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Fixed Income Market Review – October 2023

US Yield Levels

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

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Bloomberg Barclay's Fixed Income Index Returns

Index	Oct 2023	Last 3 Months	Last 12 months
Aggregate	-1.58%	-4.69%	0.36%
Int Agg	-0.98%	-3.00%	1.22%
Gov't/Credit	-1.42%	-4.30%	0.74%
Int Gov't/Credit	-0.46%	-1.55%	2.18%
Gov't	-1.18%	-3.81%	-0.55%
MBS	-2.07%	-5.97%	-0.82%
ABS	-0.16%	-0.34%	3.51%
CMBS	-0.89%	-2.11%	1.93%
US Credit	-1.78%	-5.02%	2.69%
US Corp High Yield	-1.16%	-2.06%	6.23%

Employment Report News

On October 6th, the Department of Labor reported 336,000 jobs were added during September, with the unemployment rate holding at 3.8%, the same level as during August which had been the highest level since February 2022. The DOL report indicated average hourly wages rose by 0.2% for the month and the yearly increase was 4.2%.

As a breakdown of new jobs, leisure and hospitality contributed 96,000 new jobs, government 73,000, healthcare 41,000, and technical services 29,000. With the strike motion picture and sound recording fell 5,000, being down 45,000 in total since the start of the industry strike. The labor participation rate held steady to the August level at 62.8%. This level is still ½% below the pre-covid level.

Credit Card Debt

The Federal Reserve Bank of New York reported credit card debt reached $1.03 trillion in the second quarter of 2023. This level is a $45 billion increase above the prior quarter. In fact, VantageScore reported for August credit card originations rose 0.16% for the month and average balances jumped 11.1% year-over-year to $6,082. Credit card delinquencies of 90 to 199 increased by 0.24% for the month to stand at nearly double the level from a year ago.

US Economy

The Commerce Department reported the rate of growth of the US economy at 4.9% for the last quarter, more than twice the growth rate for the prior quarter and the fastest growth rate in more than two years. With the economy's strength and what had been the very low level for interest rates, even with credit card delinquency rates rising, between 2019 and 2022 the aggregated net worth for the median level household jumped by a factor of 37%. The median level household paid just 13.4% of its income during this period to cover interest on debts, the lowest level for this percentage factor on record.

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Though the sale of existing homes has been very depressed in recent months, this is probably tied to the number of homeowners having existing mortgages at below a 5% level. According to Redfin, approximately eight in two homeowner mortgages are at a mortgage rate of below 5%.

Inflation

CNN reported on 10/12 the CPI rose by 3.7% for the 12-month period ending September with the September monthly number up 0.4%. Food price inflation was reported at an annual 3.7% level. This was the lowest annual increase for food prices since March 2021 and the first time the annual rate for food was not higher than the overall inflation rate. The annual increase for grocery prices was only 2.4%. The core CPI number was up 4.1% annual and 0.3% for the month of September.

The PCE core number was 3.7% annual and 0.3% for September. The overall PCE number was 3.4% annual and 0.4% September.

Consumer Confidence

The Conference Board reported its Consumer Confidence Index fell in October for the third month in a row to 102.6 from 104.3 in September. This level is the second lowest reading in 2023. The Conference Board tied the decline principally to the political situation (the concern I began raising more than six months ago) and the Israel/Hamas war.

A reading found by the Board that I just do not fully understand was that two-thirds of consumers still feel a recession is “somewhat” or “very likely” in October. I regard this sentiment as being 100% wrong and tie it to the pollical rhetoric being spewed by candidates attempting to gain credibility for next year’s elections.

In opposition to these negative outlooks, current numbers are positive. The Commerce Department’s report showed consumer spending was up 0.7% on September compared with 0.4% in August. The annual number was a rise of 4%, the strongest pace since the 4^{th} quarter of 2021. With spending up, the report indicated the September savings rate was 3.4% down from 4% in August, The September result was the fourth consecutive monthly decline.

ADP Report

Ordinarily, I ignore the ADP report to favor the Department of Labor Employment report but there were some numbers in this month’s ADP report I found of interest. The ADP report stated annual pay increases were 5.9% through September, the slowest number since October 2021. With somewhat “small” wage increase results, job changes were up by 9.5%, the highest level in over a year. At the same time businesses with over 500 employees lost an aggregate of 83,000 jobs over the last year.

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US Treasury Department

As reported by CNN, The US Treasury Department expects to borrow roughly $1 trillion during the 3rd quarter. This would represent the largest issuance ever during the 3rd quarter of any year.

Social Security

The increase in monthly payments for 2024 will be 3.2% compared to the 2023 increase of 8.7%. 71 million currently receive monthly Social Security benefits. The maximum salary charged for Social Security increases from $160,200 in 2023 to $168,000 in 2024. If asked, I would suggest it has to go to $250,000 or more and the normal retirement age for full benefits must start to rise in steps from the current age. With years of inflation, salaries are much higher and people are living much longer. These new demographics must start to be recognized.

Countries Apart from the US

In Europe across the 20-countries that use the Euro, the GDP as reported by Eurostat for the July-September quarter fell 0.1%. For the prior quarter it had only risen by 0.2%. For the Zone consumer prices rose 2.9% in October after a rise of 4.3% in September. Core inflation in October was 4.2% from 4.5% in September.

With these slight decreases, the ECB kept rates level. This ended a run of 10 consecutive rate hikes. To me this represents a clear case of stagflation in Europe.

On October 6th CNN issued a report stating investments in real estate in China had been in trouble for the last 2-years, with no bailout yet coming from Beijing, and the real estate problems are threatening the future growth rate for China. The report documented the fact the Chinese population of 1.4 billion is aging and the demand for housing has been rapidly slowing.

The Chinese Government is attempting to counter the economic slowdown through a policy termed "de-stocking." This policy aims to reduce the pace of land sales in cities and encourage developers to lower housing prices to stimulate demand. The focus is on the fact developers were selling apartments before they were built. The clampdown on this approach by developers lead to the Everglade bankruptcy in December 2021. Everglade has over $300 billion in unpaid debts.

In recognition of China's real estate problems, the World Bank has cut the GDP forecast for China for 2024 from 4.8% to 4.4%. The IMF has projected the Chinese growth rate to slow for the upcoming year from 5% to 3.5%. The IMF has recommended China needs to provide substantial economic stimulus to its economy and implement major business operation reforms.

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My Economic Outlook

I am repeating last month's outlook. It is time for Congress to stop playing games with impeachments and take up the long-term funding requirements for Social Security and Medicare. I continue to suggest these issues need to be addressed before we fully enter the 2024 election cycle. Without concrete solutions, the two programs will soon be approaching bankruptcy and likely become a political football between the two parties.

The above is assuming that with a Speaker of the House now in place, the House immediately takes up the impending bankruptcy of the US government. Relative to the new Speaker, there was a news report that was circulated widely on November 1st. It was that the new Speaker wants to pay for the cost of any subsidies to countries in states of war by cutting the budget of the IRS, since the recent budget increases for the IRS were aimed at the increased personnel to provide additional audit activity of the US middle class.

I find that characterization highly offensive since the hiring of additional personnel was to increase auditing of high-income earners. But that characterization has been changed to the middle class for I am certain, political reasons. High income earners have already benefitted greatly with the Trump tax cuts and will gain even further if the IRS auditing activity of these high-income earners is not increased, and in fact is decreased.

As to the fixed income markets, though I believe they are wrong, I expect the Fed will raise rates one more time this year. If fixed income was not already going to produce negative returns for the 2023 year, this increase will guarantee that negative result.

But, since I believe the US economy remains strong and it not going to enter a recession, unless Congress does not increase the US Government's borrowing capacity, fixed income will be poised to rival the performance of the stock market in 2024, even with the ridiculous turmoil we will have with the 2024 elections. I certainly wish that Biden would defer to a younger, middle of the road candidate and Trump, about who I personally know too much from my years in the New York City business environment, will be forced out because of his legal complications.

Bob Southard, on Behalf of Greenrock Research
November 2, 2023

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