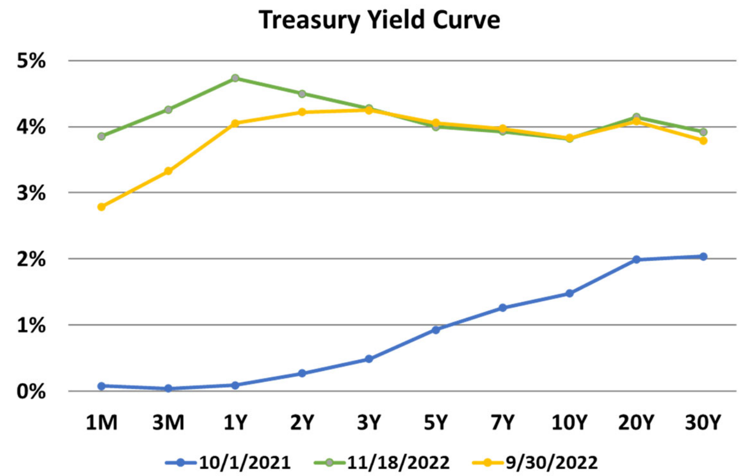
MARKET STATUS REPORT

NOVEMBER 2022

Lagging inflation readings appear to have peaked and commenced a slow descent. Real-time indicators including layoffs, home prices, certain commodities markets, and strange, inefficient pockets of illiquidity (including in U.S. Treasurys)--all seem to indicate an economy that is cooling more rapidly than the Fed might assume amidst their battle to quell inflation.

As the market has taken notice of signs of economic slowdown, benchmark interest rates have reacted accordingly. The 10-year Treasury began October at 3.67%, climbed to 4.25% by October 24, then dropped back down to 3.82% as of this writing. Presumably this means the market is underwriting a slowing pace of Fed Funds Rate increases and has reached possible consensus on a peak terminal Funds Rate of 5.0% to 5.25%.



More interesting is the comparison (see chart) of the yield curves from a year ago (steep), the start of October (lifted and somewhat flat in the middle), and today (inverting). On several occasions over the past week, the bookends of the curve have inverted, with the 30-year Treasury yield below the 1-month yield. These characteristics typically precede recessions.

Not enough attention is being paid to the looming threat to market stability posed by the Federal government once again approaching the debt limit. The latest national debt of $31.2 trillion compares to the current ceiling of $31.4 trillion. Markets appreciate the predictability of divided government stalemates, but react very negatively to unpredictable standoffs that threaten the economy. The unfortunate intersection of the political and debt ceiling calendars should be watched closely.

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