

## Bond Yields Drop on Weakening Data

Signs of soft consumer spending, rising prices and crumbling confidence continue to hammer stocks and drive bond yields lower as the possibility of negative first quarter GDP growth rises. This morning, real (inflation-adjusted) personal spending rose just +0.1% in February, falling short of the +0.3% median forecast. A majority of economists had expected a more robust rebound after a weather-impacted spending drop the previous month. But while February spending was a disappointment, the previously-reported January decline actually worsened from -0.5% to -0.6%.

Personal income rose +0.8% in February (exceeding the median forecast) due mainly to higher wages and salaries. The month-over-month increase was amplified by a downward revision to the January gain. The combination of increased income and lower spending pushed the personal savings rate up from 4.3% to 4.6% as Americans braced themselves for a less certain 2025.

Earlier this week, the Conference Board's final measure of consumer confidence for March fell 7.2 points to 92.9, *the lowest level since January 2021*. Today, the March consumer sentiment survey from *the University of Michigan* showed a 7.7 point drop in the headline index to a two-year low of 64.7. A statement by the survey director indicated two-thirds of participants expect unemployment to rise in the coming year, the highest percentage since 2009. The survey also showed that income expectations dropped to their lowest point in 12 years, while "expected changes in financial situation" plunged to an all-time low.

However, the bleakest component of the Michigan survey was (once again) inflation expectations, *although opinions are sharply (and comically) divided by political affiliation*. One-year inflation expectations edged upward from 4.9% to 5.0%, with Democrats expecting prices to jump 6.5% over the coming year while Republicans expect virtually no change at all (+0.1%). Long-run inflation expectations climbed from 3.9% to a fresh 32-year high of 4.1%.

Although tariff concerns are widespread and shared among domestic and global economists, the Trump administration is unwavering in its conviction. Higher goods prices are now a given. The amount and duration of price increases will depend on the outcome of what has become a rapidly escalating *trade war*. This trade war is reshaping global alliances and threatening weaker economic growth world-wide.

This morning, after factoring in the latest round of data releases, the Atlanta Fed's real-time GDP measure for Q1 slipped from -1.8% to -2.8%. When adjusted for the import and export of gold, the model signals a lesser decline of -0.5%. Nevertheless, what was once a tariff threat has become increasingly real. In response, large investors have slashed their equity holdings in March, while undaunted retail investors continue to plow record dollars into stocks, ETFs and equity funds.

The Fed remains in wait-and-see mode, but downside risks have increased.

*Please see disclosure starting on page 2.*

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## Market Indications as of 1:32 P.M. Central Time

DOW	Down -700 to 41,599 (HIGH: 45,014)
NASDAQ	Down -453 to 17,352 (HIGH: 20,174)
S&P 500	Down -108 to 5,585 (HIGH: 6,144)
1-Yr T-bill	current yield 4.04%; opening yield 4.09%
2-Yr T-note	current yield 3.92%; opening yield 4.00%
3-Yr T-note	current yield 3.91%; opening yield 3.99%
5-Yr T-note	current yield 3.99%; opening yield 4.09%
10-Yr T-note	current yield 4.26%; opening yield 4.36%
30-Yr T-bond	current yield 4.64%; opening yield 4.72%

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