Amadeus Wealth Alternatives 1345 Ave. of the Americas 2nd Fl., New York, NY 10105 www.amadeuswealth.com

Amadeus Wealth Alternatives
Your Compass to Alternative Investments

212-697-3930

Edward Papier, CIMA®, CFF

ep@amadeuswealth.com

In this week's recap: Rising bond yields deliver a blow to stocks; Fed Chair affirms commitment to current money policy.

Weekly Economic Update

Presented by Ed Papier, March 1, 2021

THE WEEK ON WALL STREET

Stocks dropped amid rising long-term bond yields, with sharp declines in high-valuation growth stocks leading the overall market lower.

The Dow Jones Industrial Average slipped 1.78%, while the Standard & Poor's 500 declined 2.45%. The Nasdaq Composite index, home to many high-valuation growth plays, fell 4.92% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, edged up 0.37%.[1,2,3]

RISING RATES DERAIL STOCKS

The 10-year Treasury yield climbed last week, from 1.34% to 1.42%, sending shudders through the stock market. While investors generally understand that economic strength may lead to higher bond yields, it was the speed at which bond yields rose that proved unsettling. Generally, when yields rise, bond prices tend to fall.[4]

Rising yields also drove sector rotation, with economic reopening stocks (e.g., energy, financials, and industrials) outperforming stay-at-home stocks, especially many of the big technology names.

The trend of higher yields was mitigated by testimony on Tuesday and Wednesday by Fed Chair Jerome Powell. He provided some assurances that the Fed remained committed to its current easy money policy stance.[5]

A surge in yields on Thursday, however, sparked a new wave of anxiety and a broad retreat that left market averages lower for the week.

POWELL TESTIMONY CALMS INVESTORS

Concerns over rising long-term bond yields and inflationary pressures were eased by two days of testimony by Fed Chair Powell. Powell reiterated the Fed's intention to stick with its near-zero short-term interest rate policy and monthly bond purchase program until the labor market fully recovers and its inflation goals are met.

Powell dismissed market fears of accelerating inflation, noting that he did not see inflation reaching any troubling levels, declaring that any increase would be modest and transitory. He added that the Fed would likely allow inflation to spend some time above its 2% target rate. Inflation for the past eight years straight has been below that target.[5]

THE WEEK AHEAD: KEY ECONOMIC DATA

Monday: Institute for Supply Management (ISM) Manufacturing Index.

Wednesday: Automated Data Processing (ADP) Employment Report. Institute for Supply Management (ISM) Services Index.

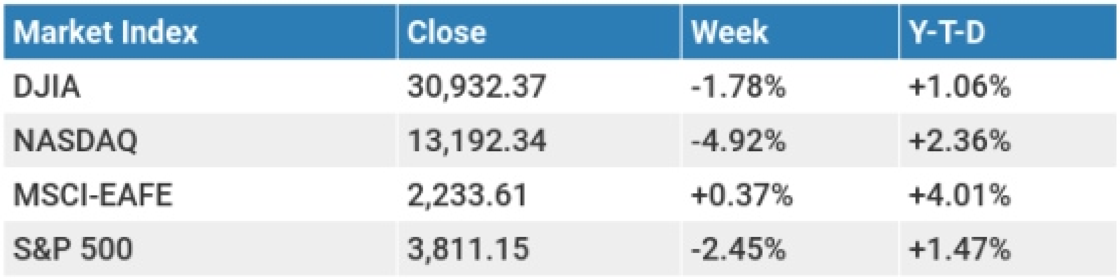
Thursday: Jobless Claims. Factory Orders.

Friday: Employment Situation Report.

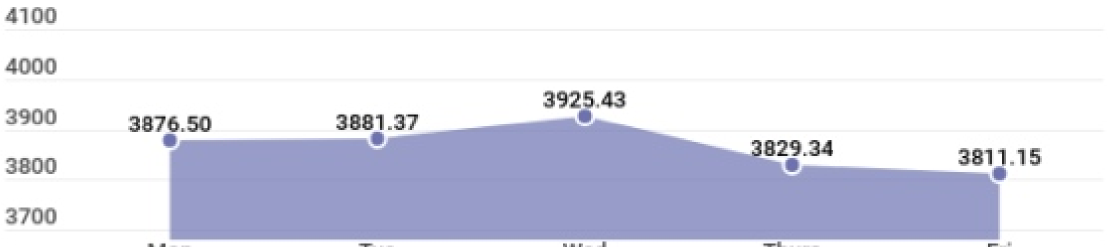
QUOTE OF THE WEEK

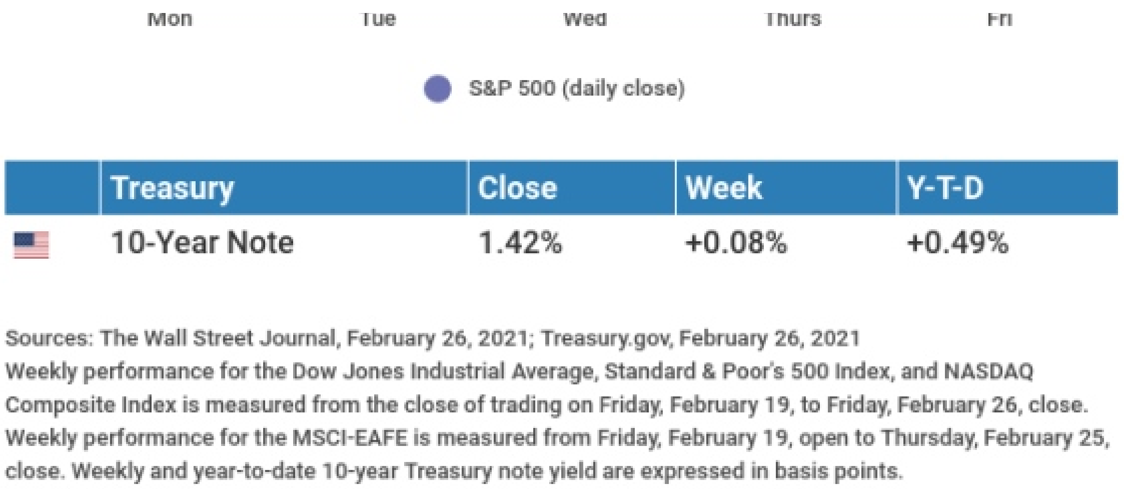
"Ignorance lies not in the things you don't know, but in the things you know that ain't so."

WILL ROGERS



Market Index	Close	Week	Y-T-D
DJIA	30,932.37	-1.78%	+1.06%
NASDAQ	13,192.34	-4.92%	+2.36%
MSCI-EAFE	2,233.61	+0.37%	+4.01%
S&P 500	3,811.15	-2.45%	+1.47%





	Treasury	Close	Week	Y-T-D
🇺🇸	10-Year Note	1.42%	+0.08%	+0.49%

Sources: The Wall Street Journal, February 26, 2021; Treasury.gov, February 26, 2021
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, February 19, to Friday, February 26, close. Weekly performance for the MSCI-EAFE is measured from Friday, February 19, open to Thursday, February 25, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

The action in the U.S. Treasury market this week reminded us of the classic "I Love Lucy" episode at the chocolate factory. As the conveyor belt churns out chocolate balls faster than Lucy and Ethel can handle them, they resort to stuffing them in their mouths, their hats, and their shirts. Lucy remarks: "I think we're fighting a losing game."

That was the scene in the Treasury market this week –too much supply and not enough buyers, causing a sharp spike in yields which set off a stock market selloff that left the Dow down 559.8 points or 1.75 percent on the day, while the tech-heavy Nasdaq fared even worse, losing 478.5 points or 3.52 percent.

The yields on the 10-year note have been rising sharply since early August, with the yield more than tripling from 0.50 percent to an intraday spike yesterday of 1.61 percent. The 10-year note opened earlier this week at 1.52 percent.

The sharp and persistent rise in yields have left those who bought the T-notes at dramatically lower yields unhappy with the associated losses. That has also dramatically lessened the appetite to buy more Treasuries at the current yields when the supply is expected to continue to increase as a result of rising government deficits and stimulus spending.

Another catalyst for this week's selloff in Treasuries was as poorly conceived Treasury auction where the government attempted to place $62 billion of a 7-year Treasury note into an already over-supplied market.

The spike in yields comes despite the fact that the Federal Reserve itself has been buying $80 billion each month in various maturities of Treasury notes and bonds. That started in June of last year. As of this past Wednesday, the Fed owned $4.8 *trillion* of Treasury securities, part of that resulting from its purchases of Treasuries (QE programs) after the 2008 Wall Street crash.

In an additional effort to hold overall interest rates down, the Fed is also buying $40 billion each month in agency mortgage-backed securities (MBS). It owns $2.18 *trillion* of those, much of that also resulting from the aftermath of the 2008 crash.

The Fed's Federal Open Market Committee (FOMC) has also directed the New York Fed's trading desk "to increase holdings of Treasury securities and agency MBS by additional amounts and purchase agency commercial mortgage-backed securities (CMBS) as needed to sustain smooth functioning of markets for these securities."

Aside from the Fed, the other big domestic buyers of Treasury securities are the mega Wall Street banks. These banks are known as "Primary Dealers" and are contractually bound to have to buy at Treasury auctions. This is how the New York Fed describes the role of Primary Dealers:

"Primary dealers serve as trading counterparties of the New York Fed in its implementation of monetary policy. This role includes the obligations to: (i) participate consistently in open market operations to carry out U.S. monetary policy pursuant to the direction of the Federal Open Market Committee (FOMC); and (ii) provide the New York Fed's trading desk with market information and analysis helpful in the formulation and implementation of monetary policy. Primary dealers are also required to participate in all auctions of U.S. government debt and to make reasonable markets for the New York Fed when it transacts on behalf of its foreign official account-holders."

On top of the problem of a supply glut is the fact that these mega banks/Primary Dealers have been allowed to acquire other banks over the years, leading to a dramatic decline in the number of Primary Dealers available to bid at Treasury auctions. In 1988 there were 46 primary dealers. By 1999, there were only 30. Today, there are just 24.

As the House Financial Services Committee continues its investigation into the structure of stock trading on Wall Street, the Senate Banking Committee might consider tacking the structure of the Fed, its alleged cronyism with Wall Street, and the process of government debt issuance.[6]

Know someone who could use information like this?

Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

Investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost.

The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice.

The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results.

The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid. Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

Please consult your financial professional for additional information.

This content is developed from sources believed to be providing accurate information. The information in this material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation. This material was developed and produced by FMG Suite to provide information on a topic that may be of interest. FMG is not affiliated with the named representative, financial professional, Registered Investment Advisor, Broker-Dealer, nor state- or SEC-registered investment advisory firm. The opinions expressed and material provided are for general information, and they should not be considered a solicitation for the purchase or sale of any security.

Copyright 2021 FMG Suite.

CITATIONS:

1. The Wall Street Journal, February 26, 2021
2. The Wall Street Journal, February 26, 2021
3. The Wall Street Journal, February 26, 2021
4. U.S. Department of the Treasury, February 26, 2021
5. The Wall Street Journal, February 24, 2021
6. wallstreetonparade.com/2021/02/wall-street-sends-a-message-to-the-fed-we-have-run-out-of-places-to-stuff-your-treasuries/