

At An Impasse

The conflict with Iran is stretching into its third month with no end in sight. Critically, the Strait of Hormuz remains effectively closed with barely a trickle of vessels passing through each day. Based on data compiled by Bloomberg, over the ninety days before hostilities began, daily ship traffic through the Strait averaged 108 vessels. Over the past seven days through May 4, a total of 36 ships have passed through, a dismal 5 per day average. Until something gives, this impasse will continue to cloud the economic outlook.

Many of the traditionally important economic releases are being overshadowed by the conflict as data is either ignored or viewed through an inflationary lens. Today brought several releases that might normally move markets, but like the U.S. / Iran impasse, the economy seems to be at a stalemate, too. New home sales rose a larger than expected 8.9% in March to a 682k unit annual rate, but that merely brings sales back in line with the 680k pace that has prevailed for the past two years.

The ISM Services Index fell from 54.0 to 53.6, a tenth below forecasts. The new orders component tumbled from 60.5 to 53.5, though that still represents expansion. The prices paid component was unchanged at an elevated 70.7 but at least it didn't surge higher. Employment rose from 45.2 to 48.0, remaining in contraction. The ISM Manufacturing survey, released last Friday, showed similar results with the headline index holding steady at 52.7 while employment slid from 48.7 to 46.4. The manufacturing sector showed a much bigger surge in the prices paid index, which jumped from 78.3 to 84.6, the highest since the covid pandemic in 2022.

The March Job Openings and Labor Turnover Survey (JOLTS) showed job openings down slightly from 6.92 million to 6.87 million, leaving openings essentially flat compared to the year ago level and suggesting some stabilization after nearly three years of declines. Other details within the report revealed little and left intact the view that labor demand has softened.

There was some interesting news buried in the Census Bureau's Trade Balance report. The trade deficit for March came in at \$60.3 billion but what caught our attention was the big surge in exports of crude oil and petroleum products, an obvious result of the Iran conflict, as well as a 97% surge in imports from Taiwan as capital spending on AI drives imports of computer chips and high-tech equipment.

None of this data has mattered for bond markets. With economic growth supported by resilient consumers and massive AI related capital spending, inflation flames fanned by higher energy costs, and the Fed sidelined, markets have given up hope for rate cuts this year. That leaves bond yields much more sensitive to Iran-related news than economic data. Despite some volatility, the two-year Treasury yield has settled into a comfortable range just above 3.90%, while the ten-year hovers near 4.40%. Meanwhile, stocks are once again flirting with record highs.

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Market Indications as of 1:40 P.M. Central Time

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| DOW | Up 308 to 49,250 (HIGH: 50,188) |
| NASDAQ | Up 273 to 25,341 (NEW HIGH) |
| S&P 500 | Uo 67 to 7,267 (NEW HIGH) |
| 1-Yr T-bill | current yield 3.75%; opening yield 3.75% |
| 2-Yr T-note | current yield 3.94%; opening yield 3.95% |
| 3-Yr T-note | current yield 3.96%; opening yield 3.98% |
| 5-Yr T-note | current yield 4.07%; opening yield 4.08% |
| 10-Yr T-note | current yield 4.42%; opening yield 4.44% |
| 30-Yr T-bond | current yield 4.99%; opening yield 5.01% |

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