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Weekly Commentary

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Positive data, but for how long?

The domestic and global economies had an artificial aura about them last week, one that may continue. The data was, generally speaking, strong for the latter and at least mediocre for much of the rest, but they most seem unreliable due to the coronavirus. Sure, small businesses were optimistic about the future, retail sales are lower but still decent and the labor market remains at record levels. But how will these fare after the downshift comes due to the present—let alone future—effects of the outbreak? While the spike in confirmed cases at the end of the week was largely due to a more effective diagnostic process, consensus is building that the Federal Reserve will ease rates later in the year. Don't count us among that group; we still see the Fed holding back from policy moves this year. Of course, that opinion has the same caveat. If the virus expands globally, it likely would qualify as a "material" shift that the Fed said could cause them to act. Chair Powell said as much in his appearance on Capitol Hill last week.

There was one report last week that complicates the otherwise rosy U.S. employment picture. In December (the latest data available) job openings decreased to their lowest level in two years and year-over-year openings fell for the first time since the financial crisis. This could mean that the labor market is finally approaching full employment or that growth is slowing so businesses are looking for fewer people. The latter would manifest later if true—businesses actually brought more workers on board in December compared to November. Also, the number of open positions in the U.S. continues to exceed the number of unemployed. It remains to be seen if further labor tightening spurs inflation. But after years of subpar inflation, that also seems a bit unreal.

The London interbank offered rate (Libor) feel last week from the previous week; 1-month edged down from 1.67% to 1.65%, 3-month decreased from 1.73% to 1.69% and 6-month slipped from 1.74% to 1.72%.

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