

Capital Metropolitan Transportation Authority

Finance, Audit & Administration Committee

Economic Update
August 15, 2022

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Current Market Themes



- ▶ The U.S. economy is characterized by:
 - ▶ High inflation
 - ▶ A strong labor market
 - ▶ Depressed consumer confidence
 - ▶ Growing potential for economic recession

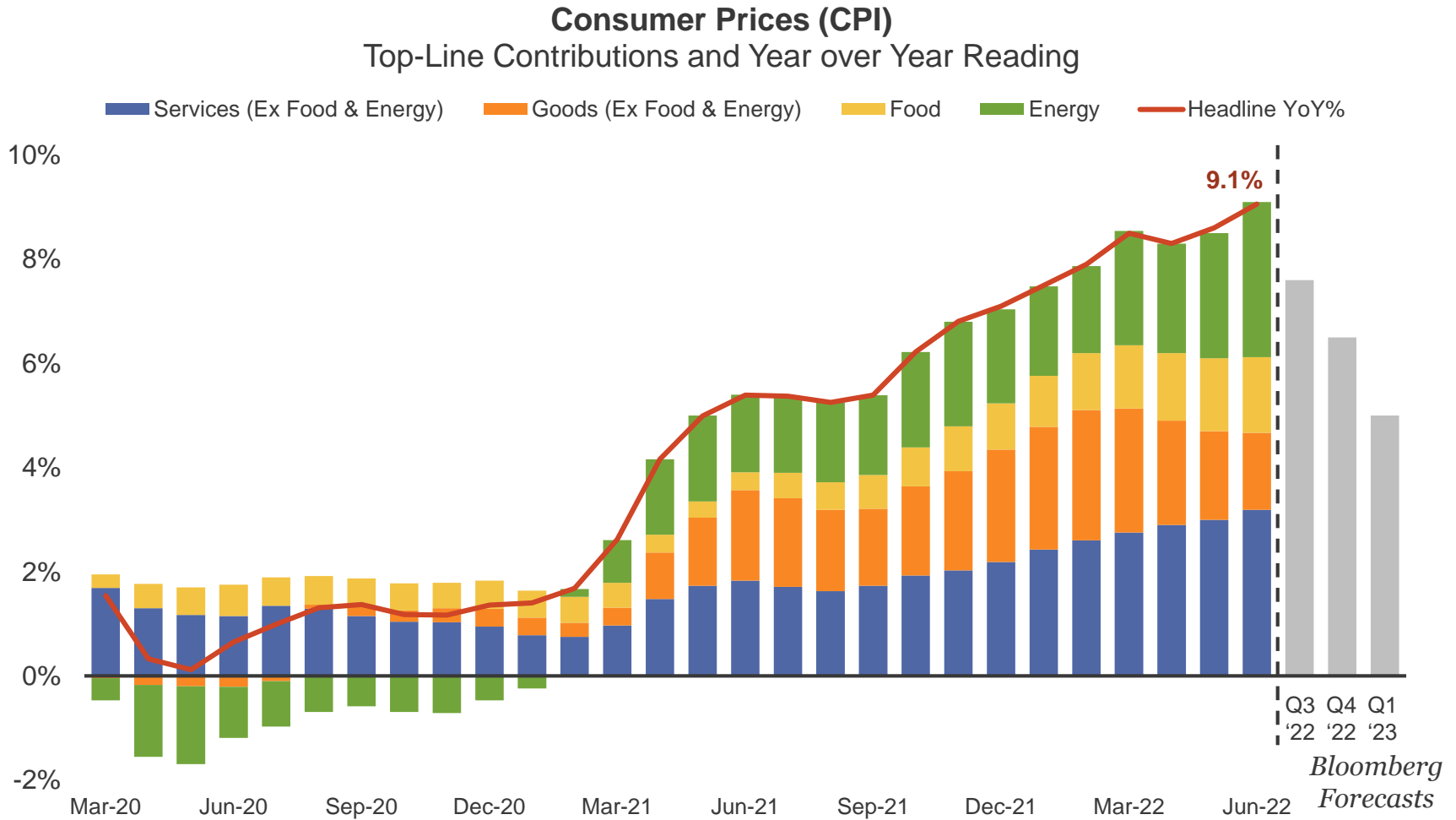


- ▶ The Federal Reserve is tightening monetary policy
 - ▶ More aggressive rate hikes to battle persistent inflation
 - ▶ Short-term fed funds rate projected to reach 3.25% to 3.75% by year-end
 - ▶ Start of balance sheet reduction; pace to double beginning in September



- ▶ Asset prices have fallen sharply in 2022 as a result of:
 - ▶ The impact of higher rates on bond prices and equity valuations
 - ▶ Wider credit spreads
 - ▶ High commodity prices, rising labor costs, and the continuing conflict in Ukraine
 - ▶ High levels of volatility and uncertainty

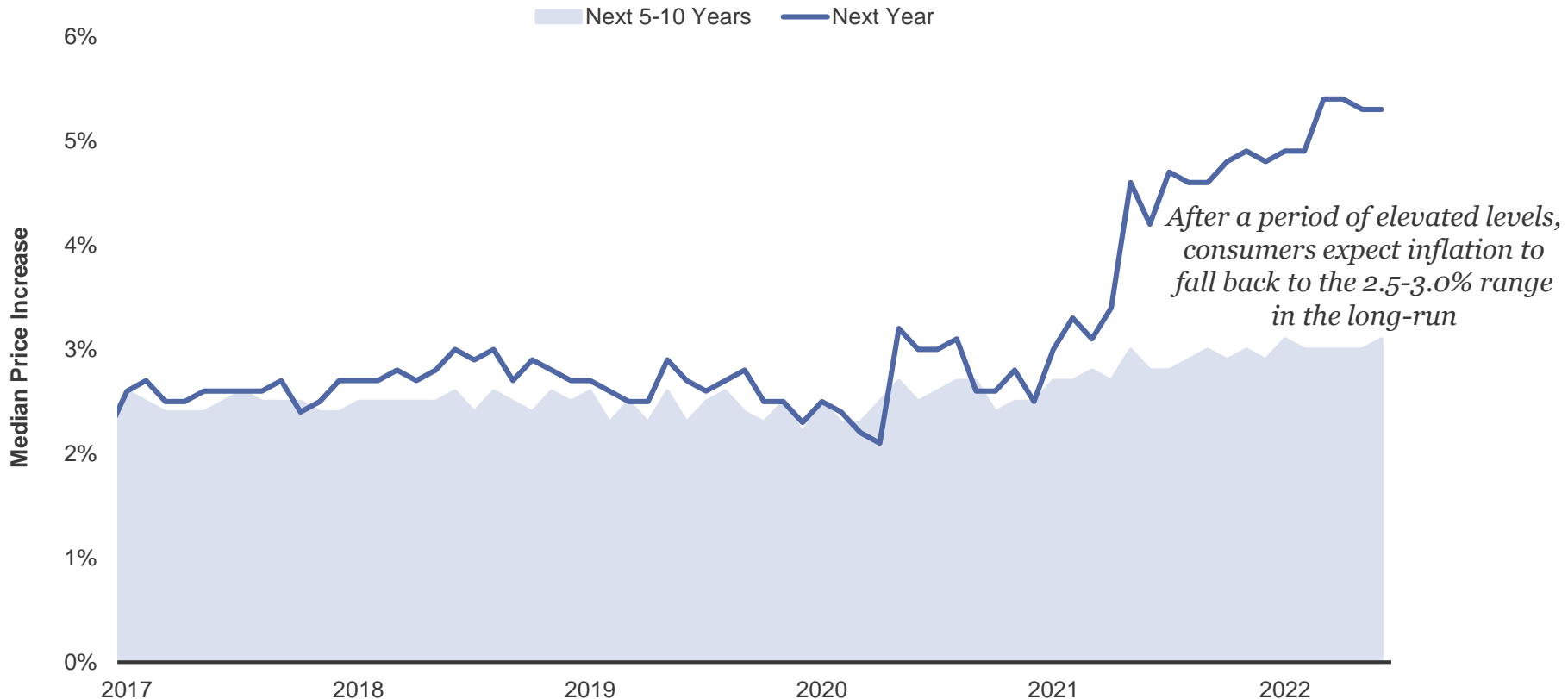
U.S. Inflation Hits Another Four-Decade High in June



Source: Bloomberg, as of June 2022.

Consumers Expect High Inflation in the Near Term, But Moderation Longer Term

University of Michigan Survey of Consumers
Expected Change in Prices

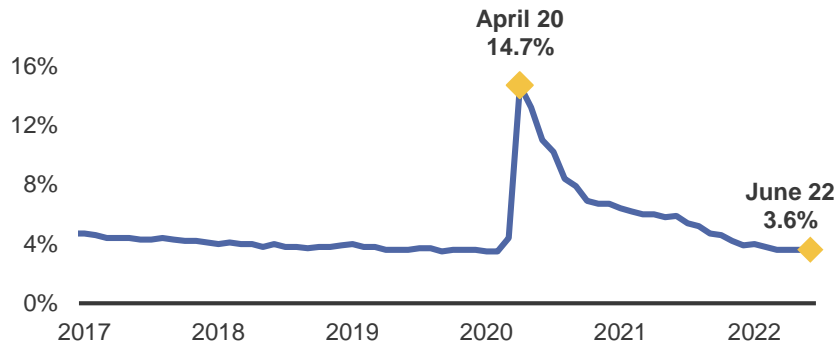


Source: Bloomberg, as of June 2022.

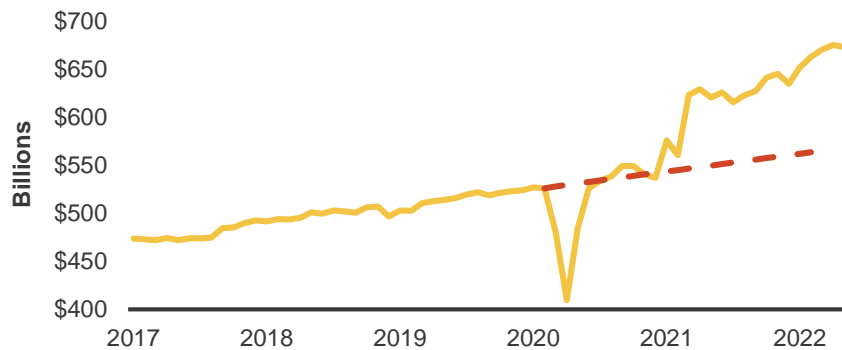
Strong Labor Market and Spending Provide Momentum Against Signs of Economic Slowing

Tailwinds

U.S. Unemployment Rate

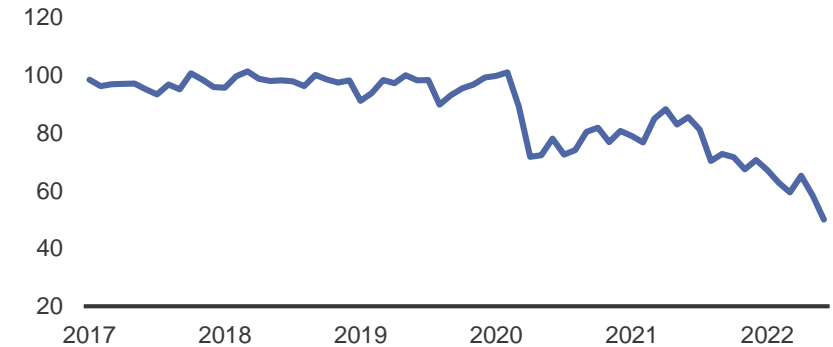


Retail Sales (Monthly)

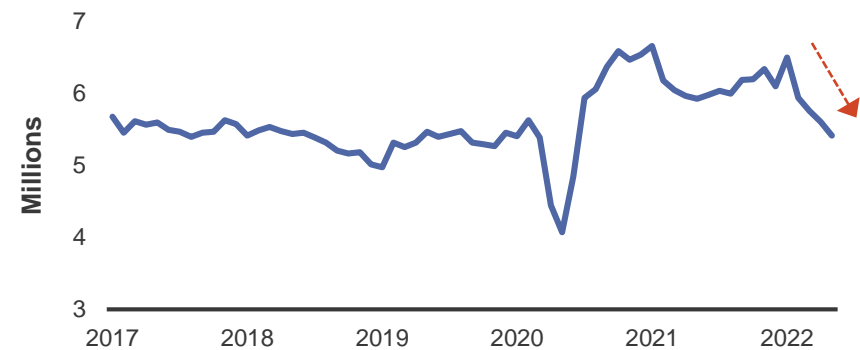


Headwinds

Index of Consumer Sentiment



Existing Home Sales



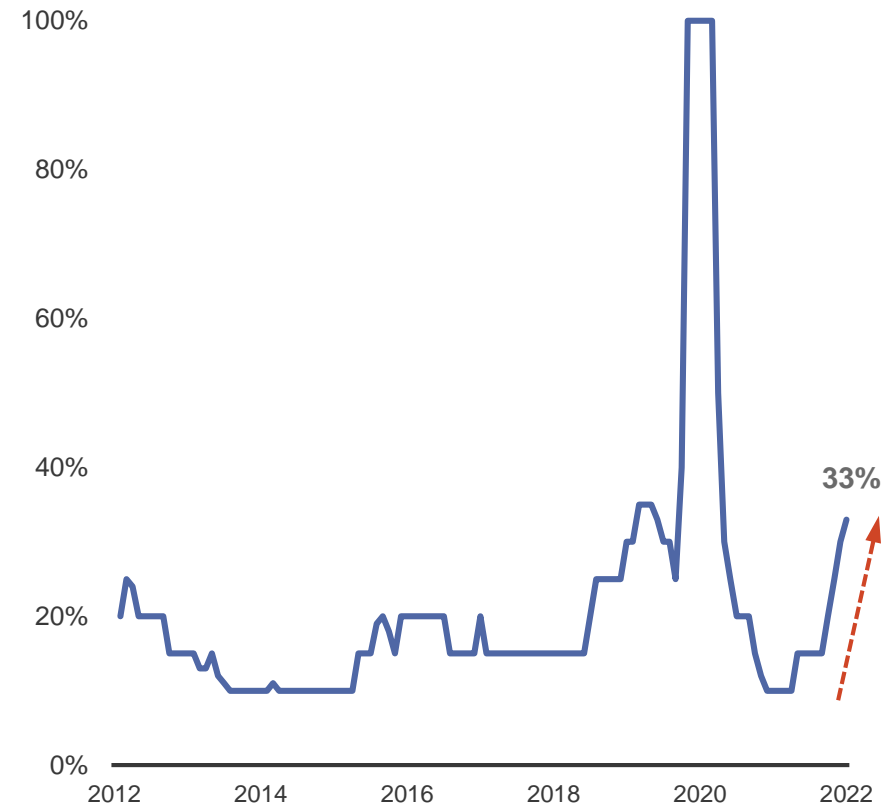
Uncertainty Grows Around Economic Outlook

GDP Contributors

	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
U.S. Real GDP	6.7%	2.3%	6.9%	-1.6%	-1.2% (proj.)
Personal Consumption	7.9%	1.4%	1.8%	1.2%	
Fixed Investment	0.6%	-0.2%	0.5%	1.3%	
Private Inventories	-1.3%	2.2%	5.3%	-0.4%	
Net Exports	-0.2%	-1.3%	-0.2%	-3.2%	
Gov't Expenditures	-0.3%	0.2%	-0.5%	-0.5%	

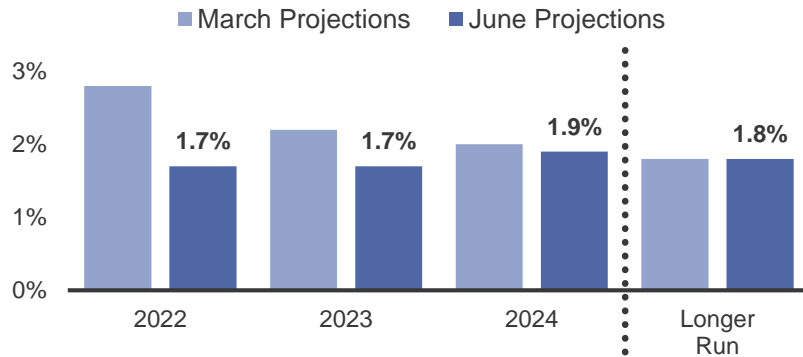
Following a negative Q1 reading, economists expect positive yet decelerating growth amid an increasingly cautious consumer

U.S. 1-Year Recession Probability (Bloomberg Median Economist Forecast)

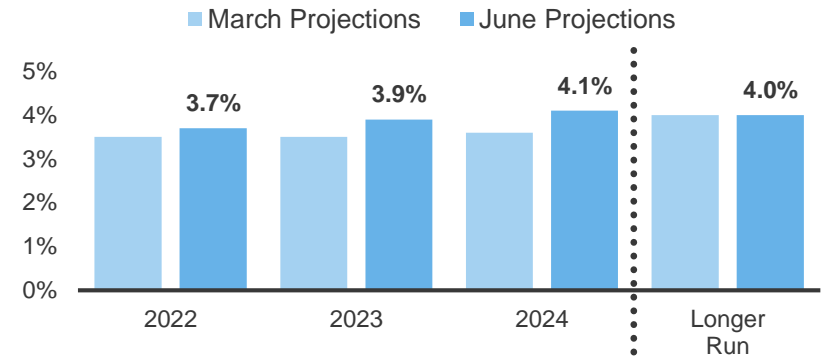


Fed's Updated Projections Show More Expected Inflation, Lower Growth

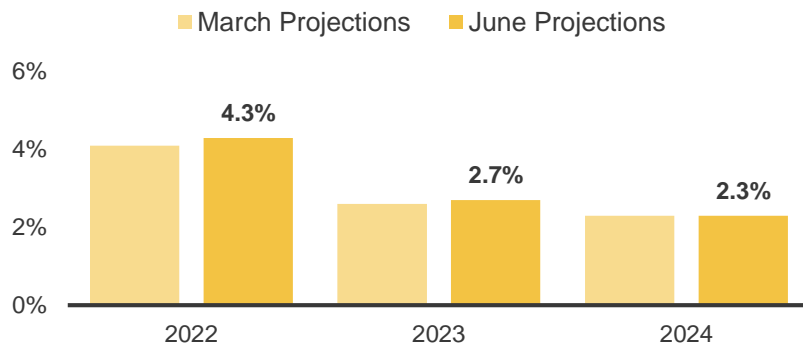
Change in Real GDP



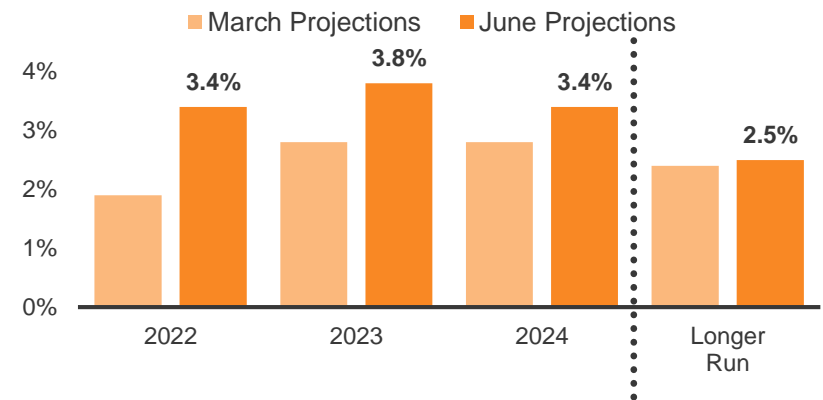
Unemployment Rate



Core PCE Inflation



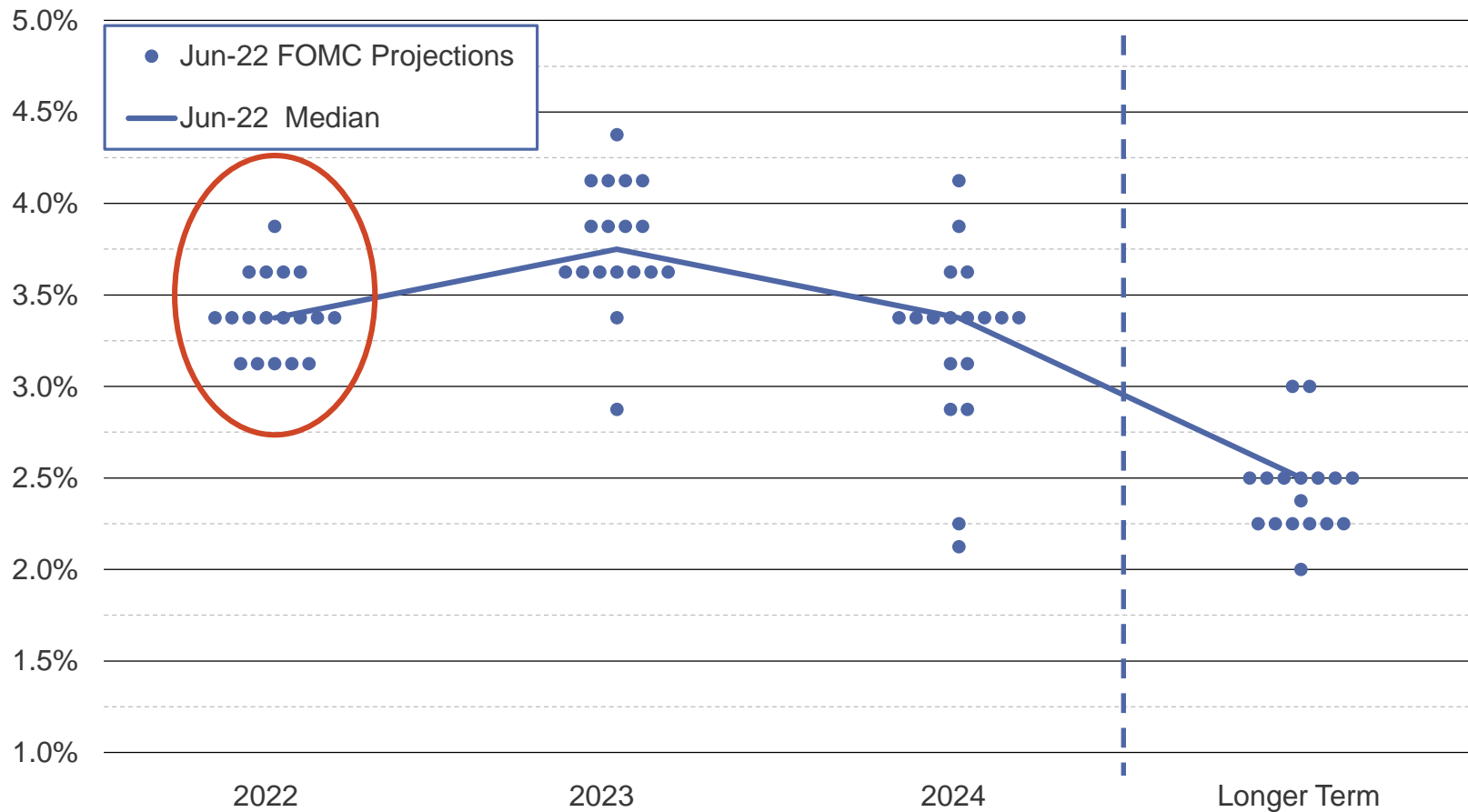
Federal Funds Rate



Source: Federal Reserve, latest economic projections as of June 2022.

Federal Reserve Officials Project 1.75% More in Rate Hikes in 2022

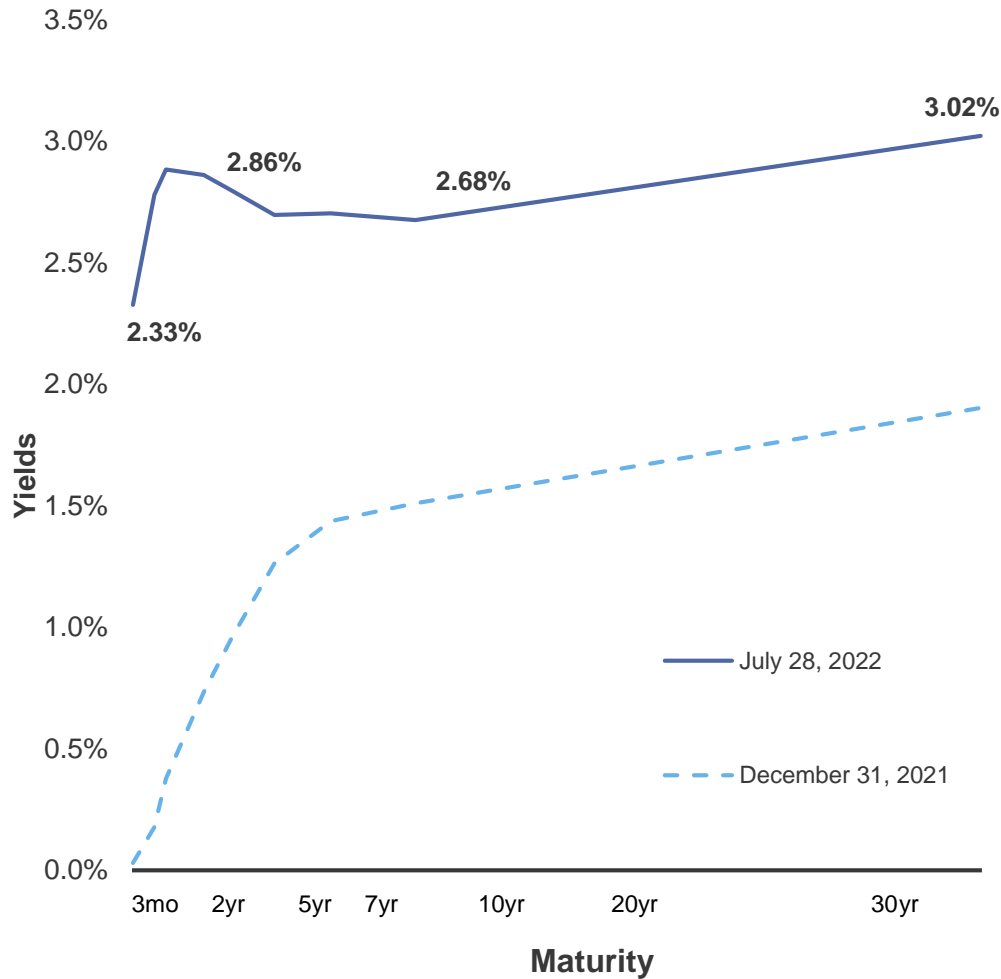
Fed Participants' Assessments of 'Appropriate' Monetary Policy



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.

Treasury Yields Higher as Fed Expected to Continue to Raise Rates

U.S. Treasury Yield Curve



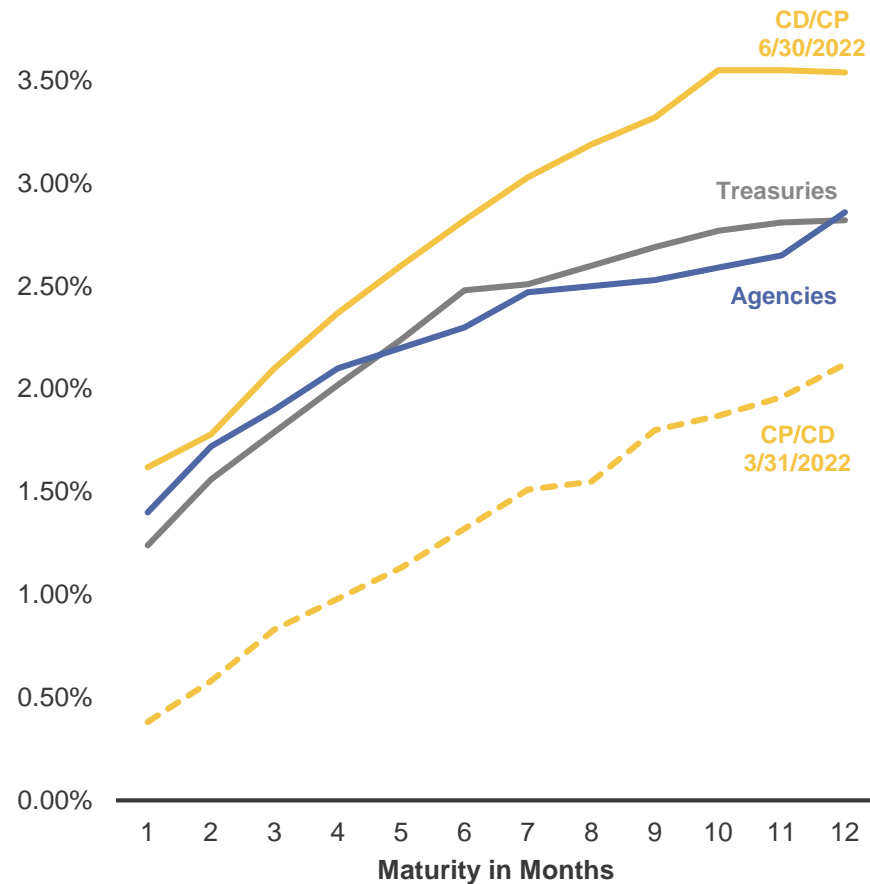
2-Year Treasury Yield



Source: Bloomberg, as of 7/28/2022.

Short-Term Credit Continues to Provide Incremental Value

Money Market Yield Curve



6-Month Commercial Paper Spread



Source (left): PFM Trading Desk, as of 6/30/2022. Yields are for indicative purposes only; actual yields may vary by issue.
Source (right): Bloomberg, as of 6/30/2022.

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