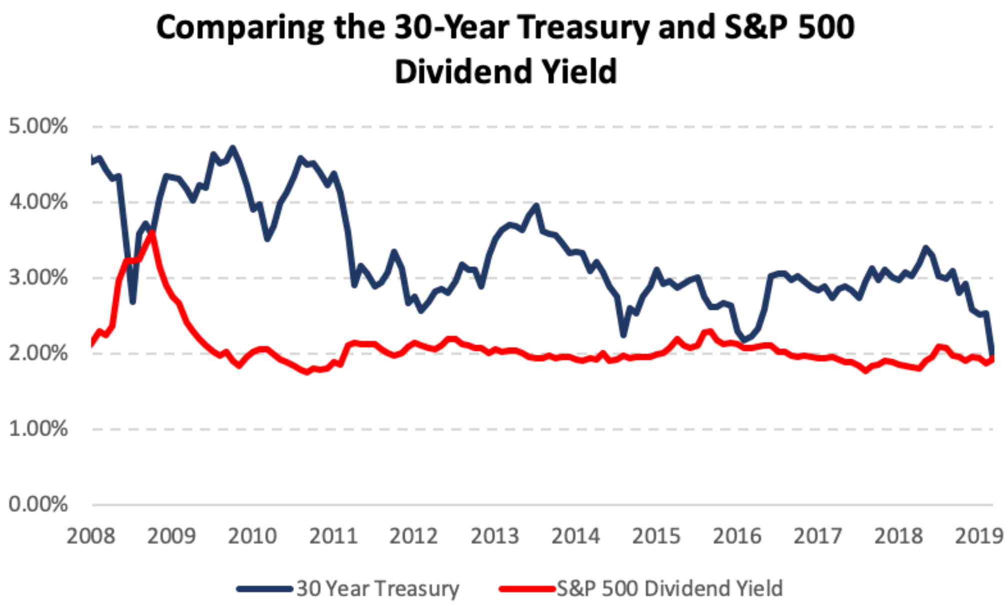
Weekly Economic Update

for the period ending September 27, 2019

- **S&P 500 & Treasuries**
- **Home Sales**
- **FHLB**
- **Inverted Yield Curve**
- **Weekly Economic Update**

Are Stocks Safer than Treasuries?

The 30-Year Treasury yield had fallen below the S&P 500's dividend yield in early September, but Weequickly moved back up. In early September the spread between the S&P 500 dividend yield and the 30-year treasury yield narrowed to 5 bps, the tightest it has been since 2009. However, that tightness did not Despite current spread between the 30-Year Treasury and the S&P 500 being at 30 bps or 0.30%, are stocks possibly safer? This is the first time the two yields have been this close since March of 2009. Not that I should have to remind you, but in March of 2009, the United States was neck-deep in a recession that shattered the U.S. economy. Bonds have been the go-to investment vehicle, but with increased equity volatility, trade and political tensions have since sent bond yields to historically low levels. For investors looking to hold something long term, it makes investing in equities more appealing. However, one must ask themselves in addition to the political rift of trade impacting the market, why else have bond yields fallen? Another reason that could continue to impact bond yields is the slowing of global economic growth which will be important to track moving forward.

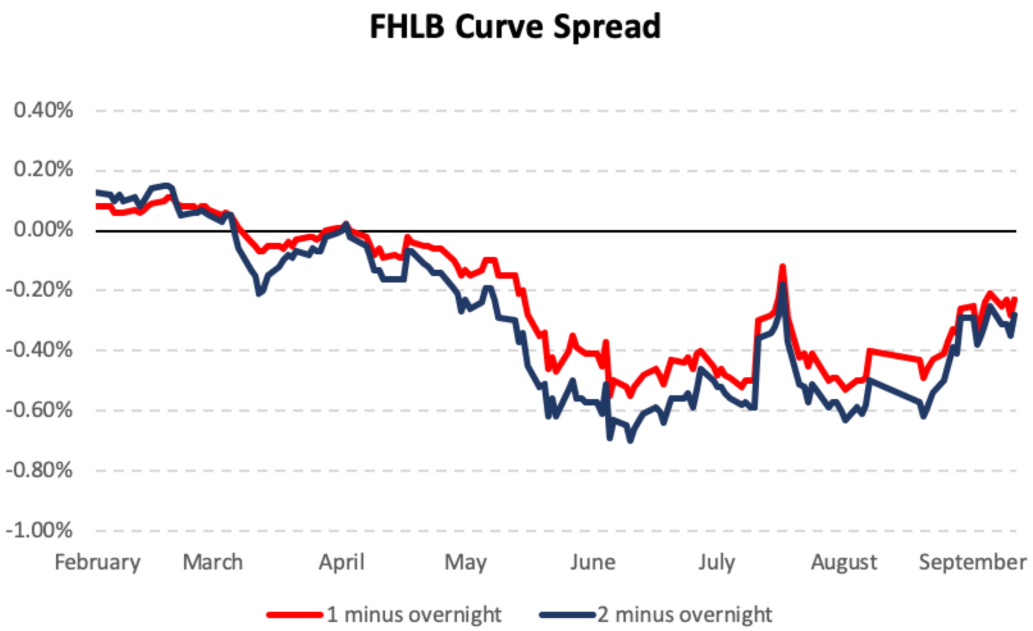


Home Buyers are Back in Town

It looks like lower mortgage rates have injected new buyers into the market, hoping to capitalize on extremely low 30-year mortgage rates. Contracts to buy previously owned homes in the U.S. jumped 2.5% from a year earlier in August 2019. Driven in large part to pending home sales up in the West (3.1%), South (1.4%) and Northeast (1.4%). From 2002 to 2019 Pending home sales in the U.S. averaged 0.72%, it reached an all-time high in October 2009 of 30.9% and reached an all-time low of -24.30% in April 2011.

FHLB Rates

The spread between short-term and overnight FHLB rates has narrowed in September, mainly due to the Fed cutting their overnight rate to 1.50 – 1.75%. After widening during the most recent rate cut, rates have compressed across the curve. The spread between the overnight rate and the 1-year and 2-year FHLB rates have narrowed to -0.23% and -0.25% on Friday, respectively. As the long end of the yield curve continues to contract, short-term FHLB and Treasury rates could continue to rise amid economic vulnerability.



Treasury Rates/ Treasury Maturities

The 10-year treasury minus the 2-year treasury has nearly inverted. The spread between the two treasury yields went negative in late August but rebounded in hopes of subsequent change on the Fed's end. The inverted yield curve is a term used when short-term rates have higher yields than long-term rates. The last time the yield was inverted was in 2007, which was the beginning of one of the worst financial periods in modern history.

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Weekly Economic Update:

- The stock market continues to be volatile in nature
- The U.S. and Japan secured phase 1 of their trade deal on $7 billion in U.S. goods
- U.S. 2019 Q2 GDP was unchanged at 2% after the revision period
- U.S. jobless claims rose in the latest week to 213,000 in the week ending September 21
- U.S. New Home Sales rise more than expected likely due to lower mortgage interest rates
- U.S. Manufacturing growth accelerated in September to 51 from a decade low of 50.3 in the month prior

Sources:

1. https://tradingeconomics.com/stream?c=united+states
2. https://fred.stlouisfed.org/
3. https://fred.stlouisfed.org/series/T10Y2Y
4. https://ycharts.com/indicators/sp_500_dividend_yield
5. https://www.fhlbc.com/docs/default-source/daily-rates/dailypdf.pdf

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