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BOND MARKET REVIEW

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Gradual Patience

While the Fed might not bear the responsibility of causing the global selloff in stocks, they're almost certainly perceived as a catalyst. So far, whatever the cause, the 'event' brought about a global loss of over $8 trillion. However, it also bought a Fed (that was out of ammunition) one accommodative 25–bps caliber bullet (for what that may be worth). It's interesting that Fed Chair Janet Yellen's talking points have been to deny FOMC policy had anything to do with the ensuing global market turmoil. As in, (please), don't blame us! She said the first hike had to have been widely anticipated by investors. It's only the evidence that speaks otherwise. The Fed wouldn't be the first to use bad timing, but it is the case they were determined to hike in 2015, and since pulling away the punch bowl on 'liftoff day', the S&P has lost 12.84% and the Nasdaq is down over 17%. The Fed tried to prepare markets by assuring the coming hikes would be gradual instead of campaign like (given their history). Last week, the **B**ond **M**arket **R**eview recalled the Fed's buzzword following the financial crisis. They said they could be 'patient' in removing stimulus! It would now appear they intend to also be 'considerably patient' with the gradualness of the hikes. While 4 were forecast for 2016, the odds for March have fallen to 0%! In fact, the odds for a cut from April through September now stand greater than for a hike at each meeting. Like Barney Fife, good thing they've got that one bullet …

Looking Ahead

- The bond cycles are mixed, but we expect another push to low yields into February 19th.
- Our equity cycles show stocks turning again lower from trend change highs due March 1st and 17th.
- The equity and bond markets will close Monday (02/15) for the Presidents Day holiday.

Treasuries, Agencies, and MBS

This week, before Congress, Yellen also warned of negative effects of recent global market turmoil on the U.S. economy – and defended the use of negative rates as a tool for central banks. Congress cautioned the Fed might not have the authority to employ such a tactic. Our cycles still indicate a low for yields near February 19th. We did not expect the magnitude of this move, but the cycles are doing their job. Clearly, the global dumping of equities and very–low (or negative) rate foreign alternatives have made U.S. Treasuries a comparative bargain! This week, the yield on Germany's 10–year maturity fell below .13% – while Japan's fell below zero for the first time on record. Though it's not really news, Swiss 10–year yields have been consistently negative and around –.33% today. Last week, yields fell by 5, 9, 8.5, and 7.5 bps for the 2, 5, 10, and 30–year Treasury sectors. Into today the curve flattened with a further drop of 7, 11, 17.5, and 17 bps – leaving the 10 to 2–year spread the narrowest (flattest) since November 2007. Stocks crashed from then into March 2009.

MBS spreads (for FNMA 30–year 3.0%) widened by 6 bps last week. On Tuesday, the U.S. Treasury sold $24 billion 3–year notes at .844%. Demand was the lowest since the July 2009 offering and the auction was rated a poor '2 of 5'. The yield was the lowest since March 2014 and foreign buying fell to only 41.5% of the issue versus 62.8% in January. Wednesday's $23 billion 10–year note offering brought 1.73%. Demand was the lowest since the auction held in August 2015, and the yield was the lowest awarded since the December 2012 offering. Foreign buyers accounted for 62.3% of the issue – the 3rd highest on record, compared to an even–stronger 71% last month. While the 10–year auction was fairly strong, today's 30–year bond was also rated poor. $15 billion 30–year bonds brought 2.50%, which marked the lowest yield since January 2015. Demand was off to January, though foreign bidders upped allocations from 56.5% to 58% at this auction.

02/05/16 Treasury Yield Curve	2-Year: 0.724%	5-Year: 1.241%	10-Year: 1.837%	30-Year: 2.669%
Weekly Yield Change:	–.052	–.088	–.085	–.075%
Support:	0.69/ 0.74/ 0.76/ 0.79%	1.21/ 1.27/ 1.32/ 1.38%	1.77/ 1.83/ 1.89/ 1.95%	2.60/ 2.64/ 2.68/ 2.73%
Targets:	0.67/ 0.65/ 0.62/ 0.58%	1.16/ 1.11/ 1.06/ 1.01%	1.70/ 1.65/ 1.58/ 1.52%	2.53/ 2.48/ 2.44/ 2.41%

Zigs and Zags

While the Dow has yet to take out last month's lows of January 20th and for August 24th of last year, most other domestic and global indices have done so – placing them squarely in bear markets by the percentage loss versus their highs, and their technical chart formations. Though our next timing for a high is March 17th, the last low cycle hasn't provided enough support to keep the structures of these equity markets from deteriorating. We still expect a deep economic and market trough in 2016, but don't think it will occur until at least June. It appears we may be in for another volatile round of swings given our current cycles. These call for whipping cycle movement with a high near March 1st, a pullback into the 14th, and then another high near March 17th. The next low cycle should be near April 18th, and would be followed by a rally into a high near April 28th. From there, the cycles are 'hard down' into June. We're including all this just to see how it pans out.

Economics

The seasonally adjusted payroll reports were good, but not up to the strength of previous months. While showing gains over 250K for the past 3 months, Nonfarm Payrolls rose only 151K in January. The government expects variations during the year and 'corrects' the results for seasonal factors. Since we saw a headline that said the economy actually lost jobs, we did some checking. It turns outs the number of native–born Americans lost 567,000 jobs in January (and foreign born jobs were also lower). The peak for workers born in the U.S. was in July 2015. Since then, that segment of the population has lost over 1.3 million jobs. Suddenly, the data is a little suspect! The Challenger Job Cuts data revealed 41.60% more firings versus January 2015. The 2–month revision was tame with 2K less jobs. Private Payrolls rose 158K – quite a bit under the 205K reported by ADP. Manufacturing showed some strength with a 29K pickup, and 5K were added to December to up that result to 13K. The Unemployment Rate fell .10% to 4.90%. That's the lowest since February 2008, but, despite the coming crisis, the quality of jobs at that point was far better. The Underemployment Rate remained at 9.90%. Average Hourly Earnings rose .50%, but fell .20% to an annual 2.50% pace. Average Weekly Hours rose .1 to 34.6. The Labor Force Participation Rate rose .085% to 62.73%. The Fed's job dashboard (Labor Market Conditions Index Change) rose .4, and was revised .6 lower to +2.3 for December. In December, JOLTS Job Openings showed some promise with a rise of available jobs from 5,346K to 5,607K.

Last week, Initial Jobless Claims rose 8K to 285K. They fell to 269K with today's data. Continuing Claims fell 13K to 2,260K, and the next week dropped to 2,239K. Nonfarm Productivity fell 3.0% in 4Q 2015, while Unit Labor Costs rose 4.50%. NFIB Small Business Optimism fell from 95.2 to 93.9. Bloomberg Consumer Comfort fell .4 to 44.2 last week, but recovered .3 to 44.5 this week. December Factor Orders fell 2.90%, and were adjusted .50% lower to a .70% drop for November. Ex transportation, orders fell .80%. Orders for Durable Goods fell 5.00%, but were only off 1.00% ex transportation. The December Trade Balance deficit widened from $42.23 billion to $43.46 billion. Consumer Credit rose a strong $21.267 billion in December as Americans used credit cards and signed notes for vehicles. Wholesale Inventories fell .10%, and Trade Sales fell .30%. January's Monthly Budget Statement saw a record surplus of $55.2 billion. The deficit is running 17% under fiscal 2015, but only 3% after calendar adjustments.

Friday is set for January Import Prices and Retail Sales. Also due are December Business Inventories and University of Michigan sentiment surveys. Monday the 15th is a market and data holiday for Presidents Day, while Sunday the 14th is Valentine's Day – forget that one at your own peril. Next Tuesday (02/16), gives us Empire Manufacturing, home–builder outlook (NAHB Housing Market Index), TIC Flows (net foreign Treasury operations), and Mortgage Delinquencies and MBA Mortgage Foreclosures for the 4th–quarter of 2015. Wednesday brings MBA Mortgage Applications (which rose 9.30% last week), January Housing Starts & Building Permits, Producer Prices (January PPI), Industrial Production, Capacity Utilization, and the release for the FOMC minutes from the January meeting.

Equities

As the selloff in equities has unfolded, the **BMR** cycles were correct in showing it would not be good to be long after December 4th! Last week, stocks ended a 2–week winning streak with the Dow dropping 261.33 points or 1.59% to 16,204.97. This week is looking much worse with the Dow already 3.36% lower. The Nasdaq tumbled 250.81 points or 5.44% last week to 4,363.14, and is 2.21% lower this week. The S&P fell 60.19 points or 3.10% to 1,880.05, and is 2.71% lower since Friday. The Dow Transports actually rose .52% last week, but are .85% lower this week. Bank stocks lost 3.88%, and have fallen 7.93% this week on renewed global equity and credit fears.

Resistance:	Dow:	16,015/ 16,142/ 16,271/ 16,409	Nasdaq:	4,354/ 4,417/ 4,484/ 4,546	S&P:	1,864/ 1,875/ 1,885/ 1,896
Support:		15,765/ 15,638/ 15,517/ 15,390		4,285/ 4,219/ 4,156/ 4,092		1,842/ 1,831/ 1,821/ 1,810

Other Markets

Commodities lost 2.89% last week, and are 4.27% lower this week as Crude Oil fell 8.12% and then cratered 15.15% into today. Gold and bonds have surged on global fears. Gold rose 3.71% for a 3rd weekly gain, but has surged 7.78% this week to the highest levels in a year (and the best week in 4 years). The U.S. Dollar fell 2.61% last week, and is 1.48% lower so far this week. The Japanese Yen surged 3.52% last week and is 3.81% better this week. The Euro gained 3.02% and then added 1.48% into today. Those are huge moves for currencies – but of course large for Gold and Crude as well. Corn fell 1.68%, and is off 1.50% this week. Cotton fell 1.90%, and is off 2.58% so far this week.

"Whenever you find that you are on the side of the majority, it is time to pause and reflect." Mark Twain

Additional Information is Available on Request

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