Financial Market Weekly

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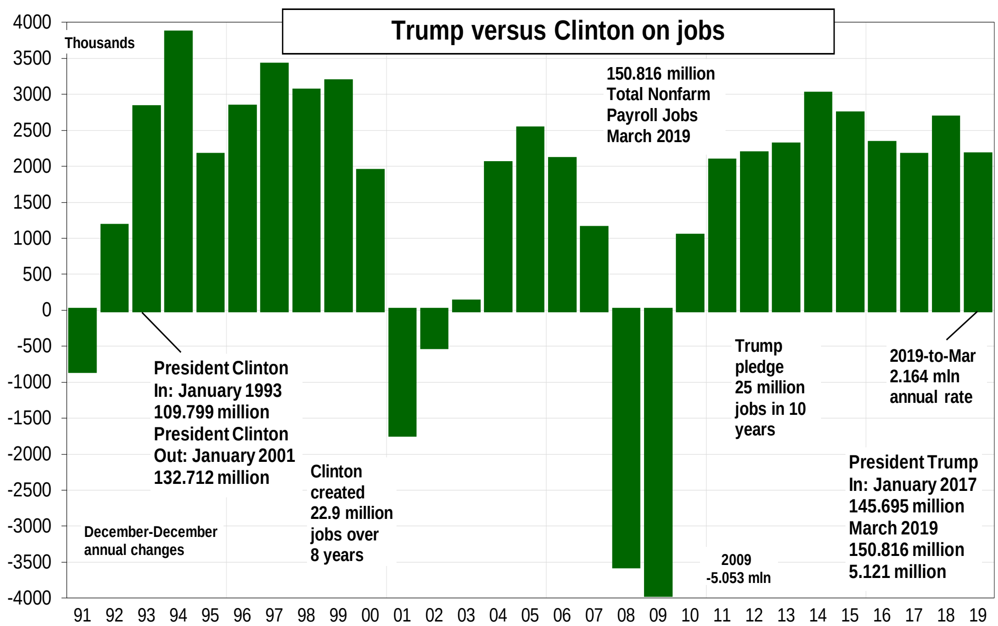
MORE JOBS FOR AMERICANS IN MARCH



The monthly jobs report. 196K more jobs, and 14K more in upward revisions to January and February. The Fed sees risks slightly tilted to the downside but there is no gloom and doom in this month's jobs report. Well, maybe if you want to look at wages, average hourly earnings rising just 0.1% in March to 3.2% year-on-year where the year-year rate was 3.4% in February. Big deal, this is nothing, tell the bond market to get over it. This wage data in the jobs report means nothing for inflation, so the human bond traders that are left on Wall Street can push yields back up. 10-yr Treasury yields were 2.53% before the 830am jobs report news and bonds "rallied" to a yield of 2.52% (2.515) moments later. Get a grip. Average hourly earnings were $27.70 in March, four cents more than $27.66 in February. It's all good. Take your four cents to the bank. [Worker bee wages were up 6 cents to $23.24, $4.46 less than their bosses.]

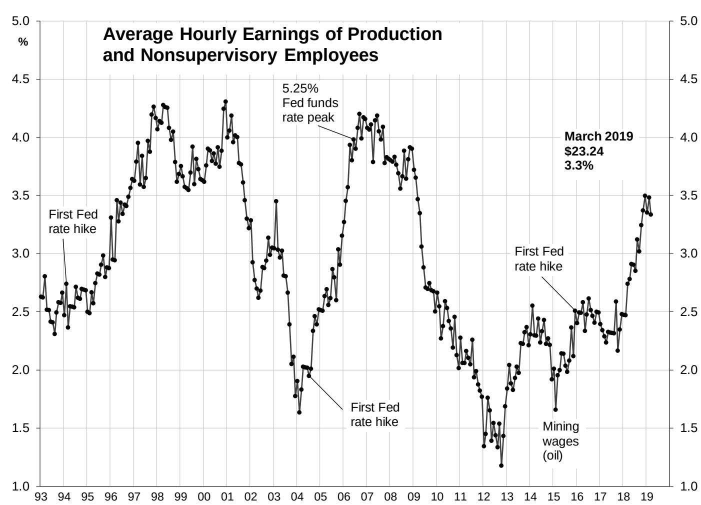
	Mar	Feb	Jan	Dec	Nov	Oct
Payroll jobs (000s)	196	33	312	227	196	277
Unemployment rate %	3.8	3.8	4.0	3.9	3.7	3.8
Unemployment (3 decimal)	3.811	3.821	4.004	3.856	3.696	3.757
Participation rate %	63.0	63.2	63.2	63.1	62.9	62.9
Average hourly earnings	$27.70	$27.66	$27.56	$27.53	$27.43	$27.35
MTM % Chg	0.1	0.4	0.1	0.4	0.3	0.2
YOY % Chg	3.2	3.4	3.2	3.3	3.3	3.3
Production Worker earnings	$23.24	$23.18	$23.11	$23.09	$22.99	$22.90
MTM % Chg	0.3	0.3	0.1	0.4	0.4	0.2
YOY % Chg	3.3	3.5	3.4	3.5	3.4	3.2

196K jobs in March after a revised 33K in February. 163K difference. Construction jobs up 16K versus down 25K was 41K of it. Education and health 70K versus 13K was 57K of it. Leisure and hospitality up 33K versus down 1K was 34K of it. All and all not a bad report unless you take a look at sputtering factory jobs down 6K in March after rising just 1K in February. Motor vehicles and parts jobs fell 6.3K in March, Wood products fell 3K, and Nonmetallic mineral products fell 2.4K. The President better sign that trade agreement with China in a hurry or else no factory jobs are coming back here to USA, USA, USA.

Payroll jobs in year ten following the recession

Dec. 2018 Totals millions		Mar 19	Feb 19	Jan 19	3 months Dec 18 to Mar 19	12 months Dec 17 to Dec 18
150.275	Nonfarm Payroll Employment	196	33	312	541	2679
127.790	Total Private (ex-Govt)	182	28	297	507	2583
20.961	Goods-producing	12	-28	80	64	631
0.705	Mining	1	-2	5	5	63
12.809	Manufacturing	-6	1	17	12	264
1.005	Motor Vehicles & parts	-6	1	-1	-6	23
7.400	Construction	16	-25	56	47	307
106.829	Private Service-providing	170	56	217	443	1952
27.788	**Trade, transportation, utilities**	-5	-15	48	28	304
15.821	Retail stores	-12	-20	9	-23	14
3.105	General Merchandise	-7	-19	-14	-41	9
3.108	Food & Beverage stores	-1	4	2	5	20
5.511	Transportation/warehousing	7	-4	30	34	216
1.512	Truck transport	-1	0	4	3	44
0.750	Couriers/messengers	2	-10	14	6	54
1.170	Warehousing and storage	2	4	11	17	84
0.555	Utilities	1	-1	0	1	-1
2.827	**Information**	10	-4	-12	-6	6
8.615	**Financial**	11	6	6	23	115
2.703	Insurance	7	1	-3	6	31
2.287	Real Estate	4	5	10	19	67
1.316	Commercial Banking	-3	-2	0	-5	-7
0.967	Securities/investments	2	2	-2	3	23
21.254	**Professional/business**	37	54	5	96	561
3.060	Temp help services	-5	3	-26	-29	83
2.395	Management of companies	3	6	3	12	62
1.495	Architectural/engineering	6	7	5	18	42
2.162	Computer systems/services	12	5	2	18	86
1.140	Legal services	2	0	2	3	1
1.034	Accounting/bookkeeping	4	5	-1	7	39
23.912	**Education and health**	70	13	68	151	532
5.195	Hospitals	14	3	12	28	100
3.746	Educational services	9	-18	27	18	50
16.554	**Leisure and hospitality**	33	-1	93	125	359
2.036	Hotel/motels	-1	3	7	9	23
12.074	Eating & drinking places	27	4	56	88	258
22.485	Government	14	5	15	34	96
2.192	Federal ex-Post Office	-2	1	-1	-1	9
5.183	State government	4	6	1	11	19
2.487	State Govt Education	6	2	1	9	10
14.504	Local government	12	-2	15	25	74
7.974	Local Govt Education	8	-3	11	16	31

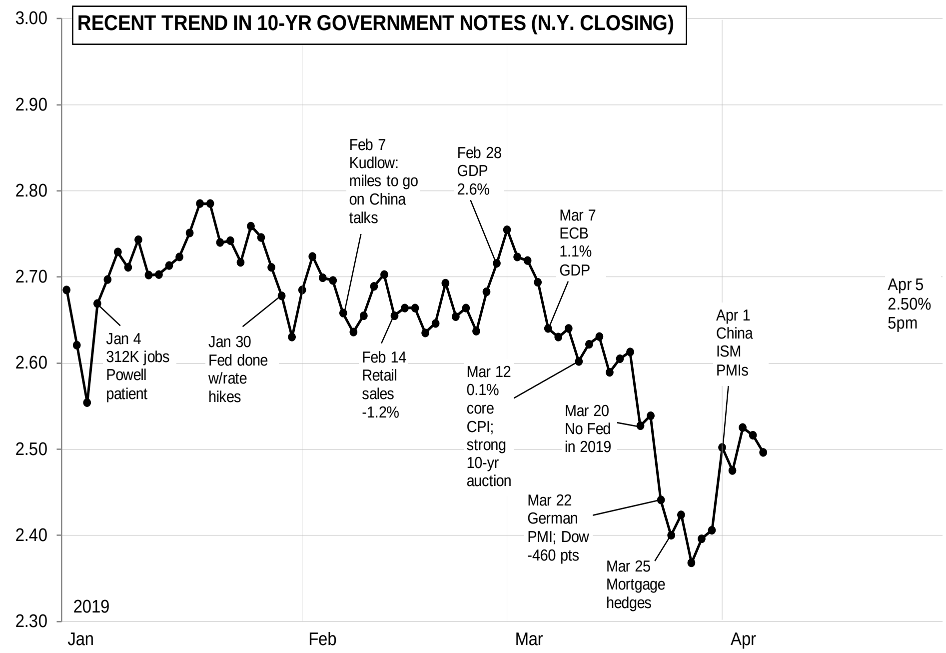
Net, net, it looks like last month's tepid jobs report was an anomaly in this long economic expansion that continues to defy all odds. The 20K jobs report last month was just a pothole in the economic road to prosperity. It meant nothing. The great American jobs machine keeps hiring new workers which should ensure the economy reaches the 10-year mile marker for growth in June. When President Trump calls his Fed Chair again this month after the report, congratulations are surely in order as the economy remains on track. Maybe have him come to the White House for another steak dinner, or was it McDonald's or Burger King, or Godfather's Pizza.



We expect Fed officials to give a huge sigh of relief after today's report because there are no downside risks to be seen in the labor market. With jobless claims at historic lows looking back to 1969 how could there be. The risk for the US economy is mostly from a slowdown in the world economy with Brexit, Europe and China worries paramount in the minds of Fed officials. The US economy continues to remain an island of relative prosperity however, and with the Federal Reserve backing off its gradual pace of rate hikes, the outlook for growth this year is a positive one. Bet on it.

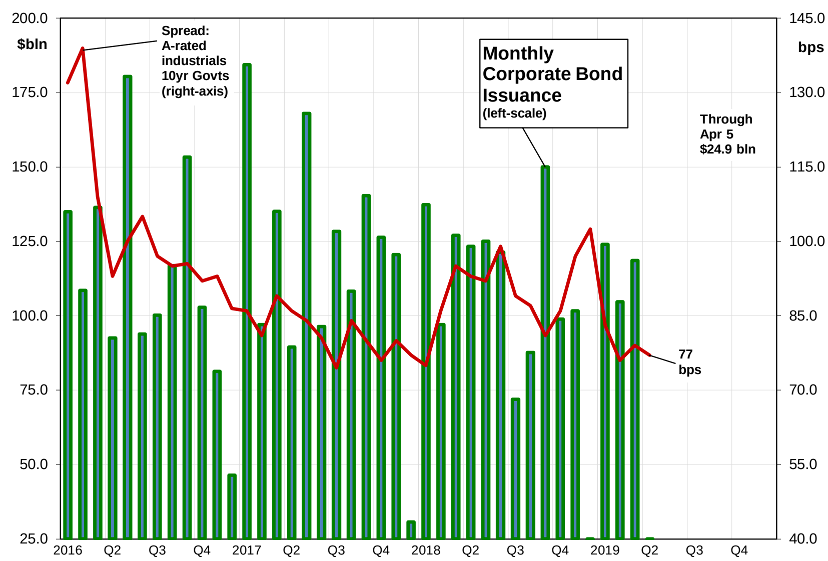
MARKETS OUTLOOK

	29-Mar 2018	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
30-Yr Treasury	2.81	3.00	3.00	3.10	3.10	3.25	3.20	3.20
10-Yr Note	2.41	2.60	2.70	2.90	2.90	3.10	3.10	3.10
5-Yr Note	2.23	2.45	2.60	2.80	2.80	3.05	3.05	3.05
2-Yr Note	2.26	2.45	2.50	2.70	2.70	2.90	2.95	3.00
3-month Libor	2.60	2.60	2.60	2.90	2.90	3.10	3.10	3.10
Fed Funds Rate	2.50	2.50	2.50	2.75	2.75	3.00	3.00	3.00
2s/10s spread	15	15	20	20	20	20	15	10



Bond yields shot higher this week, but all the action was on Monday after the news Saturday night if you were listening then that purchasing managers in China are more optimistic. 10-year Treasury yields were 2.41% last Friday and moved to 2.50% at Monday's close. We don't want to leave out American purchasing managers at 10am EDT on Monday, who were less pessimistic, in helping the bond market to sell off and move to higher yields. Friday on the jobs report, not a lot happened, and the low yields on the day took place after President Trump's comments to the press on interest rates as he prepared to board a helicopter somewhere. Stay tuned.

CORPORATE BONDS: TENCENT, LOWE'S, GM, AUTOZONE, IHS MARKIT



Corporate offerings were $24.9 billion in the April 5 week versus $28.8 billion in the March 29 week. On Thursday, AutoZone sold $750 million 5s/10s. It priced a $450 million 3.75% 10-yr (m-w +20bp) at 127 bps (Baa1/BBB). The auto parts retailer will use the proceeds for general corporate purposes, including debt repayment and share repurchases ($250 million 1.625% notes due April 2019). Corporate bond yields (10-yr Industrials rated A2) were 77 bps above 10-yr Treasuries this week versus 79 bps last Friday.

FEDERAL RESERVE POLICY

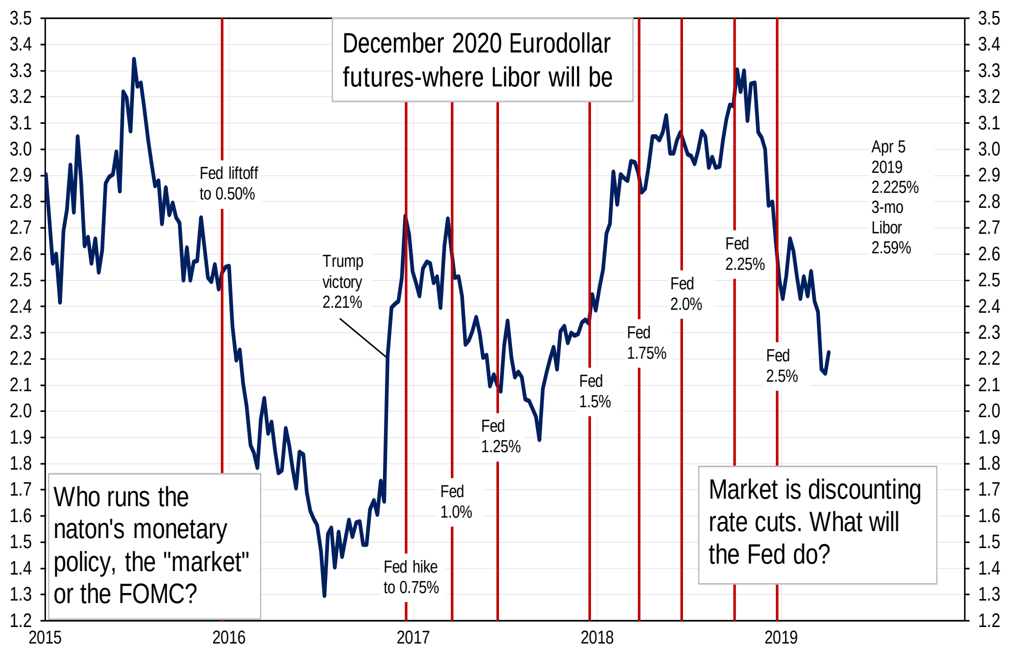
The Fed meets April 30 - May 1 to consider its monetary policy. Fed watching. We are going to try to pretend that we never heard Trump's comment at 10 o'clock this morning with the head of the National Economic Council urging the President on. The economy would rocket higher with two Fed rate cuts and more QE. This goes against everything the Fed has done historically for decades now: they cut interest rates only in recessions. Is there a recession? Not this month with payroll jobs increasing 196 thousand to 150.816 million in March. Sounds like everyone has a job even in a country with a population over 328 million.

Odds of Rate Cuts Fed funds futures	
F4-5-2019	
14%	2.25% June
42%	2.25% September
72%	2.25% December
Odds at June, September, December Fed meetings	

By pretending we didn't hear the Trump comment Friday morning, we can focus on the slight downside risks that the center of the Fed is thinking about. The slight downside risks are coming from the world economic growth outlook, and the concerns that Fed officials have about Europe, and China, and Brexit. China is still probably the biggest worry, the biggest worry being the Trump administration doesn't close the deal. (China "worries" with China stocks up 30.2% this year to date.) U.S. financial markets are still hyper-sensitive to China headlines. It's no accident that bond yields and stock futures climbed at the opening on Sunday night this week on better economic data, well, survey data on purchasing managers in China, that index improved in data out Saturday and Sunday night. Then again at 8 o'clock Thursday night headlines from Xinhua news agency saying China's President Xi says substantial progress made in U.S. trade talks. Bond yields and stock futures rose.

> QUESTION: What should the Fed do with interest rates and...
> TRUMP: Well, I personally think the Fed should drop rates. I think they really slowed us down. There's no inflation. I would say in terms of quantitative tightening, it should actually now be quantitative easing. Very little, if any inflation. And I think they should drop rates and they should get rid of quantitative tightening.
> You would see a rocket ship.
> Despite that, we're doing very well.

Anyway, back to the Trump administration led by the President himself, and their desire for more stimulus from the Federal Reserve. Inflation is probably the key here. The Trump administration says why raise interest rates with no inflation, so if you are a saver with money in the bank and want to see higher short-term interest rates, you are probably going to have to wait for January PCE inflation of 1.4% to rise back higher than it was, say in July 2018 when it was 2.4%. Wait for it. It is coming sooner than you think. A year from now if $63.08 oil prices rise.



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OTHER ECONOMIC NEWS THIS WEEK

Consumer spending is down from higher levels: we are not out of the woods (Monday)

Breaking economy news. Retail sales fell 0.2% in February. However, retail sales are 0.3% higher than we thought they were in last month's report as the January data were revised to a 0.7% gain from the initial data showing a 0.2% increase. The consumer had the lights punched out of them in December and are still struggling to get back up. Consumer sentiment has rebounded, but actual purchases are not back to normal. This slowdown and slow recovery in retail spending on the part of shoppers will keep the Fed on the sidelines for now as the data are firmly in the camp of "downside risks" for the economy. The consumer is lost in the woods and this makes for a gloomy economic outlook this year if they cannot find their way. The Fed was wise to move to the sidelines and the Trump economics team will continue to argue for rate cuts until the consumer fully recovers from the current slowdown in their spending.

Retail spending, actual dollars, each month

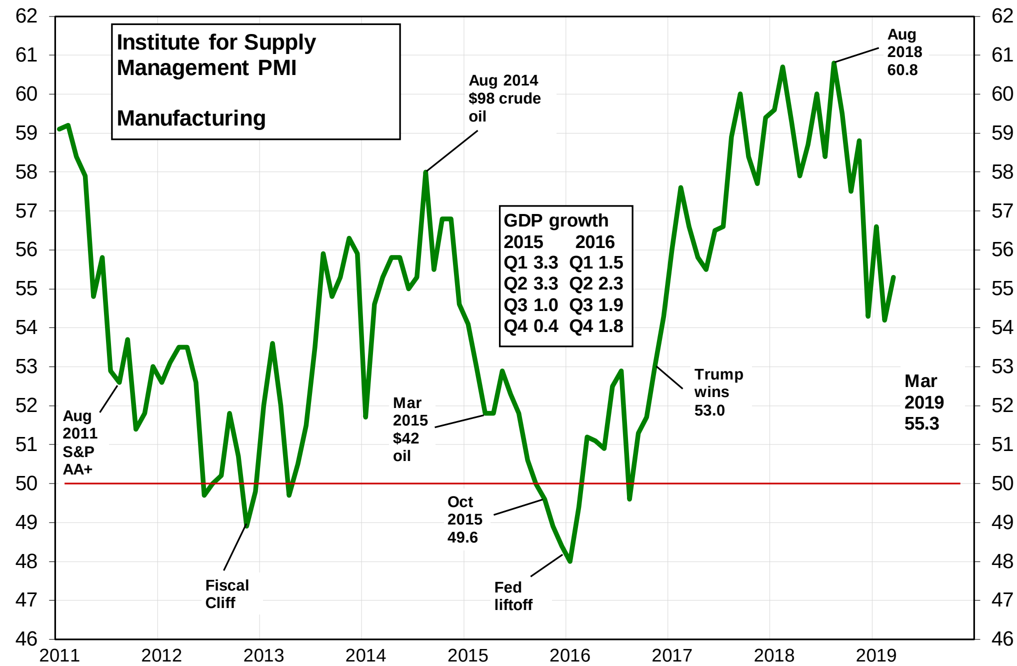
	$million	% to	Percent Changes %		
	Feb 2019	Total	Feb	Jan	Year/year
Total Retail Sales	505,969	100.0	-0.2	0.7	2.2
Motor vehicles/parts	102,996	20.4	0.7	-1.9	2.4
Furniture/furnishings	9,816	1.9	-0.5	-0.3	-2.3
Electronics/appliances	7,994	1.6	-1.3	0.6	-3.1
Building materials/garden	32,951	6.5	-4.4	4.4	1.4
Food & beverage	62,526	12.4	-1.2	1.4	1.9
Health/personal care	29,528	5.8	0.6	2.4	5.9
Gasoline stations	40,868	8.1	1.0	-1.2	-3.2
Clothing/accessories	22,700	4.5	-0.4	-0.6	0.8
Sporting goods, books	6,313	1.2	0.5	5.2	-8.8
General merchandise	59,739	11.8	-0.3	0.5	1.2
Department stores	12,032	2.4	-0.5	-0.2	-4.0
Miscellaneous retailers	10,464	2.1	-1.6	0.0	-4.6
Eating & drinking places	60,306	11.9	0.1	0.0	3.6
Nonstore retailers (internet)	59,768	11.8	0.9	4.5	10.0

Net, net, the consumer was scared stiff in December during the market turbulence and Federal government shutdown, and two months later they are still struggling to get back on their feet. Many retailers reported solid holiday sales so it is still a mystery why the retail sales figures fell off a cliff in December. Faulty seasonal factors maybe trying to adjust for one of the biggest shopping months of the year. But you know December was bad when you see sales made from your smartphone sitting on the sofa in your living room, so-called "non-store retailers," collapsed 4.5% in December before rebounding 4.5% in January and climbing 0.9% further in February.

Unless consumers spend more on services than we thought, real consumption expenditures in the first quarter that feed into two-thirds of GDP spending will be the weakest in years. We still think the drop in retail sales and slow recovery is partly weather-related. We will have to await warmer weather and second quarter retail sales data before drawing any conclusions about the economic outlook for all of 2019.

ISM mfg bounces from two year low, miles and miles away from RECESSION!! (Monday)

Breaking economy news. China PMIs Saturday and Sunday night, and now America First's ISM manufacturing purchasing managers' report, everything is going the economic recovery way and helping to send the stock market to new highs today. The ISM manufacturing survey rose from 54.2 in February to 55.3 in March. There has been a downdraft in the ISM manufacturing index along with other economic data (which mirrors the plunge in crude oil prices by the way) from the 60.8 level back in August 2018. But keep in mind that 55.3 in March is still miles and miles away from the recession signal level for the broader economy which the Institute for Supply Management (ISM) says is 42.9. Wait for it.

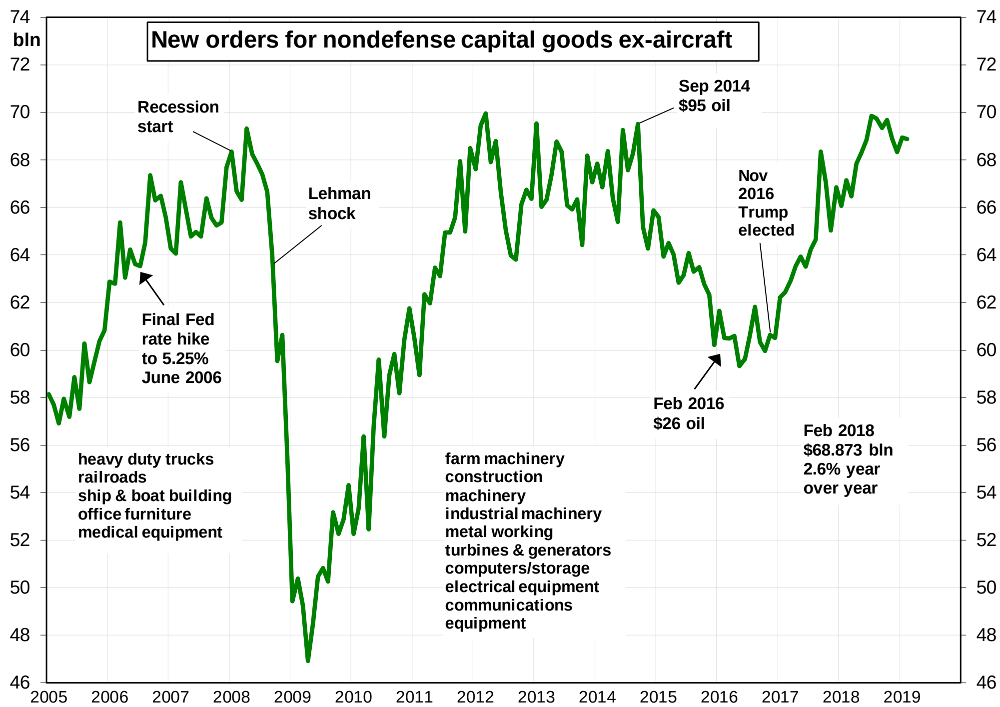


Meanwhile factories need a lot of help with the ISM employment index rising the most in three years to 57.5 which makes us wonder if economists will boost their estimates for Friday's all-important (formerly all-important now that the Fed won't do anything this year) payroll jobs report. Today's data point to a rebound from February's weak 20K gain.

Net, net, it looks like the retreat in manufacturing the last six months is over for now with purchasing managers sounding more optimistic about the outlook. They continue to add staff and only two out of 18 industries are falling: (1) Apparel, Leather and Allied Products, and (2) Paper Products. All the economic data today are reporting an improvement in business conditions which should help calm the market's recession fears for now. Even the yield curve is no longer inverted, and no longer pointing the way down for the economy. The economy is doing better than you think. Bet on it.

Uncertainty not a factor for business investment spending (Tuesday)

Breaking economy news. February durable goods orders. Our proxy for business capex is nondefense capital goods orders ex-aircraft and these orders fell 0.1% in February after a 0.9% increase in January. There had been a slight downturn in new orders in November and December, but equipment purchases have steadied in the first two months of this year. New orders on this basis are $68.873 billion in February which is near the highs for this long economic expansion from the recession nearly ten years ago and shows companies are still operating at a strong rate. You can't have a recession with business investment spending near peak levels as these data show today. For all the talk of soft 2 percent economic growth, orders for Electrical equipment and appliances are up 4.8% the last year. Fabricated metals products orders rose 5.6% from last year. Computers and electronic products orders increased 4.7% the last year, and even motor vehicles and parts orders are up 9.3% from year earlier levels.



Net, net, business orders for new equipment have reached their sweet spot for this business cycle where the new order flow is strong and will continue to support the economy going forward. Trade war uncertainty or concerns over world growth and export orders is nowhere to be seen in today's report for February. New orders show that America's factories are operating at a high rate and that the recession fears in the markets are not leading companies to pull back their spending. There is no uncertainty on the part of companies and they continue to make the necessary equipment purchases to meet the demand for their goods and services. There is nothing to fear but fear itself. America's businesses are optimists when it comes to the economic outlook. The concerns of Fed officials about downside risks are nowhere to be seen in the orders data today. America First means taking care of business first for companies ordering the new equipment to make the economy grow.

Whoa, new record low for jobless claims, lowest since 1969 (Thursday)

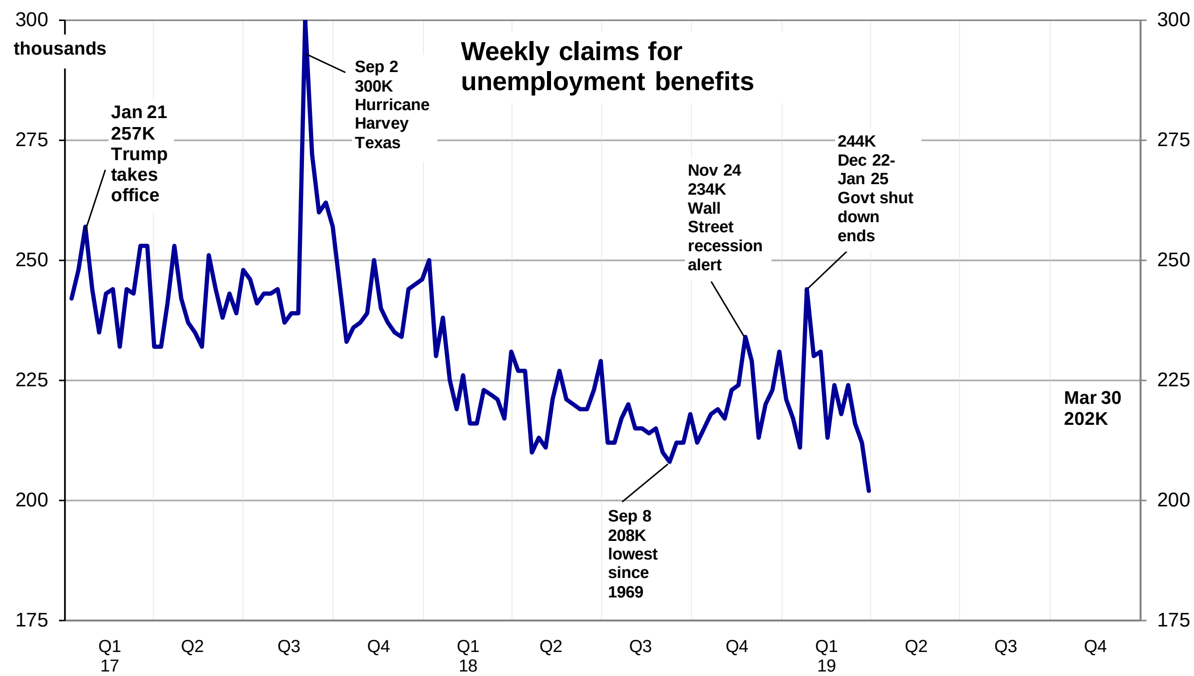
Breaking economy news. Weekly jobless claims confirm what we could have guessed. There is no recession, or if a recession is coming it won't have any joblessness. Intriguing question this, could there be a recession, negative economic growth caused perhaps by business cutting back their investment expenditures on equipment, while at the same time companies continue to hold on tight to their workers. A recession where everyone keeps their job? Fantastic. The new new economy.

Weekly jobless claims fell to a new low for this economic cycle, down 10K in the March 30 week to 202K. 202K is the lowest since 1969, the old low, best of best times for the economy since the recession ended nearly ten years ago, was 208K in the September 8 week in 2018.

Net, net, the labor market is on fire where companies believe they are facing shortages of the skilled and unskilled workers they need to work the factory floors to produce the goods and provide the services for their customers. Companies can't afford to let workers go and that is the hallmark of a hot labor market and a strong economy. Wages are rising and are going to go even higher in order for companies to entice their workers to stay. Wages are rising and are going to go even higher in order for companies to entice their workers to stay.

The President has tweeted this morning about the unnecessary and destructive actions of the Federal Reserve, and that despite the Fed, the economy is looking very strong. The labor market is tight as a drum showing the President is right about the economy being strong.

The lowest level of unemployment claims from newly discharged workers since the 1960s shows that the economy has weathered the storms in financial markets and is shaking off the cold winter blues. It should be a good year 2019 after all. Bet on it.



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