Financial Market Weekly

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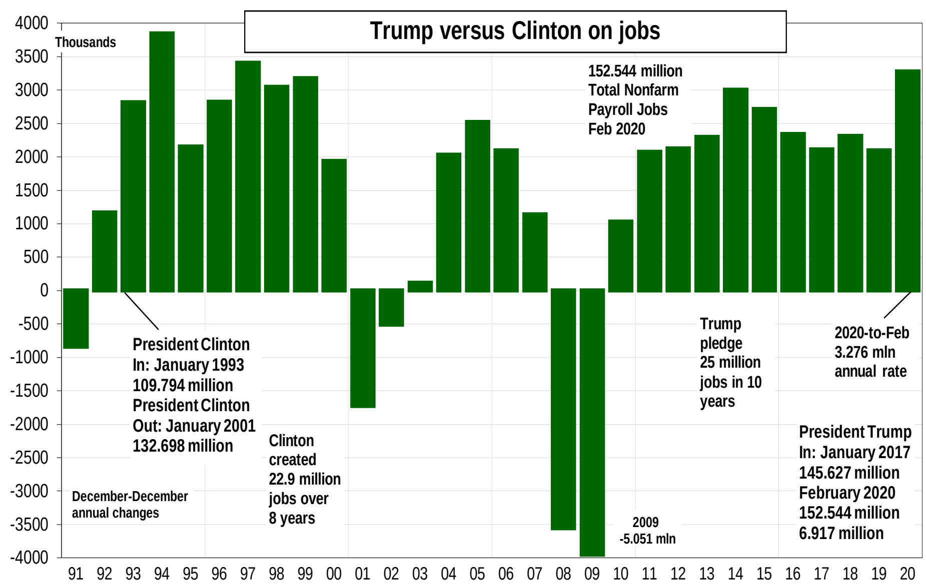
PERFECT EMPLOYMENT REPORT BEFORE THE STORM



It's Friday and we almost forgot about the biggest, market-moving economic news report in the world. Stocks are crashing and the market is discounting a second 50 bps rate cut at the Fed meeting in a week and a half after the surprise intermeeting 50 bps rate cut on Tuesday this week. This could be the last perfect employment report the market gets for some time. 273K new jobs created in February and 85K of upward revisions to December and January. A return to the 3.5% record low in unemployment, 3.0% wage increases over the last year. A perfect employment report before the growing storm.

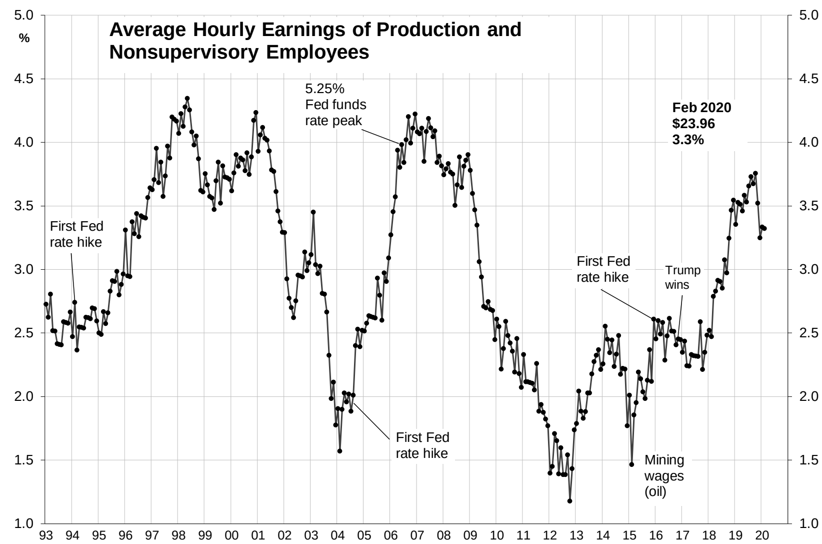
	Feb	Jan	Dec	Nov	Oct	Sep
Payroll jobs (000s)	273	273	184	261	185	208
Unemployment rate %	3.5	3.6	3.5	3.5	3.6	3.5
Unemployment (3 decimal)	3.517	3.579	3.496	3.536	3.563	3.507
Participation rate %	63.4	63.4	63.2	63.2	63.3	63.2
Average hourly earnings	$28.52	$28.43	$28.37	$238.34	$28.24	$28.16
MTM % Chg	0.3	0.2	0.1	0.4	0.3	0.0
YOY % Chg	3.0	3.1	3.0	3.3	3.2	3.1
Production Worker earnings	$23.96	$23.88	$23.84	$23.81	$23.76	$23.70
MTM % Chg	0.3	0.2	0.1	0.2	0.3	0.3
YOY % Chg	3.3	3.3	3.2	3.5	3.8	3.7

Only a cynic would say the Bureau of Labor Statistics made up the labor market strength citing the 273K increase in payroll jobs in February which is exactly the same as the 273K increase in payroll jobs in January. Looks fishy these two identical numbers even before the realization that the real reasons for labor market "strength" comes from the warmer than seasonal temperatures this year yet again this month. More people are able to work because the winter temperatures are not as cold as they usually are. We know the housing market is doing better with the drop in mortgage rates, but new construction jobs look exaggerated with 42 thousand more jobs in February and 49 thousand more jobs in January.

Net, net, the employment report was nearly perfect in February before the growing economic storm posed by the spreading coronavirus around the country that threatens many industries where the public gathers from movies, to travel, to the airline industry, even shops and malls. The Federal Reserve cut rates this week because of a material change in the outlook as posed by the spread of the virus, and although there is nothing in the February employment report to suggest a slowdown in the economy, the market continues to bet big on another interest rate cut from Fed officials later this month. The bond market lies in ruins with a 10-yr yield of just 0.74% this morning after the 273K big jobs report as they bet on another recession-magnitude rate cut from the Federal Reserve. Stay tuned. 12 o'clock and all's well for now, but the market is betting the ranch that it won't be for long.

Payroll jobs in year eleven following the recession

Dec. 2018 Totals millions		Feb 20	Jan 20	Dec 19	12 months Dec 18 to Dec 19	12 months Dec 17 to Dec 18
149.865	Nonfarm Payroll Employment	273	273	184	2133	2314
127.370	Total Private (ex-Govt)	228	222	164	1949	2200
20.948	Goods-producing	61	27	5	188	622
0.692	Mining	3	-2	-9	-31	50
12.805	Manufacturing	15	-20	-2	61	264
1.011	Motor Vehicles & parts	7	-8	2	-13	29
7.402	Construction	42	49	16	153	309
106.442	Private Service-providing	167	195	159	1741	1598
27.666	**Trade, transportation, utilities**	-13	29	47	143	201
15.704	Retail stores	-7	-6	41	-32	-98
3.080	General Merchandise	-3	-18	4	-19	-4
3.072	Food & Beverage stores	0	3	-4	16	-12
5.538	Transportation/warehousing	-4	30	-2	118	257
1.522	Truck transport	2	1	-3	4	55
0.771	Couriers/messengers	-12	20	1	76	72
1.167	Warehousing and storage	5	7	-1	25	80
0.552	Utilities	1	-1	1	-4	-4
2.854	**Information**	4	11	9	29	35
8.665	**Financial**	26	10	10	149	167
2.756	Insurance	6	5	0	52	83
2.283	Real Estate	13	-1	4	66	62
1.389	Commercial Banking	3	1	2	4	16
0.960	Securities/investments	2	0	2	9	17
21.128	**Professional/business**	41	25	22	375	445
2.993	Temp help services	-3	-3	5	-43	26
2.401	Management of companies	-2	2	3	47	67
1.493	Architectural/engineering	10	0	4	37	38
2.154	Computer systems/services	8	11	3	85	80
1.143	Legal services	2	5	-1	14	3
1.009	Accounting/bookkeeping	3	-4	5	28	17
23.844	**Education and health**	54	72	29	621	461
5.158	Hospitals	8	8	5	85	62
3.719	Educational services	-2	30	4	92	16
16.415	**Leisure and hospitality**	51	38	40	369	225
2.052	Hotel/motels	-3	-5	9	48	36
11.953	Eating & drinking places	53	32	19	250	146
22.495	Government	45	51	20	184	114
2.201	Federal ex-Post Office	10	9	0	43	18
5.173	State government	18	15	3	11	14
2.489	State Govt Education	16	9	3	-8	18
14.513	Local government	19	26	20	135	85
7.972	Local Govt Education	6	11	7	68	31

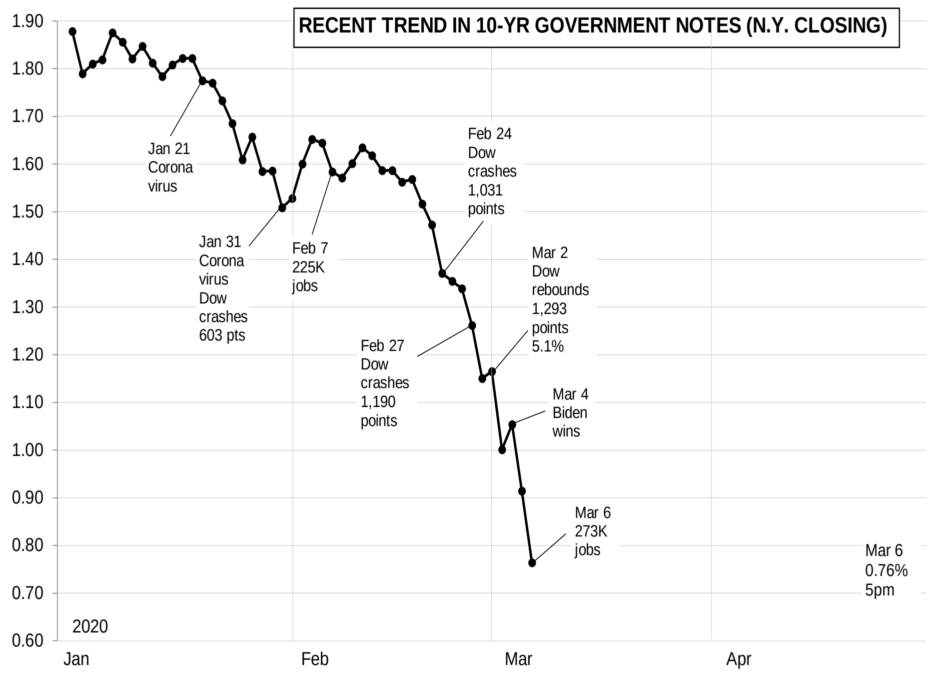


PPS-at Friday's close, the market odds of a 50 bps rate cut to 0.75% at the March 18 Fed decision date is completely discounted, done and finished, already more than a 100% chance of a 50 bps rate cut a week and a half from now. Can't wait. The other thing we need to note is 10-year Treasury yields were already down low at 0.72% before the perfect employment report was released at 830am EST. Fed funds futures and 10-yr Treasury yields don't care a fig about 273K new jobs in February and 273K new jobs in January.

MARKETS OUTLOOK

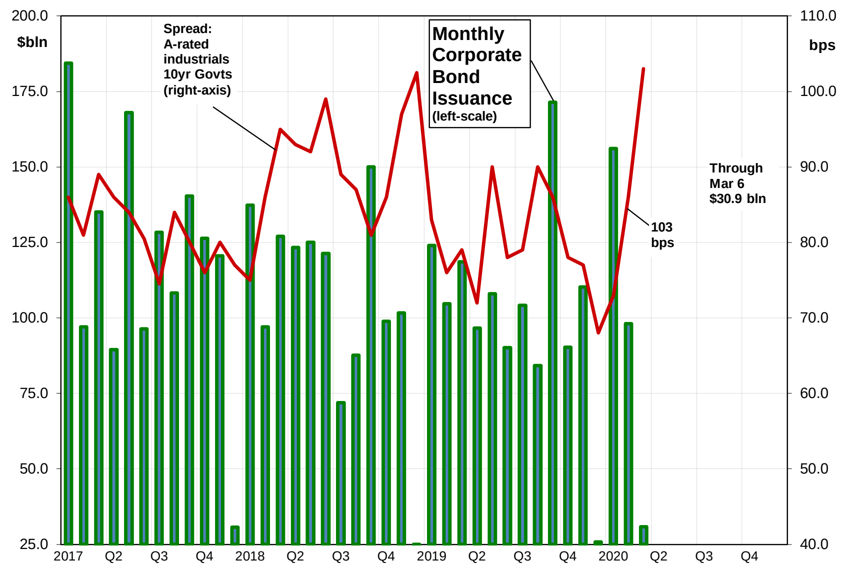
	29-Mar 2019	28-Jun 2019	30-Sep 2019	31-Dec 2019	6-Mar 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
30-Yr Treasury	2.81	2.53	2.11	2.39	1.29	1.40	1.50	1.70	1.80	1.80
10-Yr Note	2.41	2.01	1.67	1.92	0.76	1.00	1.20	1.40	1.50	1.50
5-Yr Note	2.23	1.77	1.55	1.69	0.61	0.90	1.15	1.35	1.40	1.40
2-Yr Note	2.26	1.76	1.62	1.57	0.51	0.80	1.10	1.30	1.30	1.30
3-month Libor	2.60	2.32	2.09	1.90	0.90	1.00	1.10	1.10	1.20	1.20
Fed Funds Rate	2.50	2.50	2.00	1.75	1.25	1.25	1.25	1.25	1.25	1.25
2s/10s spread	15	25	5	35	25	20	10	10	20	20

It is astonishing to have to report that bond yields, 10-year Treasuries, fell from 1.15% last week to 0.76% on Friday. What could bond traders be thinking? Do they want a job? Sorry, forgot it's all robots, AI, and electronic trading now, no humans. So, the Fed whacked interest rates by 50 bps on Tuesday, so we have to back the interest rate forecast in future quarters down by 50 bps. A shame really. Higher rates look to be out the window for now even with one Fed official this week saying rates could go higher if the coronavirus did not slow the American economy too much or too long. C'mon. Once rates are down, they aren't going back. What a mess.



CORPORATE BONDS: DAIMLER, SOUTHERN CAL ED, CIGNA, MCDONALD'S

Corporate offerings were $30.9 billion in the March 6 week versus $1.0 billion in the February 28 week. On Wednesday, Waste Connections priced a $500 million 3.05% 30-yr (m-w +25bp) at 150 bps (Baa2/BBB+). The solid waste collection services company will use the proceeds to repay borrowing under its revolving credit facility and part of its term loan borrowings and for general corporate purposes. Corporate bond yields (10-yr Industrials rated A2) were 103 bps above 10-yr Treasuries Friday versus 86 bps last Friday.

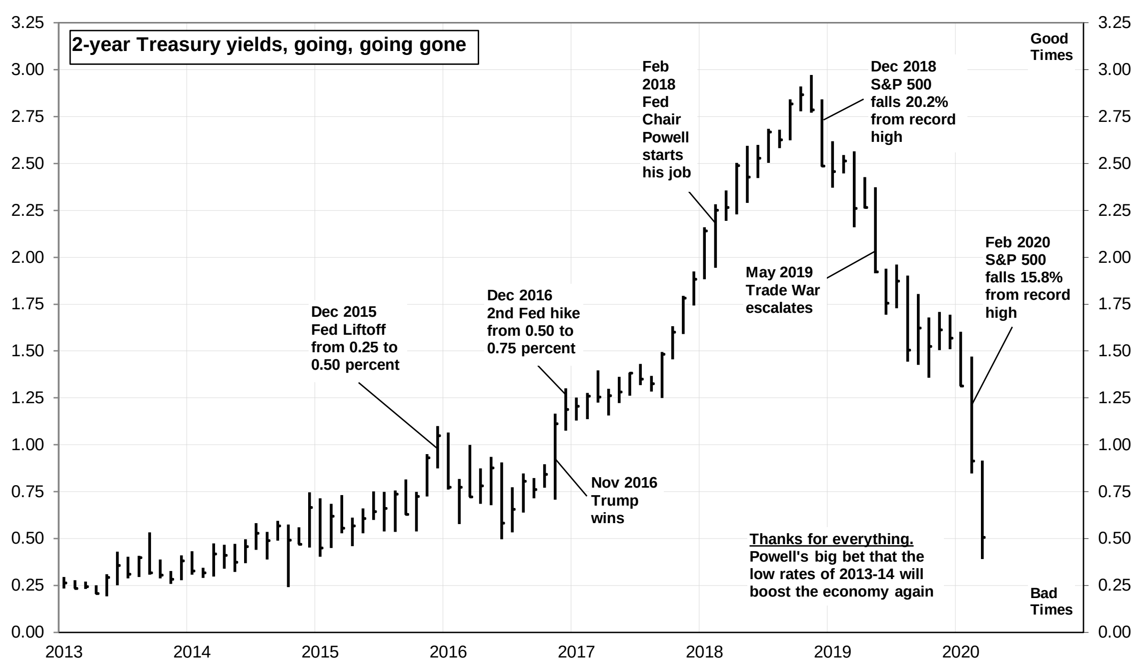


FEDERAL RESERVE POLICY

The Fed meets March 17-18, 2020 to consider its monetary policy. They already let the cat out of the bag and cut rates 50 bps on Tuesday to 1.25%. This is the second time under Chair Powell that they have changed course after a crash in the stock market produced a material change in the outlook. The S&P 500 fell 20.2% high-to-low in December 2018 and Powell walked back the two additional rate hikes to 3.0% planned for 2019 saying they could be "patient." The S&P 500 fell 15.8% high-to-low this year on Friday, February 28 before Powell's "closely monitoring" press statement saying action is imminent at 230pm Friday afternoon.

Selected Fed assets and liabilities					Sep 10
Fed H.4.1 statistical release					2008**
billions, Wednesday data	4-Mar	26-Feb	19-Feb	12-Feb	pre-LEH
Factors adding reserves					
U.S. Treasury securities	2502.624	2474.060	2451.688	2442.621	479.782
Federal agency debt securities	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	1371.846	1371.843	1385.784	1391.526	0.000
Repurchase agreements	195.000	143.440	163.900	164.400	126.750
Primary credit (Discount Window)	0.001	0.013	0.005	0.000	23.455
Term auction credit (TAF auctions)	0.000	0.000	0.000	0.000	150.000
Asset-backed TALF	0.000	0.000	0.000	0.000	
Maiden Lane (Bear)	0.000	0.000	0.000	0.000	29.287
Maiden Lane II (AIG)	0.000	0.000	0.000	0.000	0.000
Maiden Lane III (AIG)	0.000	0.000	0.000	0.000	
Central bank liquidity swaps	0.048	0.044	0.067	0.055	62.000
Federal Reserve Assets	4289.3	4206.4	4219.8	4230.9	961.7
3-month Libor %	1.00	1.61	1.70	1.70	2.82
Factors draining reserves					
Currency in circulation	1810.269	1800.040	1799.719	1796.425	834.477
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000
Reverse repurchases w/others	5.025	2.300	5.149	0.309	0.000
Reserve Balances (Net Liquidity)	1735.005	1680.070	1659.021	1695.082	24.964
Treasuries within 15 days	22.679	34.812	31.238	52.182	14.955
Treasuries 16 to 90 days	213.281	188.784	170.808	129.306	31.549
Treasuries 91 days to 1 year	367.820	355.980	361.944	376.189	69.272
Treasuries over 1-yr to 5 years	914.339	913.398	906.588	918.350	170.807
Treasuries over 5-yrs to 10 years	326.323	325.382	325.396	319.315	91.863
Treasuries over 10-years	658.181	655.702	655.715	647.278	101.337
**September 10, 2008 is pre-Lehman bankruptcy of 9-15-08					

Why did the Fed cut rates 50 bps on Tuesday? Powell gave a brief explanation at the quickie press conference on Tuesday. Essentially the reason is "financial conditions" which is of course the stock market. There isn't a lot of forecasting to be done right now, it is all wishing and hoping. We don't see any benefit for the broader economy to cutting interest rates again from the 1.25% level. These rate cuts closer to zero risk undermining the foundation of the financial system. We don't see a role for monetary policy to play with interest rates at this low of a level. We don't see a role for fiscal policy to play even if Congress could get it together because the National Debt is already over $20 trillion. Just let the economy come back on its own. It always does. Most of the time the Fed panics and cuts rates too fast and too early in prior business cycles anyway.

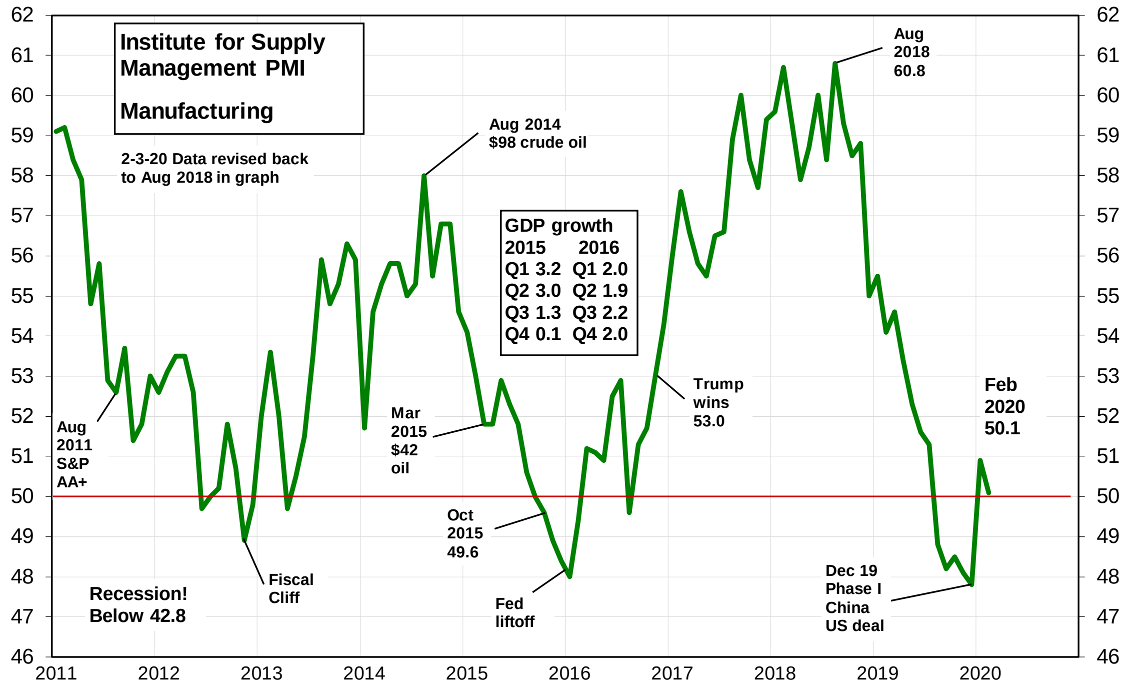


OTHER ECONOMIC NEWS THIS WEEK

Manufacturing is barely hanging on, sitting at the cliff's edge (Monday)

Breaking economy news. ISM manufacturing fell back to 50.1 in February from 50.9 in January. Purchasing manager executives had said that manufacturing was in a recession from August to December last year. Manufacturing is barely hanging on as it sits at the cliff's edge. New orders are back in recession falling to 49.8 in February from 52.0 in January. This bad news is tempered however by new export orders remaining above the 50 level for a second month at 51.2 in February even if this trend is unlikely to continue as world trade slows with the spread of the coronavirus. The coronavirus is putting the world on lock-down and U.S. manufacturing cannot be immune forever.

Net, net, the jury is out on whether U.S. manufacturers can weather the coronavirus storm that has engulfed the rest of the world. Purchasing manager executives say that overall activity is just inches away from falling back into a recession, and as a result, their factories are not looking to hire more workers. The nation's manufacturing sector is literally sitting on the edge of the cliff about to fall back into recession. It is more critical than ever for companies to get those supply chain inputs used in production from China otherwise the manufacturing sector may indeed fall back into a recession. Stay tuned. Story developing.



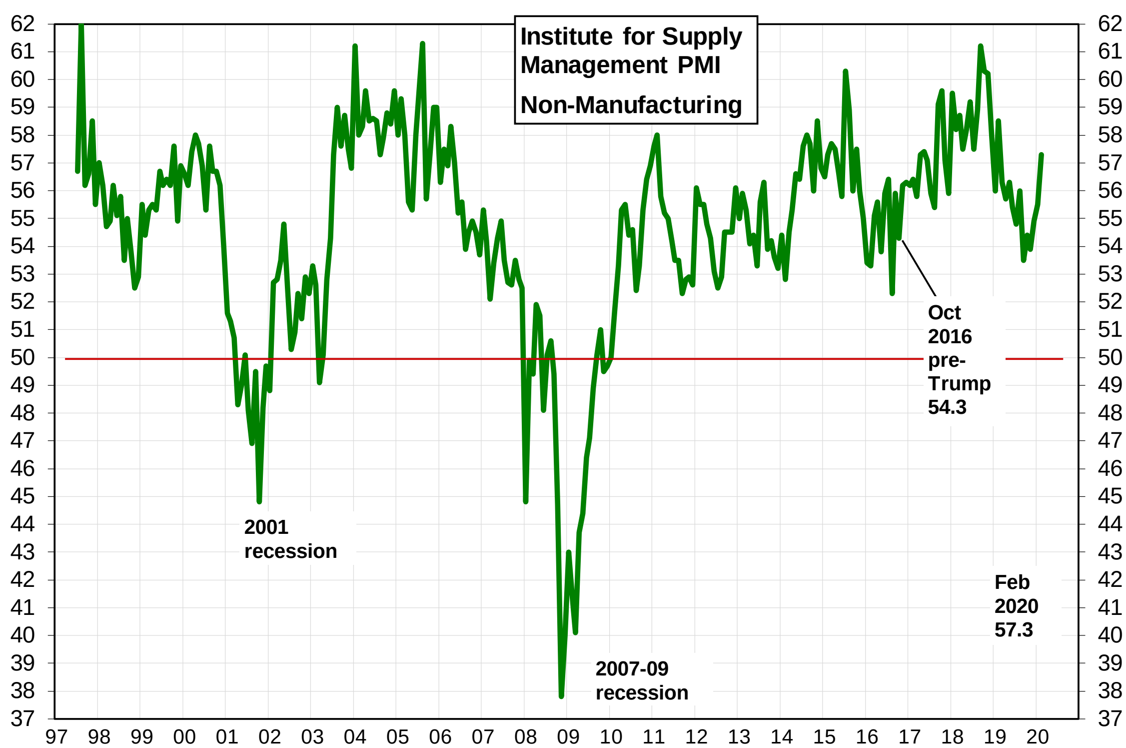
Services remain buoyant for now (Wednesday)

Breaking economy news. The ISM non-manufacturing survey improved to an index reading of 57.3 in February from 55.5 in January. This is quite a welcome recovery in service industry sentiment since late last year. The index was 53.5 last September.

The only caveat is the intensification of the virus fears didn't hit American shores with full force until the final week of February when the stock market collapsed. Purchasing Managers upon further reflection may not be as confident next month. New orders surged to 63.1 in February from 56.2 in January. Meanwhile, while the rest of the world's economies are shutting down is it credible that new export orders jumped to 55.6 in February from 50.1 in January?

The survey found 16 industries were increasing while just two were in decline in February: Arts, Entertainment & Recreation; and Agriculture, Forestry, Fishing & Hunting. In January, 6 industries were in decline including real estate and transportation and warehousing.

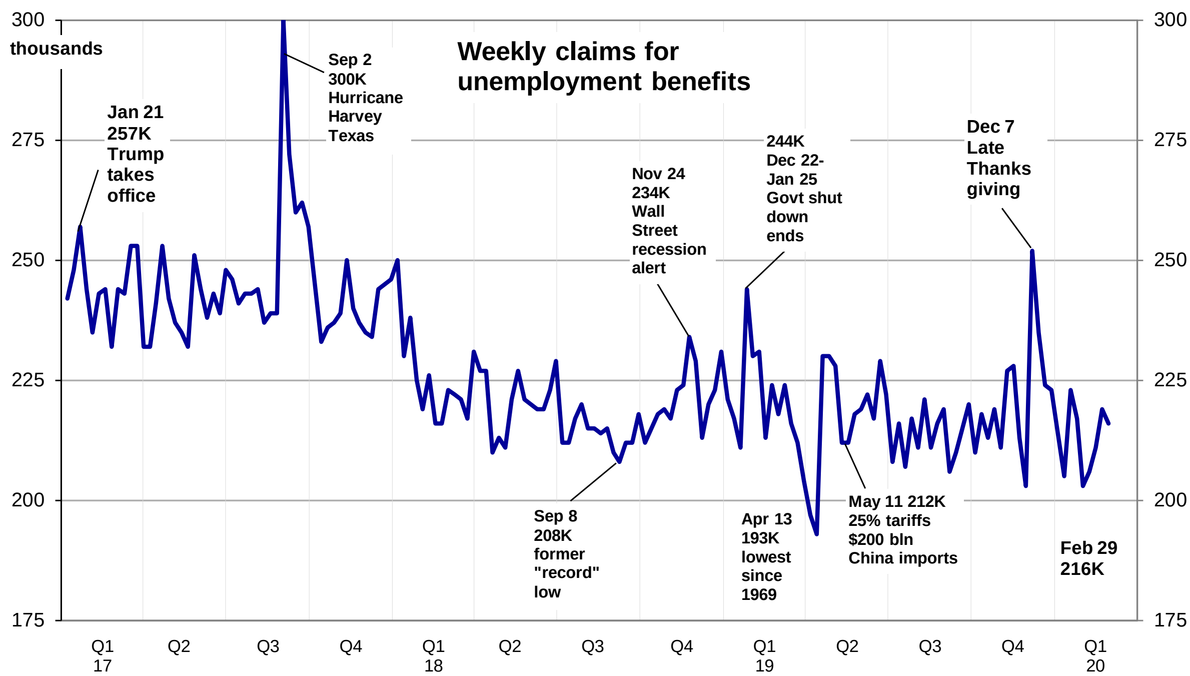
Net, net, U.S. services industries are weathering the storm as the coronavirus sweeps across the globe shutting down travel and store traffic as the public seeks to avoid any social interaction where they could be exposed to the virus. Services are a big chunk of the overall economy so Federal Reserve policymakers were plainly worried when they cut rates aggressively yesterday that non-manufacturing activity could slow. Stay tuned. Story developing.



Initial jobless claims low, but the labor market is not out of the woods (Thursday)

Breaking economy news. Initial jobless claims fell slightly to 216K in the February 29 week. Weekly claims are low today, but the labor market is not out of the woods yet due to the clouds on the horizon from the gathering coronavirus storm. The Federal Reserve was certainly not sanguine about the economy when they did a large, emergency interest rate cut of 50 bps on Tuesday. Policymakers think there has been a material change in the outlook that could still be reflected in jobless claims data in the weeks to come.

Net, net, the number of new filings for unemployment benefits is not showing that companies have thrown in the towel on the coronavirus fears and are starting to lay off workers. But we cannot sound the all-clear signal either because the total number of people on the jobless rolls continuing to receive unemployment compensation remains somewhat elevated despite the strongest economy in fifty years. That's not right. It is possible that the payroll employment report tomorrow will have a softer tone even before the stock market meltdown on the spreading coronavirus news in the final week of February. Beware of the Ides of March. The hit to jobs is still coming. Wait for it.



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