

The First Tee...

Voyage to the Bottom of the Yield-Curve...the bond market rally, resulting from coronavirus fall-out, has revived talk of negative interest rates for U.S. securities:

- The virus outbreak in January pushed total global negative-rate debt to \$12.4 trillion:
 - U.S. Treasuries are in large demand as a global safety play (yield on the 10-year T-Note is down 30 basis points since mid-Jan.):
 - The European Central Bank, Bank of Japan and Swiss National Bank all have negative monetary policy rates:
 - Large and on-going quantitative easing bond buying programs have fueled the drive to negative rates in the EU and Japan:
 - The European Central Bank has been forced to purchase corporate bonds as there are not enough qualified government sovereign debt available to meet their monthly buying targets...the Bank of Japan is purchasing 90% of the debt currently being issued by the Japanese government.
 - Roberto Perli (a former Fed economist) predicts the advent of the next U.S. recession will see the Federal Reserve reduce its benchmark rate target back to 0% and rates on U.S. Treasuries maturing 1-week to 5-years will go negative:
 - The current record low on a 2-year T-Note is .14% hit in 2011 and .53% on a 5-year T-Note, hit in 2012.
 - Central banks are expected to keep interest rates at historic lows for the foreseeable future (*the not so new normal!*)
 - President Trump has weighed-in on several occasions with criticism of the Central Bank for not moving the rate target to a negative level (*inciting the government to spend more as it would be paid to issue debt!*):
 - To-date, negative rates have been the scenario of countries who are experiencing flagging economic growth.
 - There are differing interest rate opinions within the President's administration...Larry Kudlow, the Director of the White House's Economic Council has stated, "I don't think the U.S. needs negative rates...our economy is in very good shape."
 - Who and Why?...the baffling question regarding investors and negative rates (*not a typical buy and hold investor*):
 - As noted above, central banks are active in purchasing their own government's debt (many times at negative levels)...expanding monetary policy tools to boost economic and inflation growth is the new stimulus strategy.
 - Speculators, pension funds and asset managers retirement portfolios are also active investors:
 - BlackRock, Capital Group and Vanguard (3 of the largest U.S. asset managers) are the top three holders of the German bund maturing in 2029, that is yielding negative .3% (the issue has a 0% coupon rate...Vanguard owns \$900 million of the issue):
 - Money managers BNY Mellon and Pacific Investment Management have made Japanese bonds the second largest geographic allocation in some of their biggest international fixed-income funds (the yield on the Japanese 10-year government bond is currently -.05%).
 - Trading and currency plays are the lead reasons for investors to purchase negative yielding bonds:
 - Positive returns on negative yields can be achieved if rates go even more negative (due to strong buying activity):
 - Investors profit by selling the securities before they mature, taking a capital gain if the market has moved in their favor.
 - Bonds with below zero yields continue to make investors money, as prices keep rising due to huge inflows into fixed-income funds.
 - Buying negative yielding foreign bonds can have better returns than U.S. Treasury issues if the investor is dollar based and hedges their exposure to currency swings...the difference in exchange rates can result in a positive arbitrage:
 - In the case of the yen, investors enter into forward contracts that allow them to sell yen at a fixed price a few months into the future; profits are realized as the sale of the yen will buy back more dollars on the back end of the transaction:
 - The difference in exchange rates between the cash and future value of the yen works out to be an annualized return of 2.5%, making-up for the negative yield on the bond and exceeding comparable U.S. Treasury rates.
 - Inversion Diversion...yield-curve is upside-down again, a renewed indicator of eminent recession?:
 - The yield-curve historically reflects the market's view of the economy...especially inflation growth:
 - Inflation is typically associated with strong economic growth...if inflation growth is expected to remain weak, investors will demand less investment yield to offset the impact of lower prices...resulting in longer rates lower than shorter ones.
 - U.S. Treasuries comprise over half of all global safe-haven assets (more than double what they accounted for during the financial crisis):
 - The demand for Treasuries is changing the yield-curve from a recession indicator to a gauge of global investors hedging risk:
 - An inverted yield curve has evolved into a signal of global growth issues, not a reflection of U.S. economic issues.
 - Concerns about the coronavirus economic fall-out has been the catalyst for risk-off investing:
 - The virus threat has not deterred U.S. equity investors as the S&P 500 is up 5% in value so far this year:
 - S&P 500 shares are trading at their highest level in 12-years versus international equities (based on 12-month earnings expectations).
 - The value of the dollar is the strongest in almost 3-years, another reflection of the global hedging of virus risk.

At the turn...

The Back Nine...

Bottom of the Class...the return on a college education has declined in recent years:

- Higher tuition has been detrimental in recouping education costs...especially for students who finish in the bottom 25% of their class, drop-out of school or take longer than 4 years to graduate:
 - In recent years, high school graduates have seen a larger gain in earnings, compared to the lower earning half of college graduates who have not...the pay gap between the two is the smallest in fifteen years:
 - Over 40% of recent college graduates are working in jobs that do not require a degree...about one in eight graduates are working in fields where the typical pay is around \$25k or less (the job sector expected to grow the fastest over the next 10 years).
 - For the first time in decades, recent college graduates are more likely to be unemployed versus the general population...the unemployment rate recent bachelor's degree holders, between the age of 22 and 27 years old, is 3.9%:
 - The job market is saturated with degree holders, while labor conditions are tight for various skilled positions.
 - In the long run, a college degree has paid-off over the past 30 years...despite pay gains flattening lately:
 - The average college graduate earned about \$33k more than workers with a high school diploma (\$78k versus \$45k)
 - Despite gains the past couple of years, wages for workers with only a high school diploma have been on a long-term decline:
 - Current earnings for high school graduates are less today than they were in 1990 when the rate of inflation is considered.

Taking the High-way...Illinois hopes recreational marijuana sales to relieve debt load:

- Illinois logged \$39.2 million in recreational pot sales for January (the 2nd largest debut for any state):
 - Illinois is the 11th state to legalize recreational marijuana use...Nevada had the highest per capita spend for its initial month in 2017 at \$8.88...Illinois' per capita spend was \$3.07...the 2019 estimated population for Illinois was 13 million and Nevada at 3.1 million:
 - Annual pot sales for Illinois are projected to possibly hit \$4 billion when the market matures...this projection needs to be taken with a grain of salt as it was produced by Cresco Labs Inc. (the largest cannabis operator in Illinois):
 - A key driver to weed revenue projections are the anticipated purchases by 100+ million tourists who visit Illinois each year:
 - Governor J.B. Pritzker is hoping to "collect tax revenue from the residents of Wisconsin, Missouri, Iowa and Indiana" (like a good neighbor!)
 - Hash Pipe Dreaming...Illinois government officials are hoping consumers will take a lot of tokes to help boost much needed tax revenue...from Acapulco gold comes Illinois dollars!:
 - State of Illinois currently has \$6.2 billion in unpaid bills and a pension deficit of \$137 billion:
 - The Illinois Department of Revenue has an optimistic proforma for pot tax collections that projects an increase from \$34 million in 2020 to \$375.5 million in 2024...it has been shown in other states that first month sales are not always good indicators of future activity:
 - There has been evidence that indicates growth and revenue collections for hemp sales tend to slow as markets mature.
 - Illinois is hoping recreational cannabis will provide pain relief from the state's excessive deficit...betting on dope to be the answer to financial problems could be an illusion that goes up in smoke.

19th Hole...

Common sense is not so common. Voltaire

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