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Bond Yields Remain Elevated as Economy Refuses to Wilt

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The two-year Treasury note ended Thursday at a yield of 4.79%, a full percentage point over the closing yield on May 4th. There are a number of contributing factors to the sell-off, although unwinding of the post SVB Bank collapse rally, massive Treasury supply and a more hawkish Fed outlook were the most obvious drivers. *Ultimately, the U.S. economy remains too strong.*

The economic calendar was particularly light this week, but the few releases that mattered were again frustratingly solid. On Tuesday, May housing starts unexpectedly jumped +21.7% to a 1.63 million unit annual rate, *the highest in over a year* and well above the median forecast of 1.4 million units. With the May surge, *starts are suddenly up +5.7% year-over-year*.

After the report was released, the Atlanta Fed revised its growth estimate for second quarter residential investment from -2.1% to +2.2%. This dramatic shift would mark the first time in nine quarters that housing would make a positive contribution to overall GDP growth.

The surge in starts reflects builders' response to lean inventory. Bloomberg News reported the number of homes for sale in May had reached a record low. According to data from online real estate brokerage *Redfin*, active listings dropped by -7.1% in May, and -38.6% from pre-pandemic levels, leaving just 1.4 million active listings, a new low for any month from records dating back to 2012.

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May existing home sales, also released this week, were slightly above forecast for the month, but down -20.4% from last year. A couple of things stood out: the skinny three-month supply and a median sales price of $396,000, which was up slightly for the month but down -3.1% year-over-year.

The NAHB/Wells Fargo builder sentiment index climbed from 50 to 55 in May, the highest in 11 months. Homebuilders are growing more optimistic as costs moderate, supply chain issues clear, and the inventory of existing homes continues to be restrained by "mortgage lock," wherein current homeowners are reluctant to sell if it means parting with their historically low loan rates.

As of June 20, the second quarter GDPNow measure was tracking at a solid +1.9% rate. When the quarter began, the nation's economists were forecasting growth at just above zero. The widely-expected recession remains elusive.

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The other news, the Bank of England hiked its overnight target by 50 bps Wednesday, the biggest increase since February. Consumer inflation in the UK has been agonizingly slow to cool with an annual rate of +8.7% in May. The next day, the Swiss National Bank followed with a quarter point hike of its own. The Swiss are also concerned with price pressures, although their annual inflation rate was a seemingly benign +2.2% in May.

Please see disclosure starting on page 2

Market Indications as of 11:23 A.M. Central Time

DOW	Down -148 to 33,799 (HIGH: 36,800)
NASDAQ	Down -97 to 13,534 (HIGH: 16,057)
S&P 500	Down -28 to 4,354 (HIGH: 4,797)
1-Yr T-bill	current yield 5.26%; opening yield 5.25%
2-Yr T-note	current yield 4.77%; opening yield 4.78%
3-Yr T-note	current yield 4.35%; opening yield 4.36%
5-Yr T-note	current yield 4.01%; opening yield 4.03%
10-Yr T-note	current yield 3.75%; opening yield 3.79%
30-Yr T-bond	current yield 3.82%; opening yield 3.86%