Threat of War Ends Market Tranquility

The two-week holiday calm came to an abrupt end last night with a major escalation of military tension in the Middle East. Just hours after yesterday’s market close, it was revealed that a U.S. drone strike near the Baghdad Airport in Iraq had killed Iranian General Qassim Soleimani. Pentagon officials said President Trump had ordered the strike to protect U.S. personnel as Soleimani was said to be planning an attack on American diplomats and service members in Iraq. Iraqi officials, who didn’t appear to know the U.S. planned to kill Iran’s top military official on their soil, harshly condemned the attack, while Iran has promised a swift and severe response. Military bases are on high-alert throughout the region and the U.S. embassy in Iraq has requested that all U.S. citizens leave immediately.

The Iranian government has described the Soleimani killing as an assassination and a “declaration of war” by the United States. As many in the media have already pointed out, the U.S. is now at the beginning of an undefined military operation that could prove significant in scope. There’s little point in speculating on where this will lead, but purely from a financial market perspective it promises to usher in another wave of uncertainty and further complicate lingering global issues. Stocks are lower this morning and bonds have rallied (yields lower) in a predictable flight-to-quality trade.

In other (suddenly less important) news, the ISM manufacturing index unexpectedly slipped from 48.1 to 47.2 in December, the weakest reading since June 2009. Both the production and new orders indexes dropped to their lowest point since April 2009, in the midst of “the Great Recession.” Although Boeing’s decision to halt production of the 737 Max was likely a contributor to the weakness of the report, analysts had expected purchasing managers would express more optimism over the recent announcement of a China trade agreement. The December survey results marked the fifth consecutive contraction for the ISM factory index, and suggest the U.S. economy may be in a deeper rut than previously thought.

Due to the holiday, the December employment report is scheduled for an unusually late release…next Friday, January 10.
Market Indications as of 10:45 A.M. Central Time

DOW: Down 201 to 28,667 (HIGH: 28,868)
NASDAQ: Down 57 to 9,035 (NEW: 9,092)
S&P 500: Down 21 to 3,237 (NEW: 3,258)
1-Yr T-bill: current yield 1.53%; opening yield 1.56%
2-Yr T-note: current yield 1.52%; opening yield 1.57%
5-Yr T-note: current yield 1.60%; opening yield 1.67%
10-Yr T-note: current yield 1.80%; opening yield 1.88%
30-Yr T-bond: current yield 2.27%; opening yield 2.33%