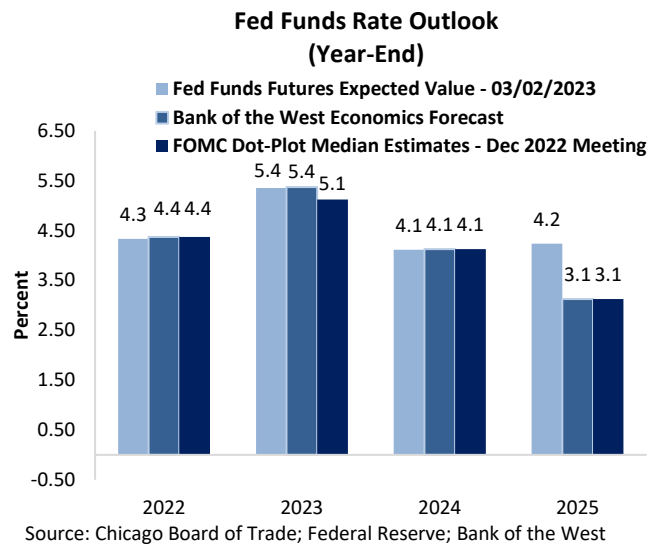


Date	Indicator	For	Estimate	Consensus*	Previous Period
06-Mar-2023	Factory Orders	Jan	-1.2%	-1.5%	1.8%
07-Mar-2022	Wholesale Inventories MoM	Jan F	-0.4%	NA	-0.4%
07-Mar-2023	Consumer Credit	Jan	\$20.0b	\$25.000b	\$11.565b
08-Mar-2023	ADP Employment Change	Feb	180k	200k	106k
08-Mar-2023	Trade Balance	Jan	-\$69.0b	-\$68.9b	-\$67.4b
08-Mar-2023	JOLTS Job Openings	Jan	NA	NA	11012k
09-Mar-2023	Initial Jobless Claims	Mar 3	195k	NA	190k
09-Mar-2023	Household Change in Net Worth	Q4	NA	NA	-\$392b
10-Mar-2023	Change in Nonfarm Payrolls	Feb	200k	215k	517k
10-Mar-2023	Change in Manufacturing Payrolls	Feb	10k	10k	19k
10-Mar-2023	Unemployment Rate	Feb	3.4%	3.4%	3.4%
10-Mar-2023	Average Hourly Earnings MoM	Feb	0.4%	0.3%	0.3%
10-Mar-2023	Average Weekly Hours All Employees	Feb	34.6	34.6	34.7
10-Mar-2023	Monthly Budget Statement	Feb	NA	NA	-\$38.8b

Markets Recalibrate The Fed And Inflation Outlook

The markets have been actively rethinking the near-term inflation outlook and the Fed’s likely hawkish response. A long overdue and necessary process, in my view, if the Fed has any hope of achieving its 2.0% inflation target by late 2024 or early 20025. Indeed, over the past several weeks, the market consensus has come much more into line with our own inflation and interest rate outlook. The dovish “Fed pivot” narrative that ruled Wall Street for months and helped fuel an equity market rebound in January is officially dead.

Fed Funds Rates Expected To Stay Higher For Longer

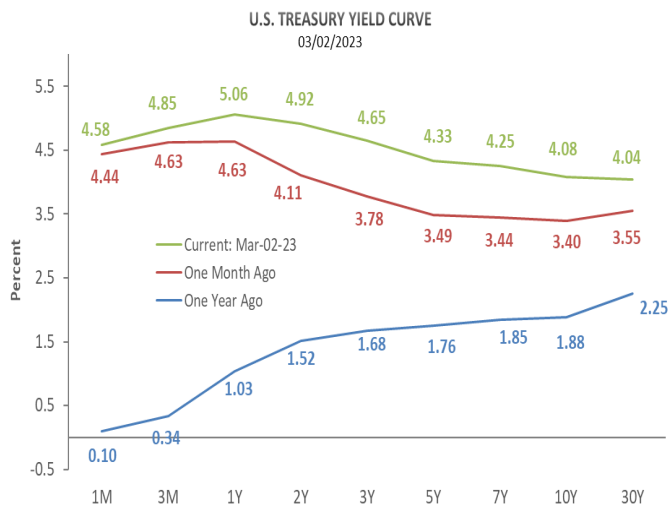


Disappointing January inflation data, a still overheated labor market, and resilient consumer spending to kick off the year, is concentrating investors’ minds that a Fed pivot and move to the sidelines probably isn’t imminent. While we think a mild U.S. recession is still on the horizon for this year, it may still be several months away. Nominal interest rates have been rising rapidly across the Treasury yield curve as traders price in more Fed rate hikes this year and a more prolonged hold from the Fed, perhaps into 2024.

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Fed funds futures now expects the Fed funds target rate to still be at 5.4% at the end of 2023, implying at least 3 more quarter point rate hikes from the Fed at upcoming FOMC meetings with little prospect of any rate cuts this year.

Treasury Yield Curve Shift Higher and Flattens



Source: BOTW Economics, Bloomberg

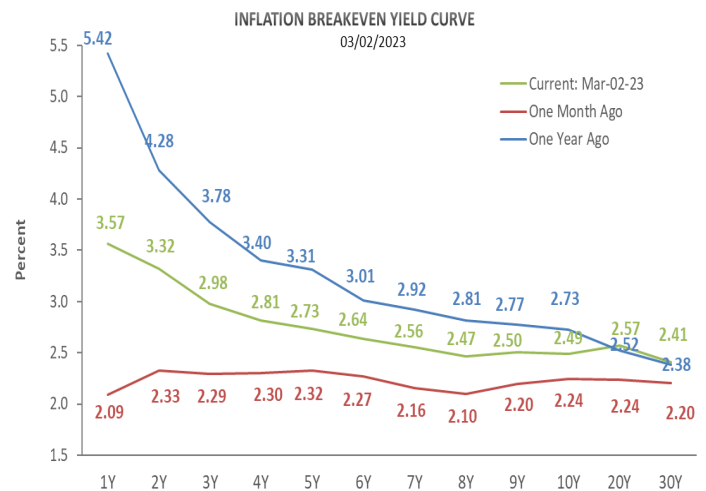
The 1-Yr Treasury yield is now comfortably above 5.0% and the 10-Yr treasury yield has jumped nearly 70 basis points over the last month and is trading at around 4.08%, its highest level since last November. If you have been following our interest rate forecasts, you know that the 10-Yr Treasury yield moving above 4.0% isn't the end of the story, we expect even higher 10-year Treasury yields in the second half of 2023, approaching 4.5% before the end of the year.

The spike in Treasury yields over the past month is due to a combination of higher Fed funds rate expectations, i.e. a more restrictive Fed, but also due to a more realistic view on the U.S. inflation outlook. We have warned in the past that the Treasury market appeared to have too sanguine a view of the near-term inflation outlook. Look at how the Treasury inflation breakevens have evolved over the past month.

The 1-Yr Treasury inflation breakeven is essentially a measure of the bond market's inflation expectations over the coming year. The 2-Yr Treasury inflation breakeven is the bond market's inflation expectation over the next 2

years, etc. As of today, the Treasury market's expectation of U.S. inflation over the coming year is around 3.57%, just one month ago it was at an extremely low and unrealistic 2.09%, given the resilience of the U.S. economic expansion. We have seen similar increases in the bond market's inflation expectations at the two and three year horizons, and a notable upward shift in bond market inflation expectations across the entire maturity spectrum.

Near-term Bond Market Inflation Expectations Spike



Source: BOTW Economics, Bloomberg

This spike in Treasury yields is already cooling off the housing market after an impressive rebound in January. Mortgage purchase applications have plunged in February as mortgage rates have jumped, taking their cue from 10-year Treasury yields. Mortgage purchase applications were 32.4% below their January 2023 peak as of February 24th. Bankrate is reporting 30-Yr mortgage rates are already back above 7.0% after hitting a January low of 6.3%. Higher interest rates will also further cool demand and purchases of motor vehicles, major appliances, and even vacations as yesterday's Consumer Confidence report eluded to. So while recession is not yet here, we still see at least a mild one in the months ahead that will be needed if the Fed has any hope of hitting its 2.0% inflation target over the medium-term horizon.

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Key Economic and Interest Rate Forecasts

Economic Data	History				Forecast								Yr/Yr % chg or Annual Avg.			
	2022.1	2022.2	2022.3	2022.4	2023.1	2023.2	2023.3	2023.4	2024.1	2024.2	2024.3	2024.4	2021	2022	2023	2024
Real GDP*	-1.6	-0.6	3.2	2.7	0.5	-2.5	-0.6	1.4	1.8	1.4	1.6	1.8	5.9	2.1	0.5	1.0
Personal Consumption Expenditures*	1.3	2.0	2.3	1.4	2.0	-0.5	-0.5	1.2	1.4	1.4	1.7	2.0	8.3	2.8	1.1	1.1
Non-residential Fixed Investment*	7.9	0.1	6.2	3.3	2.3	-5.3	-1.0	-0.7	0.9	1.0	1.1	1.2	6.4	3.6	0.3	0.0
Private Housing Starts (000s units)	1,720	1,647	1,450	1,403	1,385	1320	1300	1280	1274	1320	1355	1390	1,605	1,555	1321	1335
Vehicle Sales (mill. Units, annualized)	14.1	13.3	13.3	14.1	14.7	13.6	12.8	13.0	13.3	13.8	14.0	14.1	15.0	13.7	13.5	13.8
Industrial Production*	4.7	5.0	1.8	-1.7	-2.2	-3.0	-0.8	0.5	1.3	1.2	1.8	1.9	4.9	3.9	-1.0	0.7
Nonfarm Payroll Employment (mil.)	150.8	152.0	153.3	154.3	155.3	154.7	154.3	154.3	154.4	154.8	155.1	155.4	146.3	152.6	154.6	154.9
Unemployment rate	3.8	3.6	3.6	3.6	3.5	4.0	4.4	4.7	4.8	4.7	4.7	4.6	5.4	3.7	4.2	4.7
Consumer Price Index* (percent)	9.2	9.7	5.5	4.2	4.0	3.4	3.1	2.7	2.4	2.3	2.2	2.2	4.7	8.0	4.2	2.5
"Core" CPI* (percent)	6.7	6.0	6.2	5.1	4.3	4.1	3.6	3.1	2.4	2.3	2.2	2.1	3.6	6.1	4.6	2.7
PPI (finished goods)* (percent)	17.2	20.3	0.9	3.6	4.8	3.2	2.2	2.0	2.0	2.1	2.2	2.3	8.9	13.4	4.1	2.2
Trade Weighted Dollar (Fed AFE)	108.5	113.7	119.0	120.0	115.0	113.3	112.4	111.8	111.8	111.9	112.1	112.3	104.6	115.3	113.1	112.0
Crude Oil Prices -WTI (\$ per barrel)	91	104	89	83	79	77	74	73	72	71	70	70	67	92	76	71

*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History				Forecast								Annual Average			
	2022.1	2022.2	2022.3	2022.4	2023.1	2023.2	2023.3	2023.4	2024.1	2024.2	2024.3	2024.4	2021	2022	2023	2024
S & P 500	4,464	4,106	3,980	3,852									3,218	4,273		
Dow Jones Industrial Average	34,679	32,688	31,774	32,490									26,891	34,055		
Federal Funds Rate (effective)	0.21	0.96	2.63	3.64	4.63	5.13	5.38	5.38	5.29	4.88	4.54	4.29	0.09	1.86	5.13	4.75
Treasury-3 Month Bills (yield)	0.31	1.10	2.75	4.19	4.75	5.08	5.30	5.29	5.24	4.83	4.49	4.24	0.04	2.09	5.11	4.70
Treasury-2 Year Notes (yield)	1.46	2.72	3.38	4.39	4.33	4.76	5.03	5.05	5.06	4.75	4.56	4.37	0.26	2.99	4.79	4.69
Treasury-5 Year Notes (yield)	1.83	2.96	3.23	4.00	3.73	4.18	4.55	4.60	4.64	4.43	4.24	4.09	0.84	3.00	4.27	4.35
Treasury-10 Year Notes (yield)	1.95	2.93	3.10	3.83	3.63	4.03	4.43	4.46	4.54	4.32	4.14	4.01	1.45	2.95	4.14	4.25
Treasury-30 Year Notes (yield)	2.26	3.06	3.26	3.90	3.73	4.13	4.53	4.56	4.64	4.42	4.24	4.11	2.06	3.12	4.24	4.35
Prime Rate	3.33	4.08	5.75	6.82	7.75	8.25	8.50	8.50	8.41	8.00	7.66	7.41	3.25	4.99	8.25	7.87
SOFR Overnight Rate	0.09	0.69	2.15	3.60	4.48	5.01	5.28	5.28	5.19	4.78	4.44	4.19	0.04	1.63	5.01	4.65
SOFR 3-Mo. CME	0.34	1.32	2.84	4.24	4.73	5.19	5.44	5.44	5.35	4.95	4.61	4.36	0.05	2.19	5.20	4.82
Libor 3-Mo. U.S. Dollar	0.53	1.54	3.00	4.51	4.85	5.26	5.51	5.51	5.47	5.05	4.71	4.46	0.16	2.39	5.28	4.92
Mortgage-30 Year (yield)	3.82	5.27	5.62	6.63	6.13	6.68	7.10	7.16	7.21	6.97	6.74	6.51	2.96	5.33	6.77	6.86
BAA Corporate (yield)	3.97	5.02	5.35	5.98	5.53	5.98	6.53	6.61	6.69	6.57	6.44	6.36	3.39	5.08	6.16	6.52

Source: Bank of the West Economics, Bloomberg, Federal Reserve