U.S. Taxable Fixed Income Markets

Monday Morning Comments

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Overnight

Global equities are higher across the board, as are U.S. futures. Core Sovereigns are mixed and Treasuries have just turned slightly higher, led by the long bond. 10yrs are unchanged at 3.74%

Last Week

Last week was a relatively muted week with Fed officials quiet and a light data calendar. Markets seemed to be looking ahead and waiting for this week's events.
The data we did see was relatively weak. Factory Orders ex Transportation for April were negative.

ISM Services for May were weaker than expected, dropping to the second lowest level since the Pandemic, with the Prices Paid component dropping along with Employment, which slid into contraction territory. The Initial Jobless Claims on Thursday came in at the highest since 2021, while Continuing Claims moderated.

Fed Funds futures for June and July barely changed on the week, pricing in about a 32% chance of a rate hike for this week and 86% chance of a hike by July. The Futures for year end moved up about 6bps to 5.06% but are essentially at the current level for the Funds Rate.

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The Treasury market rallied Monday on the weak ISM services and lower prices paid. Thursday's jump in Initial Claims also drove a short-term rally, but the market ended the week drifting to higher rates after surprise rate hikes by the Reserve Bank of Australia and the Bank of Canada. The front end of the Treasury curve performed the worst last week with 2yrs and 3yrs leading the way lower. Most of the selling seemed to come during the overnight sessions, though, as Bunds and Gilts sold off as well.

The 2yr Note finished +10 bps worse and closed near the highest yields of the week at 4.60%. That's the highest yield since May 26 and the highest yield close since March 9. The 4.72/80% area looks to be next support before the 5.08% cycle high. Resistance looks to be at 4.31%, which is 50% of the rally from 5.08% to 3.55% and also where the late May rally reversed.

10yr yields rose only 5bps to close at 3.74% but did trade in a 17bp range. (The 3.74% level was right in the middle of that range.) The high yield for the week was 3.82%, not far off the 3.855% level reached back on May 26. The charts are showing the runups in yield have put in lower highs since the cycle high yield was set at 4.335% back in October. The lowest yield since then was 3.25% on April 10th. The midpoint of that move is 3.79%.
Rates Vol continued its slide with the MOVE Index dropping to its lowest since February. Swaption Vol got hit again as rates backed up, with short locks and short maturities

Please see disclosure starting on page 3.

falling the most.

U.S. Equity markets finished the week marginally higher, with the Nasdaq composite making another 52wk high: S&P +0.4%, Dow +0.3%, Nasdaq +0.1%. **The VIX** traded down to 13.5 for the first time since Covid, back in early 2020.

All eyes seem to be on the **TBill market** lately as supply ramps up. TBill issuance increased last week by about 46bn to 279bn, plus a new 44day Cash Management Bill for another 50bn. That supply was met with good investor demand as TBill rates generally dropped while longer Treasury rates rose.

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On the back of that increased issuance, the **Treasury cash balance** rose to $88bn on June 8, up from $23bn on June 1. TBill issuance will increase again this week. The 3&6mo auctions will be unchanged at 123bn, but the 1yr TBill will be increased by 2bn to 38bn. The 4mo TBill may be increased along with the 4wk and 8wk Bills, and Treasury will issue a 42Day Cash Management Bill for 45bn.

Estimates are for the Treasury to grow their cash balance to the $400-500bn area over the next month or so.

Looking ahead

This will be a very busy week for markets. In addition to all the TBills, the Treasury will be back in the market with $90bn of term **supply**. The 3yr Notes and the 10yr reopening will be auctioned today, with the 30yr Bond reopening tomorrow, in order to get them done before the FOMC meeting.

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It's also a big week for **data** starting tomorrow with CPI for May. Economists are expecting some cooling in Prices with the headline expected to slow to +0.2% from +0.4% and the Core to remain unchanged at +0.4%. The YoY headline is expected to drop due to base effects to 4.1% from 4.9%, and even the Core is expected to drop 3 tenths to 5.2% YoY. PPI will be released on Wednesday and that series is expected to show a bit of cooling, as well.

Then Thursday will be another busy day for data with Retail Sales for May, along with Import / Export Prices, Jobless Claims, and a slew of Manufacturing data. On Friday, we'll get the preliminary U of Michigan surveys for June, with the inflation expectations in focus there.

The biggest event of the week will be the **Fed's rate decision** on Wednesday afternoon. The most recent messages from Chairman Powell seemed to indicate a Pause for this meeting. Markets are expecting a hawkish Pause / Skip with their messaging to continue to highlight that the inflation fight is not yet over and that further tightening will be necessary at some point. I don't think they would box themselves in by implying they will definitely hike in July, but if they use the term "Skip", that could potentially confuse markets.

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The new quarterly Summary of Economic Projections will also be important for markets. As we're almost halfway through the year, the Fed's assessment of the Funds Rate at year end should be a bit clearer. In March, they projected the year end Funds rate to be 5.125% and we're already there. How much higher will they take that projection? In March, they projected that PCE Core inflation would end the year at 3.6%. It's currently at 4.7%, but the base effects may help that reading, as well. They should have a better idea of where inflation will be in 6 months, but let's not count on that.

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Also this week, the ECB is expected to hike rates 25bps on Thursday to 3.50%