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Fixed Income Market Review – January 2024

<u>US Yield Levels</u>

Date	2-year	10-year	30-year
1/31/24	4.27%	3.99%	4.22%
12/29/23	4.23%	3.88%	4.03%
11/30/23	4.73%	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**

The yield curve, 2-year to 10-year, remains 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.

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Bloomberg Barclay's Fixed Income Index Returns

Index	Jan 2024	Last 3 Months	Last 12 Months
Aggregate	-0.27%	8.23%	2.10%
Int Agg	0.00%	6.55%	2.76%
Gov't/Credit	-0.23%	7.92%	2.39%
Int Gov't/Credit	0.21%	5.26%	3.53%
Gov't	-0.27%	6.59%	1.30%
MBS	-0.46%	9.24%	1.23%
ABS	0.47%	4.14%	4.55%
CMBS	0.72%	6.95%	3.45%
US Credit	-0.18%	9.91%	4.02%
US Corp High Yield	0.00%	8.42%	9.28%

Social Security

Current projections show Social Security Benefits will need to be cut by 20% in 2034 if no changes are made to the system. However, as reported in a Gallup survey at the end of December, 53% of current retirees believe they will continue to receive their full Social Security Benefits, up from 37% in 2010 and 49% in 2015.

The Gallup survey reported one in five adults, ages 50 and older, stated they will have no source of income other than Social Security, up from 13% in 2014. A decade ago, 48% of similar age group respondents indicated they had a pension plan in addition to Social Security. But with organizations generally eliminating pension plans, this percentage has dropped to 21% in 2023. Though I have a pension plan from which I collect, in addition to Social Security, future retirees from that same company, Travelers, no longer enjoy pension plan benefits.

The survey also found there is a great deal of misunderstanding about Social Security benefits. For example, only 13% of adults correctly stated their full retirement ages. The correct age is 66 or 67 depending on the year a person was born. On average Americans said age 60 while Generation Z and millennials generally thought ages 54 or 55. Nearly half of adults thought if they filed early, their benefits would automatically increase once they reached their full retirement age.

Employment Report News

As reported January 5th, the US economy added a stronger than expected 218,000 jobs during December. The unemployment rate remained flat at 3.7%. Wages increased 0.4% in December, and 4.1% on an annual basis. The BLS reported the net gain for 2023 of new jobs was 2.7 million, a net average annual gain of 225,000 per month. During December 676,000 people left the workforce, reducing the percentage of the population looking for jobs to 62.5%, the lowest level since February.

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The JOLTS survey reported job vacancies were down for November by a record 12 million jobs when compared with March 2022. Job openings fell during November by 128,000 in infrastructure, 58,000 in Government and 97,000 in leisure/hospitality, though jumped by 63,000 in wholesale trade jobs.

The report also showed the number of hires fell by 363,000 in November to 5.47 million, the lowest level since April 2020.

On January 18th the Department of Labor reported there were 187,000 initial claims for unemployment insurance, a low level not seen since September 24, 2022. Separately Challenger, Gray & Christmas, the Executive outplacement firm, tracked 1,914 CEO changes year-to-date 2023, a 55% increase from 2022. This represents the highest turnover rate ever reported by Challenger. The highest previous record was 1,640 CEO exits in 2019.

Inflation in US
On January 9th the US Labor Department reported overall prices increased by 0.3% in November, for a 3.4% annual inflation report through November. Excluding food and energy the core CPI increase for November was 0.3% for an annual increase of 3.9% through November.

The Federal Reserve Bank of New York's monthly survey reported consumers expect the overall inflation rate to rise by 3% over the next year. This result is the lowest one year forecast since January 2021.

Inflation Europe
As reported on January 5th, Eurozone consumer price inflation rose 2.9% from 2.4% in November. In Germany the annual CPI increased by 3.8% in December, up from 2.3% in November. In France the annual CPI rose to 4.1% in December from 3.9% in November. Annual core inflation declined slightly to 3.4% in December from 3.6% in November.

The US Consumer
In an article published January 20th, CNN Business reported the price of airline tickets is at a 15-year low. The article stated the average airfare is nearly a quarter less than it was pre-pandemic and hasn't been this cheap since 2009. In the midst of this decline in airfares, a Federal Judge blocked the merger of JetBlue and Spirit Airlines, determining such a merger would reduce competition from cut rate airlines.

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The US Economy
As reported on January 4th, manufacturing-related construction hit an annual rate of $210 billion in November, more than triple the average rate in the 2010's. According to BLS, job openings in construction increased by 43,000 in November, making the total 111,000 new construction jobs added since the same time last year. I find these numbers to be very important as we had been losing too many construction jobs to other countries. As a country, we need to build back up the numbers and sizes of our factories.

On January 14th the Conference Board released a survey of more than 1,200 business executives. The survey reported 37% are expecting a recession in 2024. As to small business thinking, the NFIB published their optimism survey. The index reading from this survey was 91.9. This reading marks the 24th consecutive month the survey reading has been below the 50-year average of the survey which is 98.

On January 25th the US Commerce Department reported the US economy grew at an unexpectedly strong pace in the 4th Quarter of 3.3%. This marks the sixth straight Quarter the GDP has grown at an annual pace of greater than 2%.

However, even as inflation has slowed to a significant degree, overall prices are nearly 17% higher than they were before the start of the pandemic, nearly three years ago. But from an article published January 25th by NPR, consumer spending was identified as the biggest contributor of growth. Personal spending was reported as growing at an annual pace of 1.9% in the 4th quarter.

An article published on January 28th made several observations I found of interest. The article stated the US economy is now at $28 trillion having regained its pre-pandemic peak level. Through September the economy is more than 7% larger than before the pandemic, which is twice the gain for Japan and well above Germany's gain of only 0.3%. During this period US wages after inflation grew by 2.8% compared with Italian wages that fell 9% over the same period and German wages that fell by 7.2%.

The US Banking Industry
The US FDIC reported this month it cost $23 billion to clean up after the twin collapses of Silicon Valley Bank and Signature Bank. This amount was footed primarily by large banks. JP Morgan paid $2.9 billion of this bill. Bank of America paid $2.1 billion. Citigroup covered $1.7 billion of the bill. Citibank also suffered losses of $880 million from Argentinian operations and $780 million in restructuring costs.

Oil
As reported on January 31st, with the US and Iran standing on the brink of a more direct conflict with each other, in January the prices of US crude and the global benchmark Brent oil rose 5.96% and 6.06% respectively, though on the 31st these prices fell slightly as Chinese factory

activity contracted for the fourth consecutive month. Future prices are at great risk with the potential for conflict increasing.

The US Housing Market

As reported by Bankrate on December 27th, the rate for the 30-year conforming mortgage at the close of December was 6.8%. Just 3 months prior, the rate had been above 8%. The national median family income at the close of 2023 was $96,300 and the median price of existing homes sold in November was $387,000. Assuming 20% down, and the mortgage rate at 6.9%, the monthly payment of $2,042 represents 25% of the typical family income.

Housing starts fell by 4.3% in December to an annual rate through December of 1.46 million units. This compared with the annual rate through November of 1.56 million units. However, this annual rate is well above the annual rate of 1.357 million units through December 2022. Also building permits through December were 1.9% higher than through November. New construction home completions rose 8.7% in December and were 13.2% higher than one year ago.

Applications for mortgages to buy new homes are 22% higher through December than a year ago. The average size for loans for new homes increased from $390,049 in November to $405,368 in December.

The Home Builders/Wells Fargo Home Builders Index rose 7 points during December from November to stand at 44. In January 31% of home builders cut prices, though at a level somewhat less than the average cuts of 36% for each of the prior two months.

In an article published January 24th Goldman Sachs increased its projection for home price increases in 2024 to rise from 1.9% for the year to 5%. It added the expectation the rise of home prices in 2025 will be 3.7% up from the prior projection of 2.8%.

National Debt

The Treasury Department reported on December 29th the total public debt outstanding rose to $34.001 trillion, the first time ever exceeding $34 trillion.

China

A December 29th article reported the IMF is stating the Chinese economy has stalled to the point it's a "drag" on the world output. The American Enterprise Institute is projecting the Chinese growth rate will still exceed 4.5% but "The challenge will be that the only direction from there is down." The Senior Fellow from the Institute warns that "emerging economies grow quickly out of poverty only to get trapped before they reach high-income status." Personally, I believe that is an overstatement of China's economic problems, but there are clearly major impediments facing the country. Between 1991 and 2011 the Chinese economy grew by 10.5% annually and has slowed during Xi Jinping's rule but has still been averaging 6.7%

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a year in the decade ending 2021. But the IMF is now projecting a growth rate of 5.4% in 2023, with then a decline to 3.5% in 2028 with the country's problems of an aging population. The Institute tracks these problems back 2009 with then President Hu Juntao flooding the economy with liquidity, followed by Xi's government reining in the massive levels of borrowing that had developed.

This seemingly has been exacerbated by a real estate crisis with plunging home sales that has pushed even their healthy developers such as Country Garden to the brink of collapse. Now local governments aren't able to pay their built-up debts and are being forced to cut basic service and medical benefits for seniors, which have created a massive public outcry.

The Institute however does not believe the Chinese economy's problems will be an immediate parallel to a Japan like problem. But the Institute cautions there is likely a longer-term issue with demographics. Last year China's population fell to 1.411 billion, marking its first decline since 1961. Its fertility rate is slowing as the average number of babies its women will have over their lifetimes dropped to a record low of 1.09 down from 1.3 two years ago. This places their fertility rate below that of Japan's.

In an article published January 29th from CNN Business, Eswar Prasad, a professor of trade policy at my alma mater, Cornell University and former head of the IMF's China Division, is quoted as saying, "The US has solidified its position as the main driver of global growth, which is all the more striking as the rest of the world is struggling to maintain decent growth." The article detail's China's problems as a declining labor force, a property market that is unraveling, and a loss of household and business confidence in the government's policies.

Davos 2024
Reported in an article published January 15, 2024 by CNN, Germany as the largest of the 20 economies making up the European Union saw its GDP shrink 3% in 2023. Of the countries attending Davos, three-quarters of the attendees expect "weak or very weak growth" in Europe in 2024. Reported at Davos, European household spending declined in 2023 and also did government spending, this being the first decline in this government spending in almost 20 years. In fact, at the Devos Conference, Capital Economics forecast the European growth rate for 2024 at zero.

My Economic Outlook
On January 31st the Federal Reserve indicated cuts to rates are possible, but not imminent. That expectation caused Fixed Income Markets to get off to a rocky start during January. However, the bigger issues for the stock markets as well as the fixed income 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 a year away, it's 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

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markets will as a result suffer, and volatility will be off the charts. Further we have a huge risk of broader war fare in the Middle East with no united front at the National level.

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
February 1, 2024

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