K N O W L E D G E D R I V I N G C O M P E T I T I V E A D V A N T A G E
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BOND MARKET REVIEW

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Extraordinarily Patient

The same questions persist. When will the Fed hike? Are we still growing? Is the near 7–year–low Unemployment Rate that March matched with February at 5.50% nearing full employment? We'll have to query the **B**ond **M**arket **R**eview's Department of Redundancy Department! If it's getting old to you, you know it's getting old to us. Nevertheless, the U.S. is in a tenuous position. Just as the incoming data seemed to be showing enough promise to make it safe to remove accommodation, we got setbacks, slack, and the possibility of a slowdown. Leading into the March Fed meeting, the U.S. economy had in January concluded the best 3–month job gains in 17 years, and February's addition of 295K jobs gave the U.S a streak of 12 months over 200K – the best since 1995. The FOMC succumbed to pressures and removed their intention to be *"patient"* in beginning to raise rates. However, the March data came in well below expectations with only a 126K gain – the lowest showing since December 2013. That wasn't the only concern! January's gains were cut to 201K from 239K (just barely leaving that 12–month 200K–plus streak intact), and February's numbers were cut from 295K to 264K. The way we look at it – while one month well below recent data doesn't make a trend, it certainly broke one! Maybe weather affected March jobs, but payrolls are foiling the best laid plans of those that saw June as the time to get off 'zero.'

The headlines in job creation have been good, but the negatives are too great to ignore. The labor force participation rate fell .1 to 62.7% (equaling a 37–year low to 12/2014 and 02/1978). What that statistic fails to reveal is that for the first time ever there are over 93 million Americans not in the workforce! Big numbers are large across the board. As of March, a record 56.13 million women were not in the workforce, and teenage males had a jobless rate of 19.8%. 8.575 million are unemployed and actively seeking a job. A Bloomberg View study contended the economy needed to add roughly 3 million jobs to approach a more realistic 'full employment' (considering those that would reenter the workforce). With 93 million out, 3 million is a good start – but the cup is far from even half full (pessimistically speaking). Other data also caught our interest. After also dropping in 2013, average pre–tax incomes fell .9% for the 12 months ending in July 2014. On April 1st, the Atlanta Fed's 'GDPNow' forecast fell to 0% – no GDP growth! Who's fooling whom? It did rise back to 0.1% the next day. At least some of this led FRB Minneapolis President Kocherlakota to say the FOMC *"should be extraordinarily patient about reducing the level of monetary accommodation."* He said a hike in 2015 would be a mistake! The Fed's Dudley said there were *"strong arguments for being a little on the late side"* with hikes and once started, they would be *"shallow."*

Looking Ahead

- Bond yields should be generally higher into April 22nd–23rd – when we expect a buying opportunity.
- Stocks should rise into April 13th and April 22nd with a pullback in between. April 22nd could be a top.

Treasuries, Agencies, and MBS

The Swiss set a record this week for having the first 10–year note to bring a negative yield at auction. While the Swiss can now sock money away for 10 years with a government guarantee of less than they invested, Americans can still earn pennies on large balances in money market accounts! With negative long yields, zero return on short money is a bargain. That said, U.S. Treasuries continue to offer tremendous spread value versus alternatives and there's been enough bad news to sway many into believing the Fed will begin to raise rates later than expected – including some FOMC members! Though Treasuries rallied sharply after the disappointing jobs report on Good Friday, most markets were closed and trading was thin – with rather unofficial closing data. So we will reference the yield curve closing data as of Thursday's close (04/02). Yields fell 5.5, 8.5, 5, and 1 bps for the 2, 5, 10, and 30–year Treasury sectors. After the March jobs numbers, 10–year yields fell 10 bps into the early close – to a 2–month low. However, on Monday, trading resumed nearer where the Thursday (pre–jobs) data had closed. Into today, yields were only .5 bps lower to Thursday's data across the curve. Yields should fall a bit after Thursday, but should then rise with stocks into a high near April 22nd–23rd. We would expect that to be a buy opportunity.

MBS spreads (for FNMA 30–year 2.5%) widened 1 bps last week. Tuesday's $24 billion 3–year note auction was rated an average '3 of 5' and brought .865% – the lowest auction yield since March 2014. Demand was the lowest since December. Foreign buyers slid from taking 51.4% in March to 49.4% for this issue. Wednesday's $21 billion 10–year note (reopened February 2025) brought 1.925%. That was the lowest auction yield since May 2013 – but very attractive to its –0.11% Swiss, 0.16% German, and 0.19% Japanese 10–year note counterparts. The auction was rated an above–average '4 of 5', though demand was the least since January. Foreign buyers bought 58.5% of the issue compared to 58.6% last month. The Treasury will auction $13 billion 30–year bonds on Thursday (04/09).

04/02/15 Treasury Yield Curve	2-Year: 0.542%	5-Year: 1.351%	10-Year: 1.912%	30-Year: 2.533%
Weekly Yield Change:	–.054	–.085	–.050	–.008%
Support:	0.57/ 0.59/ 0.62/ 0.65%	1.41/ 1.45/ 1.47/ 1.53%	1.97/ 2.01/ 2.05/ 2.09%	2.61/ 2.65/ 2.69/ 2.73%
Targets:	0.53/ 0.50/ 0.47/ 0.45%	1.35/ 1.33/ 1.30/ 1.26%	1.91/ 1.88/ 1.84/ 1.81%	2.53/ 2.49/ 2.46/ 2.41%

Economics

The U.S. Trade Balance deficit shrank from $42.7 billion to only $35.4 billion in February. That lowest gap in over 5 years was partially attributed to the labor dispute at ports in the West Coast. However, since the U.S. is a service economy, and our retail goods are mostly imported, this could be a negative indicator for the upcoming months. That said, service providers saw just a little less expansion in March (56.5 versus 56.9), but still good growth for what now accounts for about 90% of the economy (ISM Non–manufacturing). Initial Jobless Claims fell 20K to 268K, a 2–month low – and the 2nd lowest level since 2000. Continuing Claims dropped from 2,413K to 2,325K. JOLTS Job Openings rose from 4.965M to a 14–year high of 5.133M in February. Firings were the lowest since November 2013. However, Challenger Job Cuts for March were 6.40% higher versus last year. The Fed's jobs dashboard (Labor Market Conditions Index Change) dropped .3 in March. Private payrolls grew by 129K, while manufacturing lost 1K. Average Hourly Earnings were .30% better, and up .10% to an annual 2.10% rise. Average Weekly Hours actually declined .1 to 34.5. The Underemployment Rate fell .10% to 10.90%. Bloomberg Consumer Comfort rose for a third week (by .7 to 46.2), to the 2nd highest level since July 2007. In February, Consumer Credit expanded by $15.516 billion, though roughly $766K was shaved off the January numbers. IBD/TIPP Economic Optimism was 51.3 versus 49.1 last month. February Factory Orders rose .20%, but were revised .50% lower to a .70% loss for January. The ISM New York outlook fell from 63.1 to 50.

Thursday is set for jobless claims data, Bloomberg Consumer Comfort, and Wholesale Inventories and Trade Sales for February. Friday gives us the Monthly Budget Statement and Import Prices for March. Next Tuesday (04/14) brings March Retail Sales, Producer Prices (PPI), NFIB Small Business Optimism, and February Business Inventories. Next Wednesday is April 15th – the deadline for filing 2014 tax forms (extension or not). Data releases are MBA Mortgage Applications (which last week rose .40%), Empire Manufacturing, Industrial Production & Capacity Utilization, home builder outlook (NAHB Housing Market Index), TIC (international Treasury) flows, and the FOMC Beige Book (outlook and performance for the 12 Fed districts).

Equities

The rally out of our March 27th trend–change low remains intact – with the Nasdaq outperforming other indices. Global stocks are still drinking in the continuing stimulus of central banks. As of last week, the Dow was .34% lower for the year. With its gain of .78% into today, it's now ahead by .45%. The Nasdaq is 4.52% higher for the year. However, the Japanese Nikkei is nearly 14% higher for 2015, and German stocks are up 22.75%! China's tech stocks have soared to average valuations of 220 times profits. Compare that to 156 for U.S. tech stocks into the March 2000 Nasdaq top. Speaking to that top, we still expect an advance into the 13th, a pullback into the 15–16th, and then a potential top for equities near the 22nd. That should allow the Nasdaq to finally hit new highs – albeit with a much altered basket of stocks. Imagine where the Dow and Nasdaq would be if they were calculated with their March 2000 components! For the week, the Dow rose 50.58 points or .29% to 17,763.24 – its weakest gain since November (though it was a gain). It's up .78% this week, The S&P added 5.94 points, also up .29% to 2,066.96, and it's .72% higher this week. The Nasdaq lost 4.28 points or .09% to 4,886.94, but is 1.31% better since Friday. The Transports lost 1.09%, but are .74% higher. Bank stocks gained 1.55% and then added .08% this week.

Resistance:	Dow:	17,981/ 18,056/ 18,109/ 18,171	Nasdaq:	4,965/ 4,982/ 5,003/ 5,022	S&P: 2,089/ 2,094/ 2,100/ 2,107
Support:		17,824/ 17,781/ 17,715/ 17,649		4,912/ 4,877/ 4,845/ 4,825	2,074/ 2,070/ 2,061/ 2,054

Other Markets

Commodities rose .43% last week, and are .14% higher this week. Crude Oil had risen .55% following a strong 6.89% gain the week before, and was 2.60% better into today. Gold was up .09%, and is .18% higher this week. The U.S. Dollar gained .16%, and is .47% better this week. The Euro lost .08%, and has slumped .91% into today. The Japanese Yen lost .50%, and is off another .34% this week. Corn lost 1.15%, and was 1.88% lower into today – as stockpiles are the highest in 28 years. Cotton gained .22%, and has rallied 4.77% this week.

"My pessimism extends to the point of even suspecting the sincerity of the pessimists." Jean Rostand

Additional Information is Available on Request

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