

# Market Update

March 16, 2020

## Treasuries

Treasury Curve	Today	Week Change
3 Month	0.15%	-0.08%
6 Month	0.20%	UNCH
1 Year	0.20%	+0.03%
2 Year	0.34%	+0.05%
3 Year	0.43%	+0.10%
5 Year	0.51%	+0.14%
10 Year	0.78%	+0.33%
30 Year	1.38%	+0.50%

## Short-Term Rates

Fed Funds	0.25%
Prime Rate	4.25%
3 Mo LIBOR	0.84%
6 Mo LIBOR	0.82%
12 Mo LIBOR	0.82%
<b>Swap Rates</b>	
3 Year	0.491%
5 Year	0.628%
10 Year	0.803%

## Economic Calendar

Date	Statistic	For	Briefing Forecast	Market Expects	Prior
Mar 16	Empire Manufacturing	Mar	5.0	-21.5 actual	12.9
Mar 17	Advance Retail Sales	Feb	0.2%	0.2%	0.3%
Mar 17	Retail Sales Ex Auto & Gas	Feb	0.4%	0.3%	0.4%
Mar 17	Retail Sales Control Group	Feb	0.5%	0.4%	0.0%
Mar 17	Industrial Production MoM	Feb	0.4%	0.4%	-0.3%
Mar 18	Housing Starts	Feb	1.50mm	1.50mm	1.55mm
Mar 15	FOMC Rate Decision	Mar 15	0.0%-0.25%	0.00%-0.25%	1.00%-1.25%
Mar 19	Philly Fed Biz Outlook	Mar	10.0	10.0	36.7
Mar 19	Leading Index	Feb	0.1%	0.1%	0.8%



## Top 5 Events for the Week

MARCH 16-20, 2020

1. FOMC Rate Decision—Sunday
2. Coronavirus Developments—All Week
3. February Retail Sales –Tuesday
4. February Leading Index –Thursday
5. March Philly Fed Business Outlook –Thursday

## Fed Meets Coronavirus

The Fed met in emergency session yesterday and cut rates 100bp (0.0%-0.25%) and also reinstated quantitative easing. The move on a Sunday afternoon underscores the seriousness of the developing coronavirus and the Fed dug deep into its tool kit. In addition to cutting rates to zero they also announced they will purchase \$500 billion in Treasury securities (in amounts matching current maturities outstanding) and \$200 billion in mortgage backed securities. They also announced that returning principal from existing mortgage securities will be reinvested in mortgages versus Treasuries as was the case previously. They also cut the discount window rate from 1.75% to 0.25% and stressed to banks to use the window in order to keep credit flowing to their lending customers. The one measure they didn't announce, but will likely come shortly, is a commercial paper purchase program that was used in the financial crisis when money market funds ran into trouble. The actions in total are an attempt to provide ample market liquidity at this point and hopefully later provide accommodative conditions to aid the economic rebound once the virus threat passes. The moves, however, are not soothing markets as another risk-off day seems in store for stocks and flight-to-quality trades continue into Treasuries.

### 1. FOMC Rate Decision –Sunday

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### 2. Coronavirus Developments-All Week

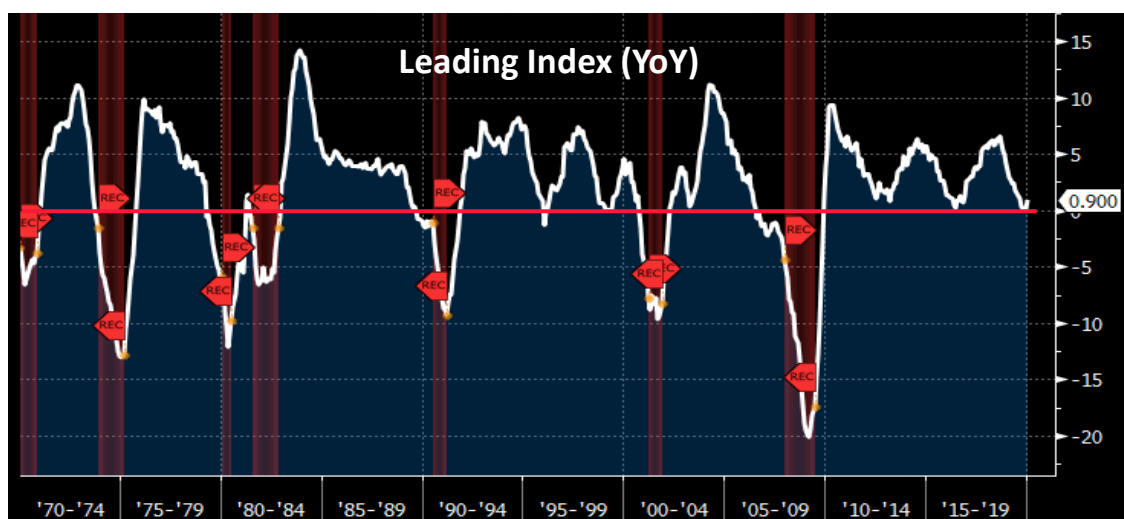
This one is going to be with us for awhile folks so get used to the markets being singularly focused on virus headlines more than any other thing. While the Fed has delivered liquidity to the markets, and will be cutting rates to near zero on Wednesday, the market awaits something substantial from the fiscal side. The dysfunction of our federal government is no secret to anyone but you would think they could put partisan bickering aside for this moment to accomplish some type of stimulus program. So far, the response has been feeble and incompetent. Let's see if they can muster some measure of responsibility and get something done. Until then, risk-off, flight-to-safety trades will dominate.

### 3. February Advance Retail Sales –Tuesday

The consumer has been fairly resilient against the various trade and geopolitical headlines of the past several months but the spreading coronavirus impact will be a bridge too far. That, however, will be a story for the March and April reports while the February numbers are expected to be solid, just like the quiet before the storm. Expectations are for a 0.2% gain in overall sales versus 0.3% in January. Sales ex-autos & gas are expected to be up 0.3% matching the prior month's gain. The Retail Sales Control Group (a direct GDP input) is expected to increase 0.4% versus an unchanged reading in January. Thus, expectations are for a solid read on retail sales but they'll mostly be ignored as occurring "pre-virus." Unfortunately, that will be the case for most of the economic numbers for February.

### 4. February Leading Index –Thursday

The Conference Board's Leading Indicators Index is a compilation of metrics that tend to foretell economic direction, and it is particularly useful as a predictor of recessions (see graph below). The index always falls well below zero prior to a recession but the February number should still be a decent print. It's the next month that will be the problem. That being said, the February number is expected to slip to 0.1% versus January's surprising 0.8%. Again, the February number is the calm before the storm and the fact it's likely to print just above zero doesn't bode well for the March number to come.

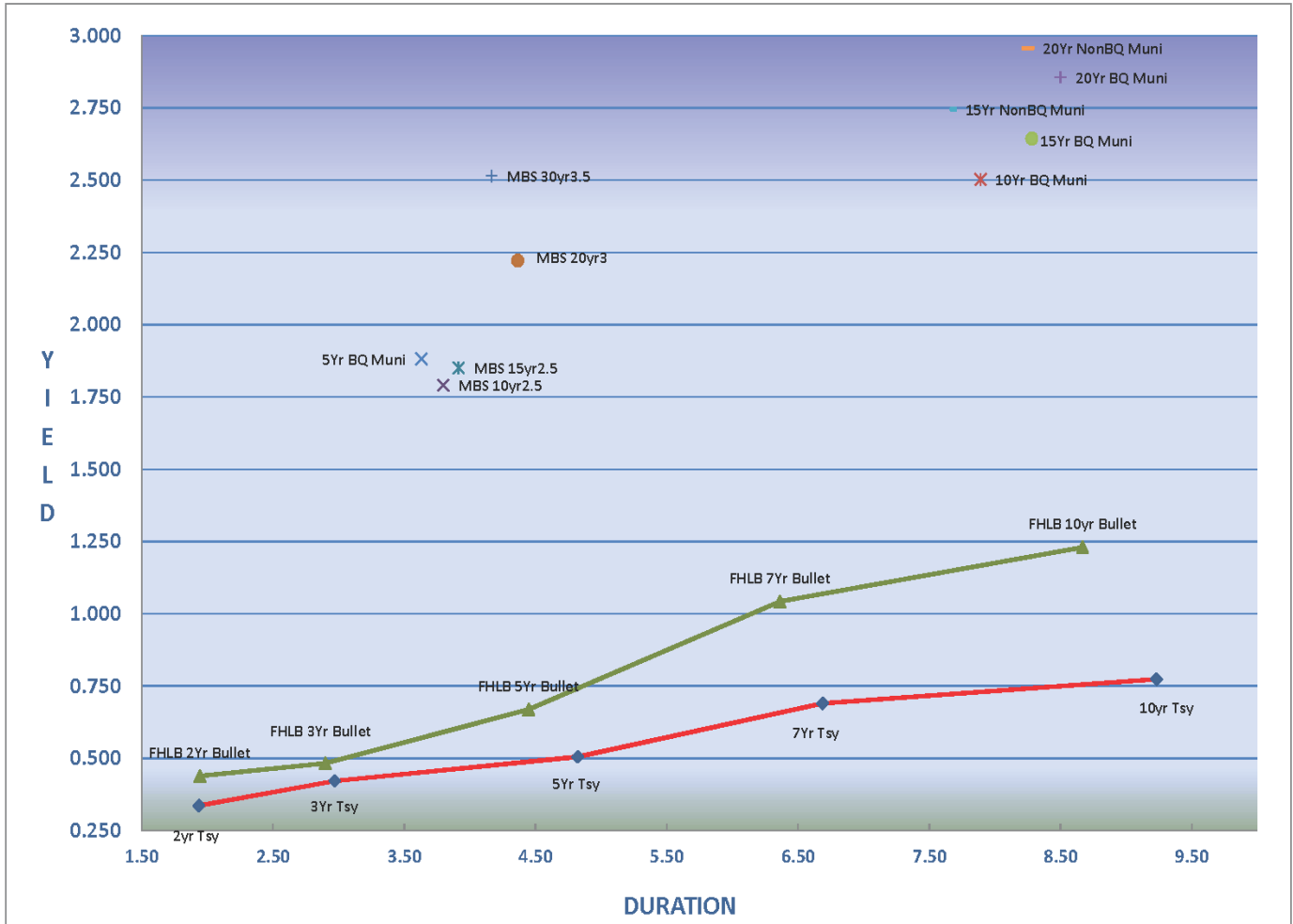


### 5. March Philly Fed Business Outlook–Thursday

The March Philly Fed Business Outlook will be one of the first looks at business sentiment as the coronavirus impact was just starting to be felt across the U.S. It's not surprising then that the strong 36.7 reading in February is expected to dip to 10.0 this month. You can expect the index to slip again as the impact of the virus continues to build.



# Yield Universe



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