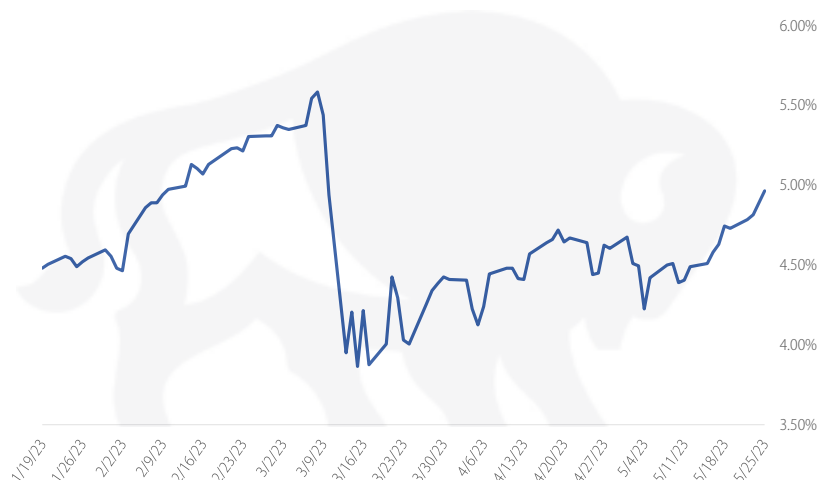
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December 2023 Federal Funds Futures



Source: Bloomberg / Chicago Board of Trade

The economic data has taken a back seat over the past couple weeks. This morning's releases included the first of two revisions to Q1 GDP. It appears the economy was a bit stronger than originally reported and inflation was a little hotter as headline GDP was revised upward from +1.1% to +1.3%, while the GDP price index was boosted from +4.0% to +4.2%. Core PCE for first quarter was revised upward from +4.9% to +5.0%, which is actually *the highest in a year*. Inflation is well off its peak, but the Fed's +2.0% objective won't be met anytime soon as the economy continues on a much too resilient path. The Atlanta Fed's *GDPNow* measure is tracking +2.9% growth for the second quarter as of May 17.

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Rate cuts are gradually being squeezed out of the market for 2023.

Market Indications as of 9:48 A.M. Central Time

DOW	Down -59 to 32,741 (HIGH: 36,800)
NASDAQ	Up 178 to 12,662 (HIGH: 16,057)
S&P 500	Up 21 to 4,136 (HIGH: 4,797)
1-Yr T-bill	current yield 5.18%; opening yield 5.04%
2-Yr T-note	current yield 4.43%; opening yield 4.37%
3-Yr T-note	current yield 4.12%; opening yield 4.06%
5-Yr T-note	current yield 3.83%; opening yield 3.78%
10-Yr T-note	current yield 3.77%; opening yield 3.74%
30-Yr T-bond	current yield 3.98%; opening yield 3.98%

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