Banes Capital Management, LLC.
6410 Poplar Ave., Suite 320 – Memphis, TN 38119 – (901) 261-5900 Fax: (901) 261-5999

Bond Market Review

April 24, 2019 #879

May Day

As the next FOMC meeting approaches on May 1st, it's largely seen as another 'non–event.' Inflation has slowed and stocks have recovered most of their Q4 losses, with the Nasdaq and S&P making new record highs. The market–based odds for a hike next week are a flat 0% – as they are for any meeting throughout January 2020. Traders only see a 1.6% chance of a cut next week – so expectations for any fireworks are low.

When President Trump and others were skeptical of the Fed's tightening through December, it was as if the Fed finally listened to the sage wisdom of those ancient philosophers of the classic rock dynasty when they said: *"Yes, there are two paths you can go by, but in the long run – There's still time to change the road you're on!"* Since December, the FOMC heeded that advice and veered off their tightening course to one of patience – and the **B**ond **M**arket **R**eview has seen little incoming data that should sway them otherwise. With our equity cycle having topped today, will stocks get *"a spring clean for the May queen?"* October is traditionally the worst month for stocks and May is second – which probably spawned the market axiom 'Sell in May and go away.'

The Cain Mutiny

President Trump had picked Herman Cain and Stephen Moore to serve on the Federal Reserve board. However, when a 4th Senate Republican said he'd oppose that nomination, the mutiny was accomplished – and Cain bowed out of consideration. Trump tweeted: *"My friend Herman Cain, a truly wonderful man, has asked me not to nominate him for a seat on the Federal Reserve Board. … I will respect his wishes."* Moore is said to still be in consideration – subject to an ongoing background check.

Looking Ahead

- Stock cycles project lower from April 24th into May 23rd.
- Bond cycles show yields could drop into May 1st/3rd and again into May 17th/20th.
- The FOMC will update their interest–rate policy on Wednesday May 1st at 2 p.m. ET.

Treasuries, Agencies, and MBS

Though it kicked off at only .3% on March 1st, the Atlanta Fed's GDP–Now Q1 forecast rose to 2.8% last week on strong retail sales. New York was only 1.37% and St. Louis's stood at 1.89%. Last Wednesday (04/17), we said: *"Yields rose again last week and were higher into today – in concert with our bond cycles and leaving the U.S. Treasury curve the least inverted since March 1st. Yields could now drop into our trend–change windows near May 1st/3rd and then May 17th/20th – lining up with equity cycles that are lower from April 24th into May 6th and May 23rd."* Into today, yields dropped to their lowest levels since April 11th – confirming that cycle for now.

Last week, yields dropped by 1, 1, .5, and 1.5 bps for the 2, 5, 10, and 30–year Treasury sectors. Through today they were another 6, 6, 4, and 2.5 bps lower (for those sectors). We have downside yield targets of 2.25/2.26% for the 5–year note and around 2.47% for the 10–year. MBS spreads (FNMA 30–year 3.5%) widened by 2 bps last week. Factory output in Germany experienced a 4th month of contraction – leaving their interest rates negative out to 10–years (with Japan's). Those 'quality–economy' alternatives should serve to keep U.S. rates low. Though core U.S. inflation finally rose above 2% last summer, it has slipped recently – giving members of the Fed a reason to consider a cut in rates. Chicago FRB President Charles Evans said if core inflation were to move down to around 1.5%, rate policy would be seen as *"actually restrictive in holding back inflation"* which would call for a lower funds rate *"at least so that it was accommodative."* The Fed's March minutes did note they continued to have concern over asset bubbles – as their current path projects low rates over time that *"could lead to greater financial stability risks."*

Trade negotiations with China will resume next week, with both sides seeking an agreement by the end of May – that includes issues such as intellectual property, agriculture, services, forced technology transfer, non–tariff barriers, purchases and equipment. On Tuesday (04/23), the U.S. Treasury sold $40 billion 2–year notes at 2.355%. That was the highest yield since the February offering and demand was off to the March sale. The group that includes foreign central banks bought 47.7% of this auction versus a 56% allotment last month. Today's (04/24) 5–year note offering brought 2.315% for $41 billion in supply. Demand was the strongest since the November 2018 auction. Foreign buying was 61.5% – up from 59% in March. The U.S. Treasury will auction $32 billion 7–year notes on Thursday.

04/18/19 Treasury Yield Curve	2-Year: 2.381%	5-Year: 2.372%	10-Year: 2.561%	30-Year: 2.961%
Weekly Yield Change:	–.012%	–.009%	–.005%	–.017%
Support:	2.356/ 2.396/ 2.424/ 2.474	2.353/ 2.370/ 2.390/ 2.410	2.551/ 2.570/ 2.591/ 2.611	2.959/ 2.981/ 3.000/ 3.015%
Targets:	2.317/ 2.277/ 2.238/ 2.204	2.312/ 2.291/ 2.271/ 2.251	2.518/ 2.492/ 2.479/ 2.463	2.937/ 2.915/ 2.892/ 2.872%

Economics

Initial Jobless Claims fell from 197K to 192K – a new 49–year low versus September 1969! Those numbers confirm the 3.8% U.S. Unemployment Rate which is also the lowest in nearly 50 years. Though Continuing Claims had been climbing, recent data again turned to the downside (last week falling from 1,716K to 1,653K). Bloomberg Consumer Comfort rose again (from 59.8 to 60.3) from an 8–week low 2 weeks ago. Bloomberg Economic Expectations rose from 47.5 to 50. The Leading Index rose .40% in March. Business Inventories rose .30% in February. Though the Chicago Fed's National Activity Index was a little less negative at –.15 versus –.31, the Richmond Fed Manufacturing Index fell from 10 to 3 and the Philadelphia Fed Business Outlook dropped from 13.7 to 8.5.

Retail Sales slumped late in 2018 but in March surged the most since September 2017. The 1.60% jump was great for the growth outlook as consumption is nearly 70% of the U.S. economy! That followed a .20% drop in February. Ex autos, sales rose 1.20% and the February data was revised .20% better to a lesser .20% drop as well.

Housing data remains challenged though lower bond rates are providing an assist. The FHFA House Price Index rose .30% in February. Housing Starts cooled in March to the slowest pace since May 2017 with a .26% drop from 1,142K to 1,139K (annual) units. Moreover, that level was a 14.75% drop versus March 2018. Building Permits fell 1.70% from 1,291K to 1,269K annual units. Single Family starts were .4% lower to the slowest pace since September 2016 while those permits fell 1.1% to the least since August 2017. Existing Home Sales fell for the 4th time in 5 months, dropping 4.93% from 5.48M to 5.21M (annual) units. Median prices rose 3.8% versus last year (to $259,400). Good news came from New Home Sales – which rose 4.53% from 662K to a 16–month high 692K (annual) units. However, the median sales prices fell 9.7% versus the previous year to a 2–year low $302,700.

Thursday is set for jobless claims data, Durable and Capital Goods Orders for March, Bloomberg Consumer Comfort, and Kansas City Fed Manufacturing Activity. Friday give us the first look at Q1 GDP, Personal Consumption, and the GDP Price Index – along with the University of Michigan sentiment surveys. Next Monday (04/29) provides Personal Income & Spending for March, the PCE Deflator, and Dallas Fed Manufacturing Activity. Tuesday (04/30) closes out April trading with the Q1 Employment Cost Index, Metro home prices, MNI Chicago PMI, Pending Home Sales for March and the Conference Board's Consumer Confidence surveys. Wednesday (05/01) kicks off May with MBA Mortgage Applications (which fell 7.30% last week), Construction Spending, ISM Manufacturing, April Vehicle Sales, and the FOMC interest–rate policy announcement. Also due are the first two clues into next Friday's (05/03) April payroll numbers from ADP Employment Change (private payrolls) and ISM Employment.

Equities

Stocks held up well in this current cycle, making a new high on April 24th – and with the S&P and Nasdaq reaching new record highs today. The Dow was within 1% of its October 3rd, 2018 high – but did not confirm those records. However, as we've said over the past few weeks, *"we expect a down–wave from April 24th into May 23rd"* – so caution is advised! This cycle is accompanied by bonds pointing to lower yields which is sometimes a danger sign.

Stocks were again mixed last week with the Dow Industrials adding 147.24 points or .56% to 26,559.54. It was .14% higher into today. The Nasdaq gained 13.90 points or .17% and surged 1.30% through today. However, the broader NYSE was off by .36% and the S&P lost .08% to 2,905.03. They were .22% and .76% better through today. The Dow Transports rose .70% and were 1.01% better into today. Bank stocks gained .08% last week, and with the .44% gain through today finally erased the 8.26% loss from the week of March 22nd!

Resistance:	Dow:	26,507/ 26,587/ 26,694 /26,800	Nasdaq:	8,151/ 8,176/ 8,221/ 8,265	S&P:	2,935/ 2,942/ 2,949/ 2,955
Support:		26,313/ 26,233/ 26,154/ 26,078		8,062/ 8,017/ 7,972/ 7,935		2,922/ 2,909/ 2,895/ 2,882

Other Markets

Crude Oil rose .17% last week and was 2.95% higher into today – rising above $66/barrel for the first time since October. However, Commodities lost .65% and dropped .34% through today. Gold fell 1.45% last week but is .28% better this week. The U.S. Dollar gained .57% and rose .72% into today – reaching the highest levels since May 2017! The Japanese Yen gained .09% but is .24% lower this week. The Euro lost .48% and is another .80% lower this week. Corn dropped .69% and lost another 3.28% into today. Cotton lost 1.02% and dropped another 1.99% through today.

"In theory, there is no difference between theory and practice; In practice, there is." Chuck Reid

Additional Information is Available on Request

Doug Ingram, Financial Economist