

IT JUST DOESN'T MATTER

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What if a U.S. jobs report came out and nobody cared? Yes, this is the bizarro investment universe we are now confronted with. A number that would normally have been considered unfriendly to the bond market ultimately didn't matter.

The February jobs report was rock-solid, but alas, the collective market viewpoint is that it represents 'old news'. This point is fair, and I don't disagree, but wouldn't you want to have the US economy on a solid footing heading into this COVID-19 situation rather than the alternative?

Total nonfarm payrolls rose by 273,000 last month, almost a full 100,000 above consensus. Thus far in 2020, payrolls have produced identical gains of 273,000 in January and February, one of the strongest two-month performances over the last five years. The unemployment rate dropped 0.1 percentage points to 3.5%, the 13th consecutive reading below 4%. Does anyone care about wages? Just in case, average hourly earnings posted a year-over-year reading of 3.0%.

How low can the [UST 10-year yield](#) go? As I've said over the last few weeks, if the stock market continues to crater, there are no boundaries. You could make the case that a portion of the plunge in the UST 10-year yield reflects the potential impact of the virus on the economy. But, remember, we are in uncharted waters where human emotions—mostly fear—have completely taken over.

Here's some perspective for the UST 10-year:

- Since the COVID-19 news really began to hit the tape in early to mid-January here in the U.S., the [yield](#) has fallen a total of 140 [basis points \(bps\)](#), as of this writing.
- Since the stock market began its freefall on February 21, the UST 10-year yield has plunged by 100 bps. Nearly 75% of the decline has occurred in just the last two weeks!

What about the [Federal Reserve \(Fed\)](#) you may ask? The 50-bps inter-meeting cut last week underscored the Fed's apparent need to be pre-emptive even if [monetary policy](#) has its limits in this type of economic scenario. Could they go again at the next FOMC meeting on March 18th? Given their rationale for the most recent rate cut, all options seem to be on the table. Is the Fed running out of bullets? Despite what the policymakers say to the contrary, I feel the answer is...yes.

While another round of [quantitative easing \(QE\)](#) may be in the offing, what good is it going to do when [Treasury yields](#) are already at these depressed levels? Perhaps the more effective response would be to revisit the various facilities the Fed put in place during the 2008 financial crisis to help the crucial funding markets operate in an orderly fashion.

The turning point during the financial crisis was when the U.S. government came in with their 'bazooka' from a fiscal policy perspective. While some ideas are being floated around on the fiscal front, the fractured nature of Washington, D.C. may make a meaningful stimulus response a challenging one, but hope can spring eternal.

Bottom line: U.S. economic data will more than likely begin to show the negative effects of the COVID-19 developments with the March/April releases. Given where Treasury yield levels are, at some point, the data will need to "match" the dire expectations. Our base case is still in the "transitory" camp...be well!

Unless otherwise stated, data source is Bloomberg, as of March 9, 2020.

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DEFINITIONS

10-Year Treasury : a debt obligation of the U.S. government with an original maturity of ten years.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Basis point : 1/100th of 1 percent.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Quantitative Easing (QE) : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Treasury yield : The return on investment, expressed as a percentage, on the debt obligations of the U.S. government.