

## Bonds Rally on Supply Relief before Afternoon Fed Meeting

The bond market is in the process of rallying (yields lower) in front of this afternoon's FOMC announcement. Although there was no shortage of economic data to sift through this morning, deficit-conscious investors have keyed on Treasury supply. The U.S. Treasury announced plans this morning to auction \$112 billion in next week's quarterly refunding, slightly below the anticipated \$114 billion, with a concentration on the short end of the yield curve, easing pressure on the long end.

Auction totals are \$48 billion three-year notes, \$40 billion 10-year notes and \$24 billion 30-year bonds. Perhaps more importantly, Treasury officials expect just one more quarter of increased funding will be required to meet needs. Supply is still enormous, but less than expected. This tiny bit of relative good news adds to Monday's announcement that the federal government had reduced its total estimated borrowing for the quarter to \$776 billion, \$76 billion less than the previous estimate in July.

In this morning's economic releases, the Job Openings and Labor Turnover Survey (JOLTS), expected to show a small decrease in the number of job postings, actually increased in September from a revised 9.5 million to 9.6 million. Fed officials have indicated that the mismatched ratio of available jobs to jobseekers will need to narrow considerably in order to ease wage pressures. Obviously, a rise in job postings isn't helpful in reaching that objective.

In other labor-related news from this morning, the ADP employment change report showed just +113k jobs were added to company payrolls in October after +89k in September. By comparison, an average of +258k jobs had been added over the previous eight months. Although the ADP report has shown poor correlation with the more important BLS payroll count, two consecutive months of fading ADP job growth hints at downside to Friday's key BLS release.

The October ISM factory survey was weaker-than-expected with the composite manufacturing index unexpectedly tumbling from 49 to 46.7. With any number below 50 in the series indicating *contraction*, factory struggles have intensified. Striking autoworkers probably influenced the report, but weakness was broad-based, with just 2 of 15 industry groups signaling growth.

Within the ISM composite, the new orders index dropped from 49.2 to 45.5, and the current production index from 52.5 to 50.4, while the employment index slipped from 51.2 into contraction at 46.8. The prices paid index, although still showing a majority of purchasing managers are experiencing lower prices, did rise slightly from 43.8 to 45.1. The ISM reports have historically been reliable leading indicators, so the survey weakness is consistent with the widely-held belief that the economy will slow in the fourth quarter.

The Fed is expected to announce this afternoon at 1:00 central that it will maintain the overnight target range at 5.25% to 5.50%. The more important information will come from Fed Chairman Powell's press conference starting at 1:30.

*Scott McIntyre, CFA*  
HilltopSecurities Asset Management  
Senior Portfolio Manager  
Managing Director  
512.481.2009  
[scott.mcintyre@hilltopsecurities.com](mailto:scott.mcintyre@hilltopsecurities.com)

*Greg Warner, CTP*  
HilltopSecurities Asset Management  
Senior Portfolio Manager  
Managing Director  
512.481.2012  
[greg.warner@hilltopsecurities.com](mailto:greg.warner@hilltopsecurities.com)

*Auction totals are \$48 billion three-year notes, \$40 billion 10-year notes and \$24 billion 30-year bonds. Perhaps more importantly, Treasury officials expect just one more quarter of increased funding will be required to meet needs. Supply is still enormous, but less than expected.*

*Although the ADP report has shown poor correlation with the more important BLS payroll count, two consecutive months of fading ADP job growth hints at downside to Friday's key BLS release.*

## Market Indications as of 10:56 A.M. Central Time

DOW	Up 126 to 33,179 (HIGH: 36,800)
NASDAQ	Up 98 to 12,949 (HIGH: 16,057)
S&P 500	Up 23 to 4,216 (HIGH: 4,797)
1-Yr T-bill	current yield 5.41%; opening yield 5.42%
2-Yr T-note	current yield 5.01%; opening yield 5.08%
3-Yr T-note	current yield 4.83%; opening yield 4.92%
5-Yr T-note	current yield 4.73%; opening yield 4.85%
10-Yr T-note	current yield 4.80%; opening yield 4.92%
30-Yr T-bond	current yield 4.96%; opening yield 5.08%

*The ISM reports have historically been reliable leading indicators, so the survey weakness is consistent with the widely-held belief that the economy will slow in the fourth quarter.*

*The paper/commentary was prepared by Hilltop Securities Asset Management (HSAM). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS and/or HSAM as of the date of the document and may differ from the views of other divisions/departments of affiliates Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. Sources available upon request.*

*Hilltop Securities Asset Management is an SEC-registered investment advisor. Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS and HSAM are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP.*