

# Michigan School Business Officials

## Market Update

May 13, 2022

734.794.2520 | [pfmam.com](https://pfmam.com)

*PFM Asset Management LLC*

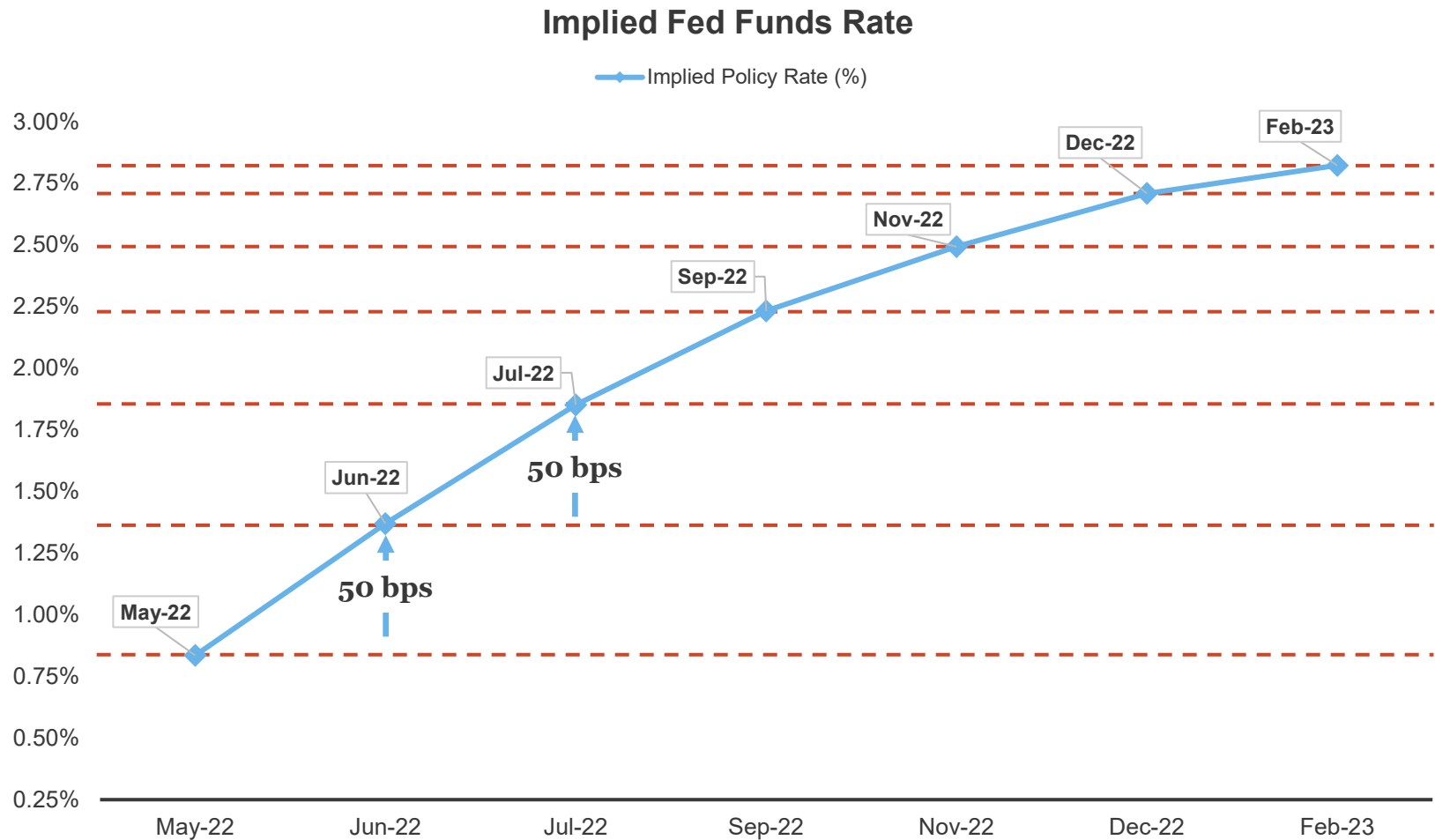
**NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE**

# FOMC Raises Federal Fund Rate and Announces Shrinking of Balance Sheet

## Highlights from the May 4, 2022 FOMC Meeting

- ▶ Although overall **economic activity edged down** in the first quarter, **household spending and business fixed investment remained strong**. Job gains have been robust in recent months, and the **unemployment rate has declined** substantially.
- ▶ Inflation **remains elevated**, reflecting **supply and demand imbalances** related to the **pandemic, higher energy prices, and broader price pressures**.
- ▶ The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are **highly uncertain**. The invasion and related events are **creating additional upward pressure on inflation** and are likely to weigh on economic activity.
- ▶ COVID-related lockdowns in China are likely to **exacerbate supply chain disruptions**. The Committee is **highly attentive** to inflation risks.
- ▶ The Committee decided to raise the target range for the federal funds rate **to  $\frac{3}{4}$  to 1 percent** and **anticipates that ongoing increases** in the target range will be appropriate.
- ▶ The Committee decided to **begin reducing its holdings** of Treasury securities and agency debt and agency mortgage-backed securities on **June 1**

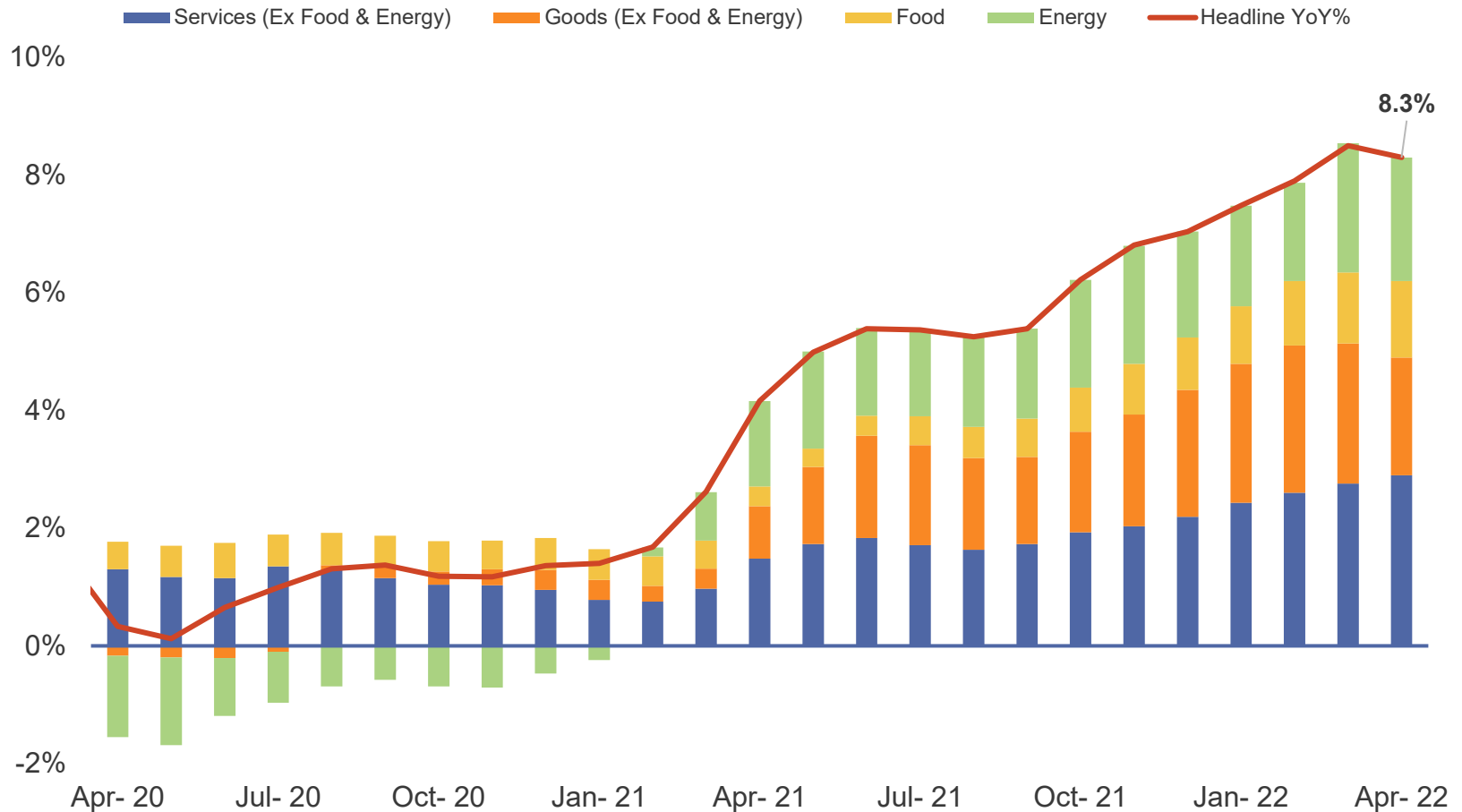
# Market Expectation for Aggressive Rate Hikes



Source: Bloomberg, WIRP as of 5/12/2022. Rate hikes are based on an assumed rate move of 25 basis points (0.25%).

# Consumer Inflation Remains Elevated

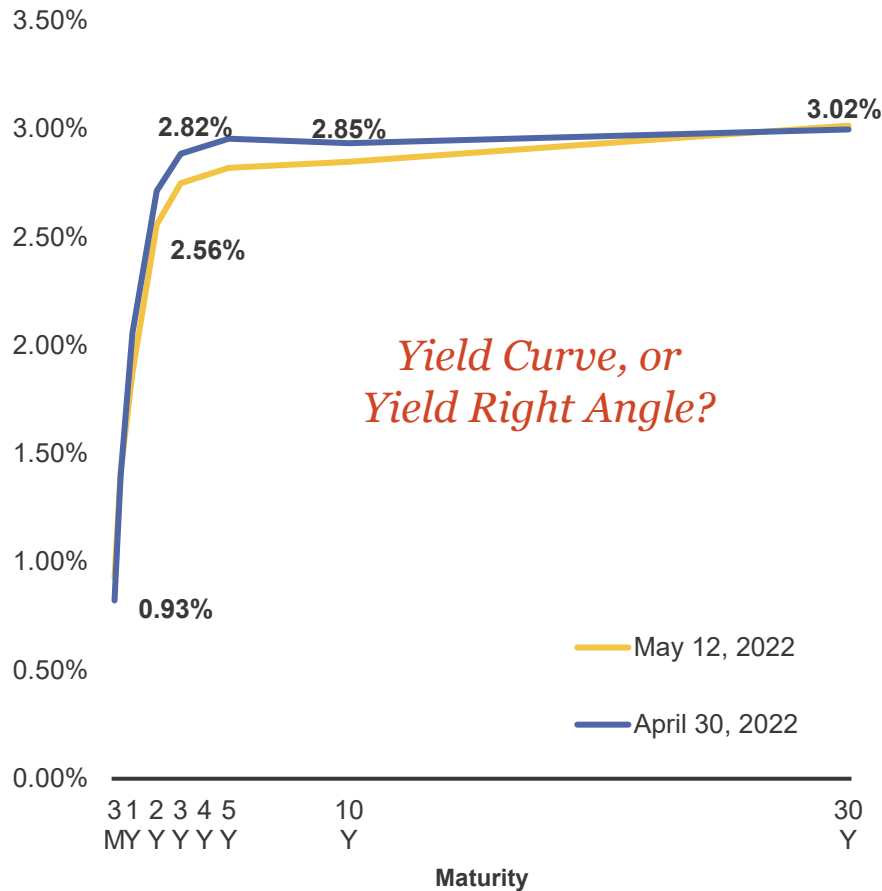
## Factors Contributing to the Consumer Price Index (CPI YoY)



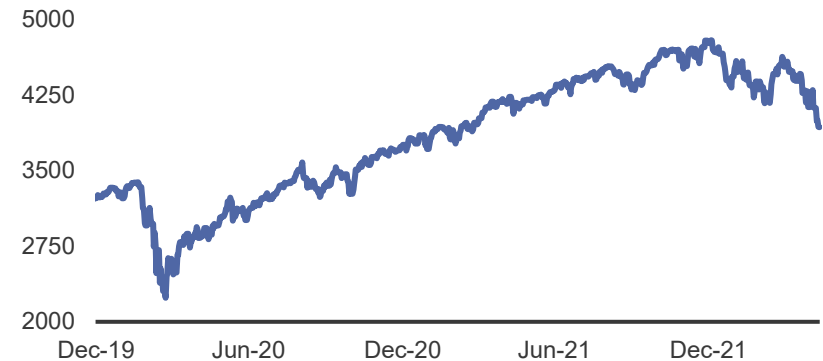
Source: Bloomberg, as of April 2022.

# Capital Markets React to Economic, Inflation and Fed Expectations

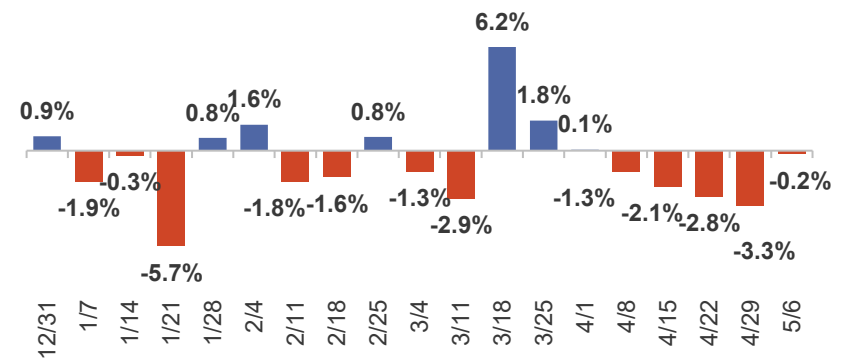
## U.S. Treasury Yield Curve



## S&P 500 Price Change



## S&P Weekly Price Return



Source: Bloomberg, as of 5/12/2022 (left, top right), as of 5/6/2022 (bottom right).

# Disclaimer

Investment advisory services are provided by PFM Asset Management LLC (“PFMAM”), an investment adviser registered with the U.S. Securities and Exchange Commission and a subsidiary of U.S. Bancorp Asset Management, Inc. (“USBAM”). USBAM is a subsidiary of U.S. Bank National Association (“U.S. Bank”). U.S. Bank is a separate entity and subsidiary of U.S. Bancorp. U.S. Bank is not responsible for and does not guarantee the products, services or performance of PFMAM. The information contained is not an offer to purchase or sell any securities. Additional applicable regulatory information is available upon request.

For more information regarding PFMAM’s services please visit [www.pfmam.com](http://www.pfmam.com).

