HilltopSecurities
A Hilltop Holdings Company

Sifting Through Irrelevant Data

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It seems like the economy has been shuttered for ages, but the reality for most of us is closer to three weeks. That means the economic data isn't fully reflecting the present reality. Yesterday, the Conference Board's measure of consumer confidence dropped to its lowest level since July 2017, but remained elevated relative to the historical standards. The future expectations index plunged from 108.1 to 88.2, but oddly enough the present situation index remained robust, only slipping from 169.3 to 167.7. This is actually the highest March reading for present conditions in 19 years. Granted, the survey cutoff date was 11 days earlier on March 19 when concerns were just beginning to mount, but it's still remarkable to witness how quickly the picture has changed from partly sunny to complete overcast.

This morning, the March ISM manufacturing index fell from 50.1 to 49.1, well above the 44.5 median forecast. On the surface, this would appear to reflect resiliency on the part of U.S. factory managers, but digging a little deeper reveals the weakest new orders index in 11 years. It was elevated supplier delivery times that boosted the overall number, but while this component usually represents heavy demand, it now represents a complete lack of supply. On a related, somewhat positive note, China's version of the ISM manufacturing index jumped from a woeful 35.7 reading in February to 52.0 in March. Assuming these numbers are accurate, the PMI data supports the idea that most of the shuttered Chinese factories have since reopened and resumed production.

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Bloomberg News reported this morning that President Trump had approved a proposal to defer tariffs on imported goods from "most-favored nations" for up to 90 days. The order is not likely to include Chinese goods or any tariffs imposed on steel and aluminum. Since it's Chinese factories that are mostly up and running, relief to U.S. companies actually paying tariffs would be limited. Still, it would be a positive first step. With restricted U.S. factory production, we'll need to import more, rather than less, regardless of the source country.

On the stimulus side, both Democrats and Republicans are already crafting another support package expected to total around $600 billion. The primary target is aid to state and local governments, and perhaps another round of direct payments to unemployed workers and their families. There have also been discussions by the Trump administration about a massive infrastructure bill, although this reportedly isn't likely to happen before the November elections.

Fed officials are also hard at work. The latest support plan is a temporary repo facility for Foreign International and Monetary Authorities which would allow foreign central banks to exchange their Treasury holdings for badly needed U.S. dollars. These repurchase agreements will effectively provide increased global liquidity without foreign governments being forced to liquidate their Treasury holdings, and is intended to limit further strengthening of the U.S. dollar. The Fed has now provided multiple backstops and assurances aimed at stabilizing the financial markets. The effect isn't transparent, but if the markets are functioning, Fed officials have done their job. When the businesses are up and running, whenever that is, there should be ample ability to borrow at low cost and presumably plenty of lending capacity by the banks.

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Please see disclosure on page 2.

Stocks are getting battered again today as investors brace for a what President Trump has described as "a very tough two weeks" ahead and digest the idea that social distancing will remain in place at least for another month. A six week shutdown would obviously have a much bigger financial impact on publically traded companies, and investors are now reassessing the potential damage to bottom lines. Government bond yields continue to decline, although recent bill issuance has pulled the short end of the Treasury curve back into positive territory.

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Market Indications as of 12:05 P.M. Central Time

DOW	DOWN 912 to 21,005 (HIGH: 29,551)
NASDAQ	DOWN 295 to 7,405 (HIGH: 9,817)
S&P 500	DOWN 114 to 2,470 (HIGH: 3,386)
1-Yr T-bill	current yield 0.15%; opening yield 0.16%
2-Yr T-note	current yield 0.23%; opening yield 0.25%
5-Yr T-note	current yield 0.34%; opening yield 0.38%
10-Yr T-note	current yield 0.61%; opening yield 0.67%
30-Yr T-bond	current yield 1.25%; opening yield 1.32%