

The First Tee...

Getting Nothing for Something...negative rates are tip of the iceberg (especially when you get real):

- Global debt yields that are trading below zero percent have increased to \$15 trillion:
 - With the exception of some short Treasury Bill rates that hit negative levels earlier this year, the U.S. government yield-curve remains above 0%...this scenario changes when the rate of inflation is considered:
 - The so-called “real” rate places the return on Treasury issues maturing from one-week to twenty years below 0% when taking into effect the current inflation rate of 1.4% of the Consumer Price Index (*not excluding food & energy costs*):
 - The 30-year Treasury bond is barely holding onto a positive real return of 10 basis points (.1%).
 - With the Federal Reserve projecting to hold interest rates at current levels for possibly the next three years it is difficult to see the current negative real rate scenario changing dramatically:
 - The negative rate environment has forced investors to take on additional risk in an effort to find increased returns:
 - The record low rates for fixed-income securities has been an exceptional burden on pensions and retirement accounts...but certainly, a driving force for the stock markets performance since 2009...the S&P has gained 410% during this period while the yield on the 10-year Treasury Note has averaged 2.38%...CPI has averaged 1.6% since 2009, making the real rate on the 10-year note .77%:
 - The net return on Treasury bonds is reduced even further when considering the federal taxation on the interest income earned.
- **Funding the Government...**the government has a strong motivation to keep interest rates low:
 - Government debt has been expanding at a rapid pace during the past decade (up 152% from 2008 to 2019):
 - The latest spending binge to fund the numerous issues caused by the pandemic has seen the government’s debt load rise to \$26.9 trillion, up from last year’s record level of \$22.7 trillion (an 18.5% increase)...the debt was \$9 trillion at the end of 2007).
 - An 1% increase in the cost of debt service on the government’s bonds will add almost \$270 billion to the budget deficit.
 - **Finding Buyers...**the Federal Reserve has become the lead funder for the federal government’s debt:
 - The Fed reinstated its bond buying program this year and is currently purchasing \$80 billion Treasuries per month:
 - The Fed is on target to purchase \$2.5 trillion in Treasury bonds this year...the Fed’s balance-sheet is currently holding over \$6 trillion in bonds.
 - The Treasury Department is expected to issue a \$5 trillion record amount of debt this year to cover the budget shortfall:
 - Central Bank’s purchases have also helped to keep a lid on rate levels, especially in the longer-end of the curve.
 - Government money market mutual funds have taken some of the pressure off the Treasury and Fed by purchasing over \$2.2 trillion in short-term Treasury Bills...there is a massive amount of liquidity in the financial markets, U.S. money market fund balances have surged to a near record of \$4.7 trillion (*a cash parking place until something better comes along*).
 - **Exit Stage Left...**foreign buyers have eased their U.S. government debt buying as the carry benefits have declined:
 - In March, foreign investors sold a record \$300 billion in U.S. Treasury holdings...China is the largest foreign holder of U.S. debt.
 - The yield on the 10-year T-Note is about 60 basis points higher than its Japanese counterpart, the spread was 300 bps in 2018.
- The last decade has shown interest rates have been more friendly to borrowers than savers...unless the pace on inflation growth can accelerate, it appears debt will dominate in the coming years.

Help Wanted, not so much...job growth is expected to slow during the next decade:

- The Bureau of Labor Statistics projects employment to grow at a .4% a year pace from 2019 to 2029, down from the 1.3% job expansion rate seen during the previous ten years:
 - Six million jobs are forecast to be created over the next 10 years resulting in 168.8 million positions:
 - The job creation projections do not include the impact from the pandemic (*which hopefully will have a limited long-term impact*).
 - The labor participation rate is expected to decline by 2029 as the entire baby-boomer generation will be over 65 years old...although, employees over 55 years old will comprise a larger portion of the workforce (*delayed retirements*):
 - There are many occupations expected to experience significant growth in the future...the largest gains are forecast for personal care and home health aids (jobs that pay a median wage around \$25k)...*to take care of us aging baby boomers!*
 - The manufacturing sector is anticipated to see job contractions...due to productivity enhancements, robotics and foreign competition.
- The Bureau is forecasting GDP growth to slow to a 1.8% annual rate (down from 2.3% the previous decade).

At the turn...

The Back Nine...

Baby You Can Drive My Car...not surprising, driving miles are down this year:

- A study by KPMG predicts future vehicle miles will settle-in at 90% of pre-2020 levels:
 - From February to April, vehicle miles traveled in the U.S. were down 41% and still remain off 13%:
 - In September, 22.7% of Americans reported working from home...for management and professional jobs the number was 40.5%.
- U.S. miles driven have been on the decline since the widespread usage of the internet:
 - Even before the pandemic, a growing number of people were working from home, filling more of their free time on-line for entertainment and shopping (*let your fingers do the walking and driving*):
 - Miles driven peaked in the mid-2000's and were down 5% from the highs before the coronavirus shutdown:
 - Americans working at home is saving 60 million commuter miles per day according to a University of Chicago study.
 - Electronic commerce accounted for 14.2% of retail sales in July, up from 11.7% in February and 3.3% in early 2000.

Gentlemen, Re-Start Your Engines...financial data reacts to economy re-opening:

- Data format: October 1, 2019 / January 1, 2020 / July 1, 2020 / October 1, 2020:

Equities

Dow: 26916 / 28634 / 25812 / 27781
S&P 500: 2976 / 3230 / 3100 / 3362
NASDAQ: 7999 / 8972 / 10058 / 11167
Russell 2000: 1523 / 1668 / 1441 / 1507

Commodities

CRB: 173 / 185 / 137 / 148
Oil: \$54.07 / \$61.06 / \$39.27 / \$40.22
Gold: \$1472 / \$1517 / \$1780 / \$1885
Copper: \$257 / \$283 / \$271 / \$303
Natural Gas: \$2.33 / \$2.18 / \$1.75 / \$2.52

Borrowing Benchmarks

Libor:
1mo: 1.892% / 1.762% / .178% / .146%
3mo: 2.088% / 1.908% / .307% / .220%
SOFR: (U.S Secured Overnight Financing Rate)
1day: 1.88% / 1.55% / .08% / .08%

Treasuries Issues

3mo: 1.88% / 1.51% / .16% / .09%
6mo: 1.83% / 1.60% / .18% / .10%
1yr: 1.75% / 1.59% / .16% / .11%
2yr: 1.63% / 1.58% / .16% / .12%
3yr: 1.56% / 1.62% / .18% / .15%
5yr: 1.55% / 1.69% / .29% / .27%
7yr: 1.62% / 1.83% / .49% / .47%
10yr: 1.68% / 1.92% / .66% / .68%
30yr: 2.12% / 2.39% / 1.41% / 1.46%

Currencies

Euro: 1.089 / 1.121 / 1.123 / 1.172
Yen: 108.08 / 108.61 / 107.93 / 105.48
Peso: 19.73 / 18.926 / 22.992 / 22.114
Canadian \$: 1.324 / 1.299 / 1.357
Yuan: 6.712 / 6.963 / 7.065 / 6.791

Grain Futures

Corn: \$3.88 / \$3.87 / \$3.41 / \$3.79
Soybeans: \$9.06 / \$9.55 / \$8.38 / \$10.22
Wheat: \$4.95 / \$5.58 / \$4.92 / \$5.78

Job / Inflation Indicators

Unemployment: 3.5% / 3.5% / 11.1% / 7.9%
Consumer Price Index: 1.7% / 2.3% / .6% / 1.4%
Core PCE Index: 1.7% / 1.6% / 1.0% / 1.6%

Federal Funds Open: 1.85% / 1.56% / .08% / .08%

Prime Rate: 5.00% / 4.75% / 3.25% / 3.25%

19th Hole...

Do the best you can until you know better. Then when you know better, do better. Maya Angelou

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