

WEEKLY WISDOM



X-Date

May 3, 2023

June 1

Treasury Secretary Janet Yellen has identified June 1 as the potential X-Date, where the U.S. government may no longer be able to meet its loan payment obligations, triggering a default. If Congress does not compromise and pass legislation to extend the debt ceiling, roughly \$100 billion in payments would be missed on June 1 and another \$25 billion on June 2.

On June 1, the Treasury owes upwards of \$65 billion to Medicare Advantage and Part D plans, Supplemental Security Income, federal salaries and active-duty military. On June 2, a \$25 billion payment towards Social Security benefits is due.

To complicate matters further, the House adjourns for Memorial Day recess on May 25 and returns May 30. President Biden is scheduled to meet with House Speaker Kevin McCarthy, Minority Leader of the Senate Mitch McConnell, Majority Leader of the Senate Chuck Schumer, and Minority Leader of the House Hakeem Jeffries on May 9. The window for the deal is May 9 – May 25.

Given the tight time constraints, if a deal is passed, which we do expect, it will likely be a short-term extension at the 11th hour, potentially kicking the can into 2024. The House has already passed McCarthy's "Limit, Save Grow Act," but this will not pass the Democrat-controlled Senate.

Fed Hikes 25 bps

The Fed raised its fed funds target rate an additional 25 bps during the May FOMC meeting. Fed funds rate is now 5.00-5.25%. While a decision to pause was not made today, Powell noted that the Fed no longer "anticipating" additional hikes was a "meaningful change." Moving forward, the Fed will continue to rely on data but remain prepared to hike further if greater monetary restriction is required. Importantly, the Fed maintained comments that "the U.S. banking system is sound and resilient.", Powell even noted that the "banking sector has broadly improved since March." Many thought that the Fed will raise until something breaks, but it is apparent that the regional bank turmoil is not enough to pause the hikes just yet.

There was also a material change in the Fed’s rhetoric within the press release. The release from the last meeting said that “the committee anticipates additional policy firming may be appropriate”; this week it has changed to “the committee is determining the extent to which additional policy firming may be appropriate”. It appears the Fed has shifted to the less hawkish side in its fight against inflation, which remains elevated, but it views financial conditions as stable. Chair Powell even went to the extent that he forecasts modest growth, not a recession.

No new dot plot was released; therefore, it remains the same at 5.1%, which implies we are in the final innings of the hiking regime. A new dot plot will be released after the next meeting on June 14. Chair Powell's comments were interesting surrounding the approaching debt ceiling. He essentially said that the debt ceiling must be raised in a timely manner but that the debt limit was unimportant in today’s monetary policy decision. Although the debt limit was not significant in today’s decision Powell did not rule out that it does not pose a risk to the outlook. It is encouraging to see the Fed is recognizing the economy’s current concerns. Credit is a focus for the Chairman as well, as he mentioned the economy is likely to face headwinds from credit conditions. This ultimately does not point directly to a recession, but modest growth.

Treasury yields moved higher across the curve following release of the Fed statement, then reversed course falling modestly lower and back in line with pre-announcement levels. The short end of the curve continued to rally, which could be interpreted as a flight to safety. Moreover, high-yield spreads widened by 7 bps, reaching +500 bps for the first time in nearly a month. Prior to the announcement, futures markets were pricing a singular rate cut by year end. Given the statement's less hawkish tone, futures markets are now telling us that the Fed will cut rates twice before year end, and a third time at their January 2024 meeting.

The next FOMC meeting is June 14

Stephanie Link: CNBC TV Schedule

DATE	SHOW	TIME
Thursday, May 4	Worldwide Exchange	5:50 AM ET
Friday, May 5	Fast Money Halftime	12:00 PM ET

DATE	SHOW	TIME
Thursday, May 4	Worldwide Exchange	5:50 AM ET
Friday, May 5	Fast Money Halftime	12:00 PM ET

Disclosures

Investment Solutions is a group comprised of investment professionals registered with Hightower Advisors, LLC, an SEC registered investment adviser. Some investment professionals may also be registered with Hightower Securities, LLC, member FINRA and SIPC. Advisory services are offered through Hightower Advisors, LLC. Securities are offered through Hightower Securities, LLC. This is not an offer to buy or sell securities. No investment process is free of risk, and there is no guarantee that the investment process or the investment opportunities referenced herein will be profitable. Past performance is neither indicative nor a guarantee of future results. The investment opportunities referenced herein may not be suitable for all investors. All data or other information referenced herein is from sources believed to be reliable. Any opinions, news, research, analyses, prices, or other data or information contained in this presentation is provided as general market commentary and does not constitute investment advice.

Investment Solutions and Hightower Advisors, LLC or any of its affiliates make no representations or warranties express or implied as to the accuracy or completeness of the information or for statements or errors or omissions, or results obtained from the use of this information. Investment Solutions and Hightower Advisors, LLC assume no liability for any action made or taken in reliance on or relating in any way to this information. The information is provided as of the date referenced in the document. Such data and other information are subject to change without notice. This document was created for informational purposes only; the opinions expressed herein are solely those of the author(s) and do not represent those of Hightower Advisors, LLC, or any of its affiliates.