

## MORNING MARKET COMMENTARY

### Tuesday, March 19, 2019

	Yesterday end of day	Previous end of day
Fed Funds (open)	2.40%	2.40%
3- Month T-Bill	2.40%	2.40%
6-Month T-Bill	2.44%	2.44%
1-Year T-Bill	2.43%	2.44%
2-Year T-Note	2.450%	2.394%
10-Year T-Note	2.603%	2.598%
30-Year T-Bond	3.019%	3.021%
1-Month LIBOR	2.48175%	2.48175%
	<b>This Week</b>	<b>Last Week</b>
3-Month T-Bill Auction	2.465%	2.460%
6-Month T-Bill Auction	2.522%	2.527%
1-Year CMT	2.52%	2.53%
2-Year CMT	2.45%	2.47%
3-Year CMT	2.41%	2.45%
5-Year CMT	2.42%	2.44%
March 19 Hike Prob	0.08%	0.00%

#### March 19, 2019: Rate-Hike Patience May Leave Fed in a Bind If Inflation Softens (Bloomberg)

Federal Reserve officials say they're willing to tolerate an overshoot of their inflation goal. If the opposite happens, the plan is less clear.

Core inflation, excluding energy and food prices, is currently just shy of the central bank's 2 percent target. Most economists and policy makers see that lasting, though there's no guarantee: Inflation expectations have been stuck on the low side, and a cooler housing market is among several factors that could weigh on future price pressures.

If price gains would slow down even as U.S. economic growth more broadly held up, it could put the central bank in a tough spot. Officials have already placed interest-rate hikes on hold amid muted price pressures

and looming global risks. They could extend that pause, pledging to keep rates low until faster price gains materialize. But economists said actually lowering rates on an inflation miss seems unlikely, because it could signal undue pessimism.

"The hurdle for a policy inflection point is fairly high," said Lou Crandall, chief economist at Wrightson ICAP in New York. "If you ease, you trigger the, 'what does the Fed know that we don't?' trade."

The stakes are significant. The Fed hasn't hit 2 percent inflation on a sustained basis since formally adopting it in 2012. Officials had been hopeful that this would be the year in which they finally clinched their objective. Policy makers expected to hit 2 percent core inflation by the fourth quarter, according to their last set of economic forecasts, published in December. They also saw unemployment falling to 3.5 percent. Together with above-trend output growth, that laid the groundwork for the committee to project two rate increases this year.

Officials will release a fresh set of projections following their two-day meeting that concludes Wednesday, and downgrades look likely. Economists surveyed by Bloomberg expect just once hike this year, in September, at which point the tightening cycle will have peaked. Unemployment has been hovering around 4 percent, so that projection could move up slightly. It's less clear what revisions, if any, committee members will make to the inflation outlook.

**EASTERN CORPORATE FEDERAL CREDIT UNION**  
**35 CORPORATE DRIVE, SUITE 300, BURLINGTON, MA 01803-4238**  
**1-800-428-1144 • 781-933-9950**

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