**Fixed Income Market Review – February 2024**

**US Yield Levels**

**Date** **2-year**  **10-year** **30-year**

2/29/24 4.64% 4.25% 4.38%

1/31/24 4.27% 3.99% 4.22%

12/29/23 4.23% 3.88% 4.03%

11/30/234.73% 4.61% 4.73%

10/31/23 5.07% 4.88% 5.04%

9/29/23 5.03% 4.59% 4.73%

8/31/23 4.85% 4.09% 4.20%

7/31/23 4.88% 3.97% 4.02%

6/30/23 4.87% 3.81% 3.85%

5/31/23 4.40% 3.64% 3.85%

4/28/23 4.04% 3.44% 3.67%

3/31/23 4.06% 3.48% 3.67%

2/28/23 4.81% 3.92% 3.93%

1/31/23 4.21% 3.52% 3.65%

12/30/22 4.41% 3.88% 3.97%

11/30/22 4.38% 3.68% 3.80%

10/31/22 4.51% 4.10% 4.22%

9/30/22 4.22% 3.83% 3.79%

8/31/22 3.45% 3.15% 3.27%

7/29/22 2.89% 2.67% 3.00%

6/30/22 2.92% 2.98% 3.14%

5/31/22 2.53% 2.85% 3.07%

4/29/22 2.70% 2.89% 2.96%

3/31/22 2.28% 2.32% 2.44%

2/28/22 1.44% 1.83% 2.17%

1/31/22 1.18% 1.79% 2.11%

12/31/21 0.73% 1.52% 1.77%

12/31/20 0.13% 0.93% 1.65%

12/31/19 1.58% 1.92% 2.39%

**\*Source US Treasury Department**

Interest rate levels rose significantly across the curve during February. But the yield curve, 2-year to 10-year, remained inverted as it has been since July of 2022, and this time is not a predicter of a recession as it has been so many times in the past, even though the magnitude of the inversion increased during the month.

**Bloomberg Barclay’s Fixed Income Index Returns**

**Index Feb 2024** **Last 3 Months Last 12 Months**

Aggregate -1.41% 2.08% 3.33%

Int Agg -1.19% 1.75% 3.69%

Gov’t/Credit -1.36% 2.04% 3.69%

Int Gov’t/Credit -0.99% 1.51% 4.38%

Gov’t -1.30% 1.72% 2.35%

MBS -1.63% 2.14% 2.28%

ABS -0.28% 2.10% 5.15%

CMBS -0.77% 2.97% 4.61%

US Credit -1.44% 2.51% 5.70%

US Corp High Yield 0.29% 4.03% 11.03%

**Employment Report News**

As reported by the Labor Department on February 2nd, US employers added 353,000 jobs during January. The December number was revised sharply up to a level of 333,000 . The unemployment rate held steady at 3.7%, just slightly above a half-century low. Following this report, Federal Reserve Chairman Powel stated, “the economy is performing well, the labor market remains strong.”

I would suggest the Fed has to date achieved a “soft landing” having achieved a sufficient level of job growth to avoid a recession yet without increasing inflation in the process. Supporting this position, the University of Michigan survey of consumer sentiment reported the greatest rise in the survey since 1991. The Federal Reserve Bank of New York survey reports inflation expectations to be at their lowest level of the last three years. The Associated Press-NORC Center of Public Affairs found 35% of US adults now consider the national economy to be good, up from 30% at the end of last year.

As a final note, the quit rate for workers has fallen to pre-pandemic levels. Regardless of the political hype about the economy being weak, all survey results say US workers believe otherwise.

**Credit Card Debt**

Somewhat of both a “good news” and “bad news” situation, consumers continued to pile up credit card debt. Reported February 7th by the Federal Reserve Bank of New York, the total all US consumer credit card debt rose to a record $1.13 trillion at the end of last year. Credit card balances increased by 4.6% or $50 billion in the fourth quarter of 2023. With this addition of credit card debt, total household debt rose by $212 billion in the 4th quarter to $17.5 trillion.

While these numbers reflect a strong spending by consumers, the size of these balances is concerning. Accentuating this concern, the percentage of credit card debt delinquent by 90-days or more rose from 4% in the fourth quarter of 2022 to 6.4% at the end of 2023. Furthermore, 49% of cardholders carried over debt in November 2023, compared with 39% who carried over debt at the end of 2021. Additionally, the Consumer Financial Protection Bureau is reporting one in ten cardholders are being charged more in interest and fees than they are paying toward their principal balances.

**Inflation in US**

On February 13th, the Bureau of Labor Statistics reported the CPI for the 12-months ending with January at 3.1%, a step down from the 12-month December number of 3.4%. The January number was 0.3%. Two-thirds of this monthly increase came from the cost of shelter. Food prices rose 0.4% in January with the major element being restaurant prices that are 5.1% higher on a twelve-month measurement basis.

Most disturbing from this report, twelve-month inflation has now risen for 34 months in a row, the longest such string since the last 1980’s/early 1990’s. However, Treasury Secretary Yellen stated during an address she made in Pittsburgh that the report marks “significant progress” in the fight to bring down inflation. She noted, “overall inflation is down by around two-thirds since its peak,” with “the prices of key household expenses like, gas, eggs and airfares have gone down’”.

On February 29th, the PCE was issued for the 12-month period ending in January showing an increase of 2.4%, slightly better than the 12-month increase of 2.6% ending in December. The PCE rose in the month of January by 0.3% and the core was up 0.4%, with both the PCE and Core PCE having been up just 0.1% in December.

Somewhat opposite, the rise in credit card debt, the Commerce Department reported consumer spending rose just 0.2% in January, slowing from the 0.7% rise for December. Breaking down this number, goods spending fell by 1.1% while services spending rose by 0.4%. In line with these results, retail sales dropped by 0.8% in January, probably reflecting somewhat of a hangover from the holiday season.

Personal income surged, up 1% in January, this being the largest monthly increase since January 2023.

**Housing**

As reported on January 29th, mortgage rates for conventional fixed-rate, 30-year home mortgages had risen to 6.94%, up from 6.90% the previous week and 6.65% a year ago. With this latest rise in mortgage rates, the Mortgage Bankers Association reported applications for home mortgages declined by 5.6% in just one week. There is however a bright spot in applications to buy new construction homes that rose by 19% in January. But this may be a short-lived buying spree as the median monthly payment for a new home mortgage rose from $2,055 in December to $2,134 in January. This rise drove pending home sales down by 4.9% in January, being now 8.8% lower than a year ago.

The housing market may unfortunately have a negative future effect on the economy unless mortgage interest rates reverse and start going down. This will only be likely if the Fed starts cutting rates, a step I do not expect during the upcoming quarter.

**Global Economies**

Japan, which once had the second largest economy in the world, had a fall in its GDP of 0.4% on an annualized basis in the fourth quarter after a revised decline of 3.3% in the third quarter. Though these recent quarters were negative, for the full year of 2023 Japan’s nominal GDP (nominal means a value in current dollars without adjusting for inflation) grew by 5.7% to $4.2 trillion. As a comparison Germany’s nominal GDP grew by 6.3% to reach $4.46 trillion which would marginally drop Japan to the 4th largest world economy.

As to China, from CNN on March 1st, the Chinese Purchasing Managers Index of primarily state-owned manufacturers fell for the fifth month in a row to stand at 49.1 in February, down from 49.2 in January. S&P Global instead indicated the Caixin manufacturing PMI, which is focused on smaller, private companies, rose to 50.9 in February, up from 50.8 in January.

China is about to conduct its annual session of the National People’s Congress at which its global growth target will be announced. With this year’s growth rate expected to be slowing to 4.5%, the Congress is expected to hear the announcement of several economic incentives from Beijing. HSBC’s analysts call for the fiscal deficit to be set at 8% of GDP.

As to OPEC, it is forecasting a much tighter oil market during the rest of 2024. It is calling for demand at 2.2 million bpd with production growth only at 1.2 million bpd outside of the OPEC cartel.

**Bitcoin**

Covering for a minute my most unfavorite topic, Bitcoin, on February 13th, Allison Morrow of CNN published an article with the heading, “Bitcoin euphoria is back as investors prepare for the quadrennial halving”. She began the article stating that Bitcoin rose to $50,000 for the first time in two years though she followed to indicate it declined back to the high 40s, which was a decline after seven straight increases. She stated the comeback was significant from a 2022 low of $16,000, though not yet back to its all-time high of $69,000.

She attributed the comeback partly to an influx of money from recently created exchange-traded funds and the timing of an upcoming halving. Her article defines halving as a process repeated every four years reducing the rate of new coins entering the market. This constraint tends to push the price of Bitcoin higher in the market.

Her article defines Bitcoin as a finite resource with there are only ever to be 21 million coins in circulation. Every four years, the share or reward from these 21 million coins is reduced to miners/auditors. At the last halving in 2020, the reward to miners was cut from 12.5 bitcoin to 6.25 with the expectation the reward this year will be cut to 3.125 bitcoin.

In 2012, the halving resulted in a 30,000% price increase. With the 2016 halving, the price increase was 800% and with the 2020 halving it was a 700% increase.

In anticipation of the upcoming halving, volatility is not all upside. Another CNN article, this time by Anna Cooban on February 20th, states Bitcoin is back to a $1 trillion total value. Since January 10th when US Regulators approved Bitcoin exchange traded funds, the value of Bitcoin has gained nearly 13%. Before the SEC approval step, Gary Gensler as chair of the SEC stated, “A number of major platforms & crypto assets have become insolvent and/or lost value. Investments in crypto assets continue to be subject to significant risk.”

Good luck to anyone who chooses to go that route!!!!

**My Economic Outlook**

I am repeating my Economic Outlook from last month. The Federal Reserve is indicating cuts to rates are possible, but not imminent. That expectation caused Fixed Income Markets to have a negative month of February. However, the bigger issues for the Fixed Income markets as well as to a lesser degree the stock markets, are what I have been talking about for almost a year. If we have had discord across the US with national elections now less than six months away, it is only going to get worse the closer we get. Both the Republican and Democratic parties are hell bent on pulling out all stops to win. The investment markets will as a result suffer, and volatility will be off the charts. Further, with Putin’s saber rattling, coupled with Israel’s unwillingness to compromise for the protection of Palestinian citizens, we have a huge risk of a broader war in the Middle East.

I believe people need to hunker down for the next year and protect asset holdings above all else.

**Bob Southard, on Behalf of Greenrock Research**

**March 1, 2024**

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