



# Northern California Power Agency

**February 2023**

**Finance Committee Materials**

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# Report on Current Financial Market Conditions or Issues

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*Data, rates, and related statistics and charts are as of January 30, 2023, unless otherwise indicated*



## Market Overview Since November 15<sup>th</sup>

Date	DJIA	10-Yr MMD	10-Yr Tsy	30-Yr MMD	30-Yr Tsy
16-Nov	33,554	2.94%	3.67%	3.62%	3.85%
19-Dec	32,758	2.47%	3.57%	3.42%	3.62%
Δ	-796	-0.47%	-0.10%	-0.20%	-0.23%

- Municipal bonds experienced favorable market conditions through November and into the week after Thanksgiving, benefitting from supply/demand imbalance that provided robust retail and institutional demand for new issues
- November CPI came in lower than expected on 12/13, suggesting that inflation had peaked and would continue its downward trend, which led Treasuries and Municipal bonds to rally
- The Fed raised Fed Funds by 50 bps at the 12/14 FOMC, slowing the pace of increases, as widely anticipated by market participants; nonetheless, 17 of the 19 Fed members indicated that they see the terminal rate above 5%

Date	DJIA	10-Yr MMD	10-Yr Tsy	30-Yr MMD	30-Yr Tsy
19-Dec	32,758	2.47%	3.57%	3.42%	3.62%
4-Jan	33,270	2.58%	3.69%	3.50%	3.81%
Δ	512	0.11%	0.12%	0.08%	0.19%

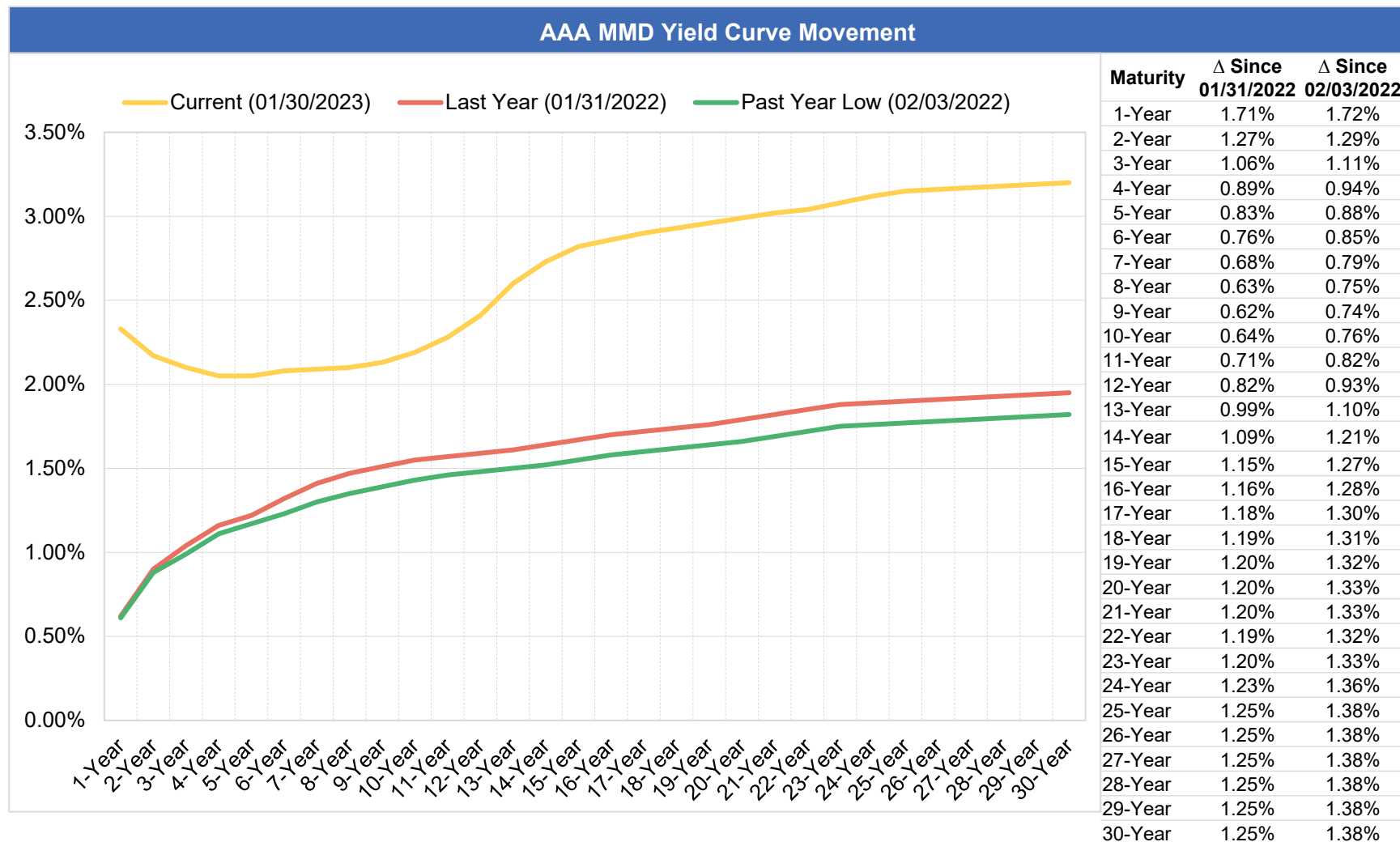
- December saw an inversion of the spread between 2-year and 10-year bond yields; the short end currently remains inverted

Date	DJIA	10-Yr MMD	10-Yr Tsy	30-Yr MMD	30-Yr Tsy
4-Jan	33,270	2.58%	3.69%	3.50%	3.81%
30-Jan	33,717	2.19%	3.55%	3.20%	3.66%
Δ	447	-0.39%	-0.14%	-0.30%	-0.15%

- In January, CPI released on 1/12 came in as expected, showing decelerating inflation, and economists started forecasting a contraction of the US economy
- At the 2/1 Fed Meeting Fed Funds were increased by 25 bps, in line with expectations
  - Powell acknowledged the “disinflationary process” has started but indicated that rate hikes would likely continue and warned against expectations of rate cuts later this year



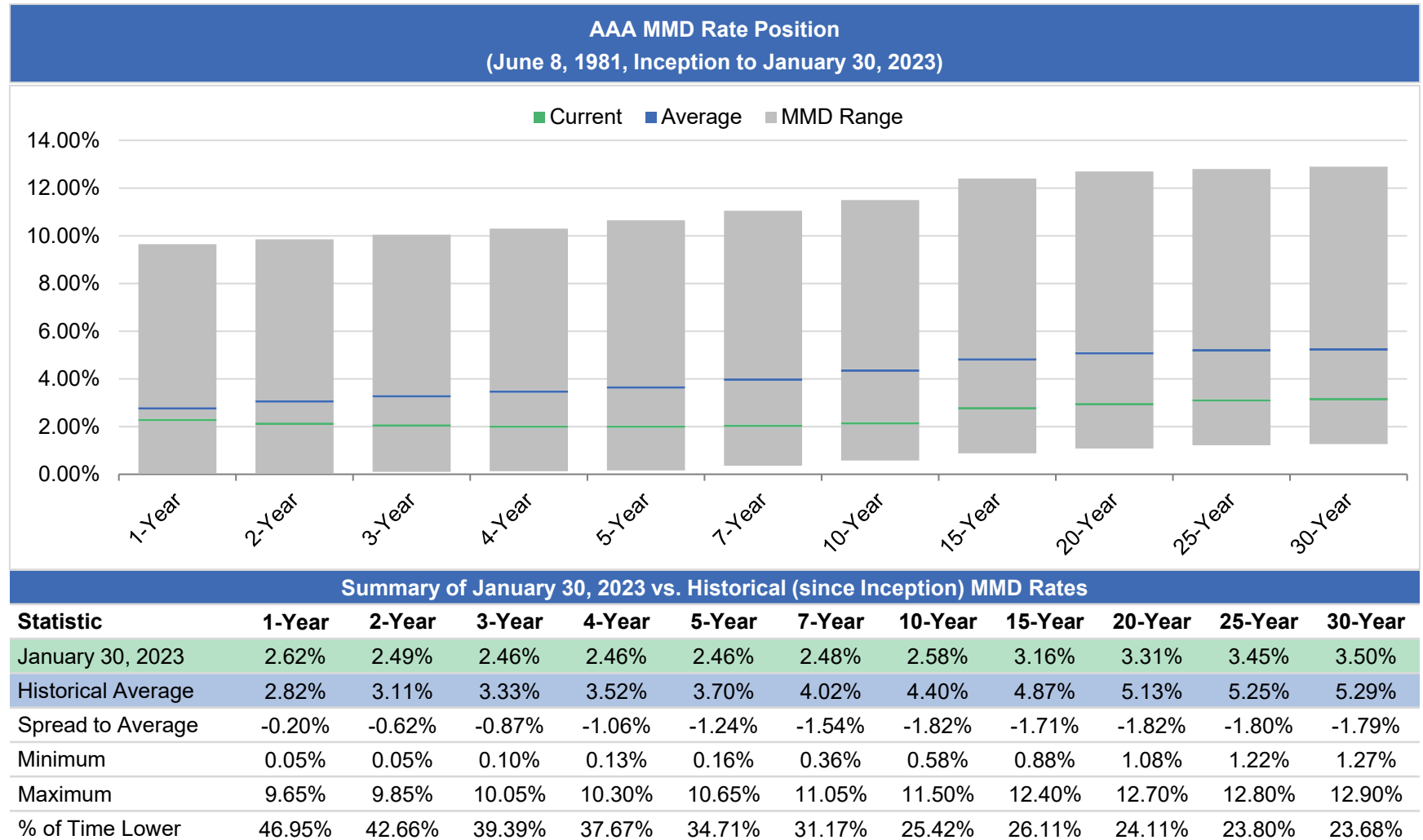
## Recent AAA MMD Yield Curve Movement



Source: Bloomberg, PFM Research



## AAA MMD Position Since Inception

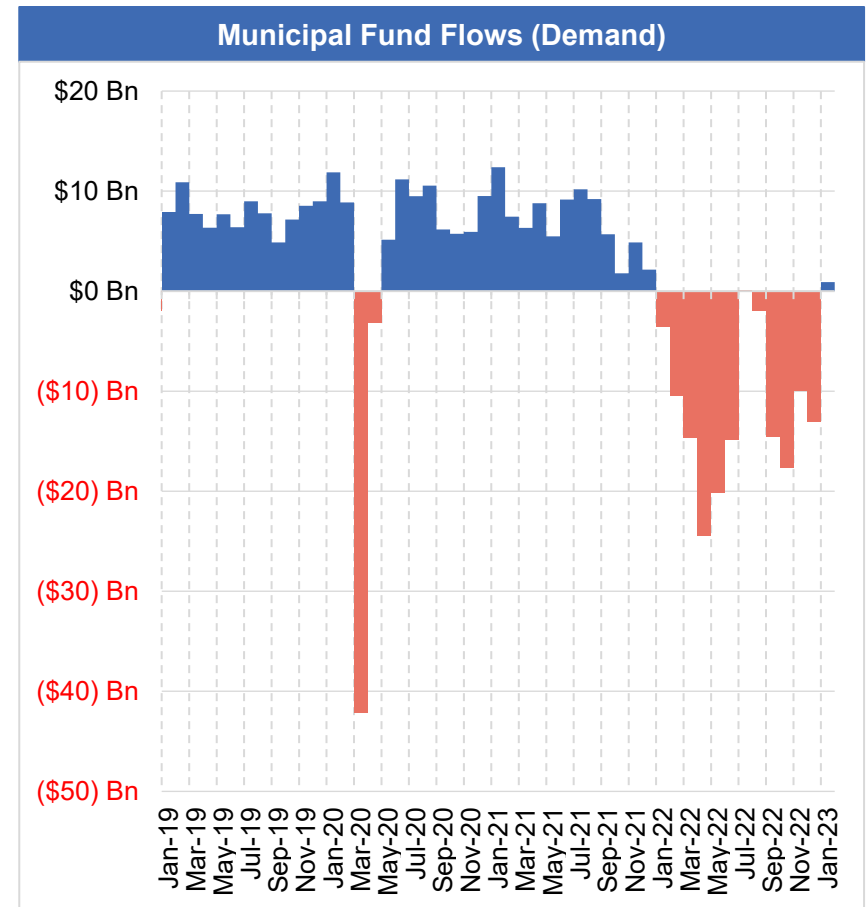
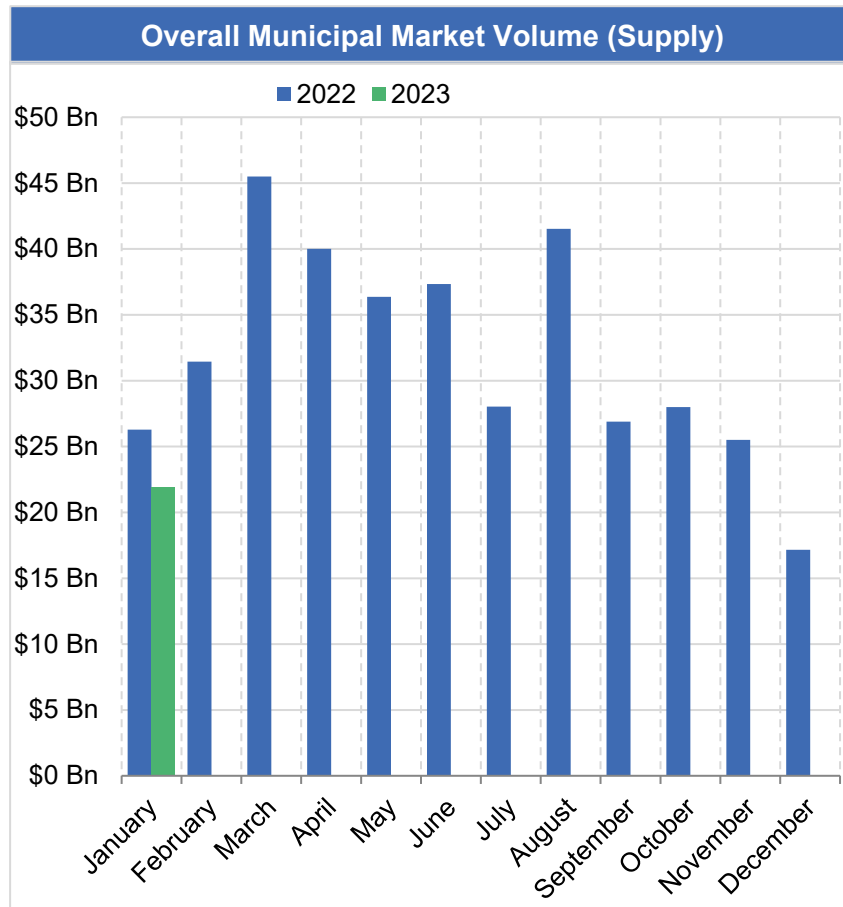


Source: Bloomberg, PFM Research



## Municipal Market Supply & Demand

- Municipal bond funds saw net inflows in January after net outflows for 5 consecutive months. ICI reported net inflows of \$2.9 billion for the week ending 1/25, marking the third straight week of inflows. New issuance volume was down 16.6% year-over-year in January.



Source: Bond Buyer, Investment Company Institute



## Interest Rate Forecasts

- Market participants largely anticipate Fed Funds to reach 4.75%-5.00% by the end of Q1

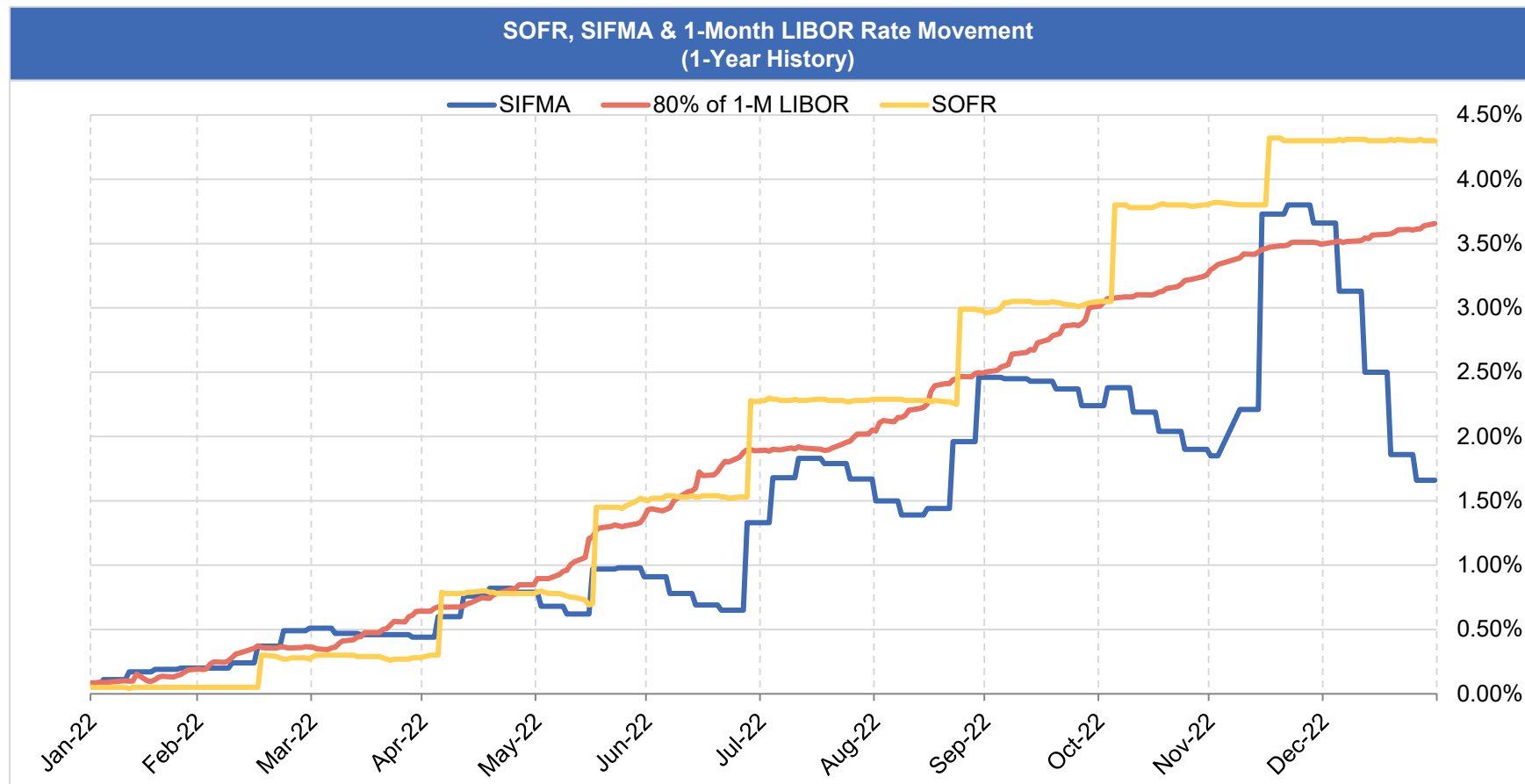
The Street's Interest Rate Forecast (As of January 30, 2023)								
Average Forecasts	Current	Q1 23	Q1 Δ vs. Current	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24
30-Year UST	3.66%	3.78%	0.12%	3.79%	3.71%	3.61%	3.61%	3.57%
10-Year UST	3.55%	3.67%	0.12%	3.63%	3.52%	3.39%	3.31%	3.25%
2-Year UST	4.26%	4.33%	0.07%	4.23%	3.99%	3.72%	3.47%	3.27%
3M SOFR	4.68%	4.89%	0.21%	4.98%	4.82%	4.54%	4.15%	3.77%
Fed Funds Target Rate	4.25%	4.73%	0.48%	4.80%	4.72%	4.49%	4.04%	3.63%
<i>Fed Funds Δ Since November Meeting</i>	<i>0.50%</i>	<i>0.15%</i>		<i>0.29%</i>	<i>0.37%</i>	<i>0.37%</i>	<i>0.35%</i>	<i>0.26%</i>

Source: Bloomberg



## SOFR, SIFMA & 1-Month LIBOR Rate Movement

- Since the start of the year, SIFMA has continued to fall notably after making a significant jump following December's FOMC meeting and rate hike. Meanwhile, SOFR and 1-M LIBOR have continued to behave similarly to much of last year, with SOFR making stepped increases following Fed rate hikes and 1M LIBOR increasing steadily.



Source: Bloomberg, PFM Research





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