U.S. Taxable Fixed Income Markets

Monday Morning Comments

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Overnight

Overnight, global equities are mixed but generally a bit lower with U.S. futures also lower. Global sovereigns are in rally mode this morning with U.S. Treasuries better, as well. The curve is a bit flatter with the 10yr nearly 4bps better at 3.70% after trading to 3.68%.

Last Week

Last week's holiday shortened trading seemed to have only a few market movers, as Treasuries traded in relatively tighter ranges, as the curve pivoted flatter.

Housing Starts were up +21% in May vs an expectation of -0.1%, bringing the Housing market back into the economic conversation.

Chairman Powell gave his Congressional testimony on Capitol Hill where he continued his hawkish tone. He reinforced that more rate hikes are likely to come and that rate CUTS are aren't going to happen any time soon.

The Bank of England surprised markets with a 50bp hike to 5% on Thursday. Most analysts were expecting them to only raise rates by 25bps, but they cited high inflation as the greatest challenge that needs to be addressed and noted they will do whatever is necessary to bring inflation back to its 2% target. Markets are pricing in a Terminal rate there of nearly 6.25%.

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Weaker PMI data out of Europe drove a sharp rally Friday morning in core European sovereigns, helping Treasuries pare some losses.

On Friday, the Fed announced its tentative meeting schedule for 2024 so the WIRP page on Bloomberg now includes implied rates for all those meeting dates.

The **Fed Funds futures** implied rate for the July Fed meeting ended last week unchanged at 5.26% which is a 72% probability of a hike. The Terminal Rate, now in November, moved up a few bps to 5.325%, which is just about a full 25bp hike from here. The rate for the December meeting rose 4bps to 5.24%, pricing in only a small chance of a rate cut by year end after that one potential hike. The first full cut from there looks to be priced in for March of next year, and by the end of next year it looks like futures are pricing in 150bps of cuts from the November Terminal Rate.

TBill rates moved up a few basis points also last week, with the 6month TBill yielding the most, closing the week near 5.40%.

The 2yr Treasury generally continued its rise in yield last week, reflecting the slightly higher expectations for the Funds rate. The issue traded in a 15bp range, and got as high as 4.805% yield, but finished at 4.74%, only 2.5bps higher in yield for the week. The

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4.805% yield was the highest since the regional banking fears back in early March. The cycle high at 5.08% set on March 8 would be the next target.

The 10yr generally rallied a bit, trading to 3.69% early Friday before settling back to close at 3.735% for the week, about 2.5bps lower in yield. The tight lid on 10yr rates follows the declining rate trendline going back to the cycle highs at 4.335% set in October, as higher Funds rate talk is driving expectations for a slower economy down the road.

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The 2s10s curve continued its inversion again last week, reaching -103.5bps before closing -6bps flatter at -101.5bps. The curve is pivoting flatter and will probably soon revisit it's early March spike to -111bps. That's the most inverted the curve has been since 1981.

Rates Vol rose a bit early in the week but finished near unchanged, with the MOVE Index still back at early February levels. **Swaption Vol** was relatively subdued with most of the grid close to unchanged, though 3-6 month locks seemed to improve a bit.

U.S. Equity markets finished the week lower: S&P -1.4%, Dow -1.4%, Nasdaq -1.1%.

The VIX closed below 13.5 again last week, after trading as low as 12.7.

The **U.S. Treasury cash balance** rose to $366bn on June 22, up from $250bn on June 15, and just $23bn on June 1. In a related move, balances at the Fed's Reverse Repo facility have dropped by $191bn since June 1. Treasury Bill settlements this week will raise another $131bn new cash, according to Bloomberg, making fast progress to their estimated target of around $500bn.

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Looking ahead

Upcoming data this week includes Durable Goods Orders, New Home Sales, and Consumer Confidence tomorrow.

On Thursday, we'll see the second revision of Q1 GDP, which is expected to tick up slightly to +1.4%.

Then Friday we'll see some important inflation data with the Core PCE Deflator for May. That's expected to remain unchanged at +0.4% for the month and +4.7% YoY. Personal Income & Spending for May will also be released, as well as the Chicago PMI, and the U of Michigan final surveys for June.

The June Eurozone CPI read will also be released Friday morning.

The ECB will be hosting a conference in Portugal this week. Topics include Monetary Policy normalization, and Lessons from recent experiences in macroeconomic forecasting. The big hitters will be speaking Wednesday morning at 9:30 E.T. with Fed Chair Powell, ECB President Lagarde, BOE Governor Bailey, and BOJ Governor Ueda on the panel.

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In addition to the TBill issuance, Treasury will also come to market with monthly 2yr, 5yr, and 7yr maturities, today, tomorrow, and Wednesday, respectively.

Don't forget, Month end / quarter end is Friday.