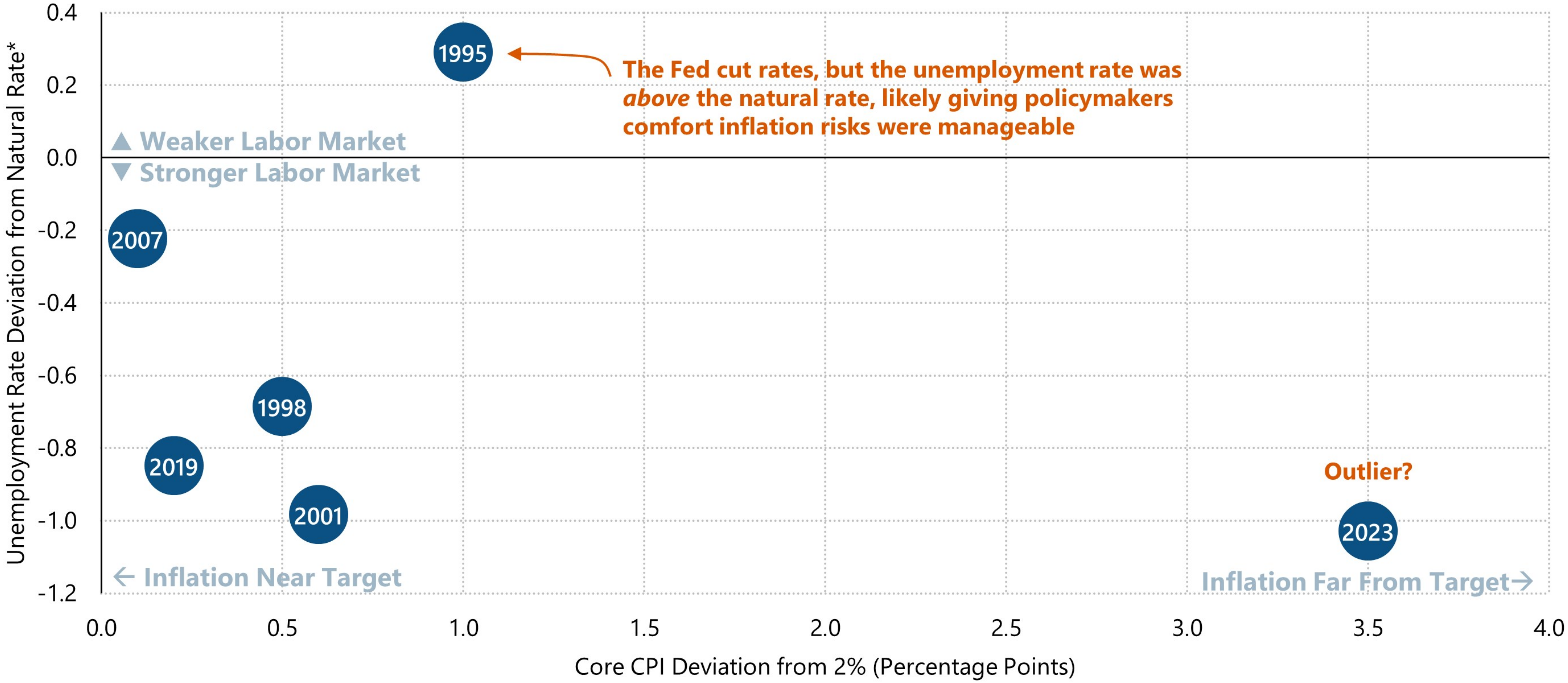
One Of These Is Not Like The Others

Unemployment Rate and Core Inflation At First Rate Cut In Cycles Since 1994

For The Week Ending 05/19/2023



Source: Bureau of Labor Statistics, CBO, Deutsche Bank, Payden Calculations **An unemployment rate above the natural rate suggests labor market conditions are non-inflationary.*

Interest rates rose this week, particularly in the front end of the U.S., U.K., Canadian, and European curves, as investors wrestled with the reality that central banks may not only be slow to cut rates. Some may even lodge additional rate hikes before all is said and done! The economic data encouraged the bond market's rethink, with U.S. retail sales surprising to the upside and Canadian inflation appearing stickier than hoped. But central bankers themselves also mouthed words of caution for rates traders. Bank of England Governor Andrew Bailey warned the U.K. was far from its 2% mandate. Lorie Logan, voting member of the FOMC as President of the Dallas Fed and formerly at the New York Fed, worried progress back to 2% wasn't happening quickly enough. Yet until recently, U.S. bond futures implied a percentage point of cuts by January 2024. In the era since the Fed began explicitly targeting the fed funds rate, the Fed has never cut rates with inflation as far above its target as it is now. Moreover, with the unemployment rate well below estimates of the natural rate, we continue to find the prospect of 2023 rate cuts highly unlikely.

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