

## Fed Talk and Factory Weakness Nudge Yields Lower

Bond yields declined this morning as Fed officials discussed the hot topics of inflation and monetary policy. Chicago Fed President Austan Goolsbee, appearing on CNBC, reiterated a point he has made several times about the recent unexpected warming in price pressures, saying he would not be surprised if the January inflation data turned out to be “noise.” A number of prominent economists have expressed similar thoughts.

Fed Governor Chris Waller, on a morning panel discussing future balance sheet reduction, said he’d like to see Fed holdings of mortgage-backed securities fall to zero. Waller also mentioned he’d like the Fed to hold a larger allocation of short-term treasuries. The notion that policymakers might increase treasury purchases fed the rally.

Yesterday, San Francisco Fed President Mary Daly told Bloomberg Television the committee was ready to “make moves and adjust as the data demands.” Exactly when the data demands is always the question, but any time Fed officials mention easing policy, it’s positive for bonds.

In other news from this morning, the ISM manufacturing index for February indicated contraction in the U.S. factory sector for the 16th consecutive month. The overall composite index slipped 1.3 points from a 15-month high of 49.1 in January to 47.8. Both the new orders index and the current production index shifted from expansion to contraction, with new orders declining from 52.5 to 49.2 and production from 50.4 to 48.4. Other sub-indexes of note are employment, which fell from 47.1 to 45.9, suggesting decreased worker demand, and prices paid, which slipped from 52.9 to 52.5, indicating U.S. factory managers continue to experience rising costs.

In this series, any number below 50 indicates *contraction*; above 50 *expansion*. Despite the fact that this is soft data, both the ISM factory and service sector reports garner investor attention due to the broad scope, timely release and perceived value as leading indicators.

The overall report supports the idea that the economy will weaken in the first quarter, but it’s the service sector, *not the factory sector* that drives U.S. growth, so next week’s ISM service sector report will carry considerably more weight.

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## Market Indications as of 1:07 P.M. Central Time

DOW	Up 98 to 39,094 (HIGH: 39,312)
NASDAQ	Up 192 to 16,284 (NEW HIGH)
S&P 500	Up 35 to 5,132 (NEW HIGH)
1-Yr T-bill	current yield 4.94%; opening yield 4.99%
2-Yr T-note	current yield 4.53%; opening yield 4.62%
3-Yr T-note	current yield 4.33%; opening yield 4.42%
5-Yr T-note	current yield 4.16%; opening yield 4.25%
10-Yr T-note	current yield 4.19%; opening yield 4.25%
30-Yr T-bond	current yield 4.34%; opening yield 4.38%

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