

Treasury Bond Yield Hits All-Time Low on Virus Fears

The 30-year Treasury bond has plunged to 1.89% this morning. If this level holds, it will be the lowest closing yield in history for the long bond. The 10-year Treasury-note yield, at 1.46% is right on top of the 10-year historical low point from June 2016. The shocking thing to note is that both the 10- and 30-year yields are trading well below where they'd been when the overnight funds target was zero.

A flight-to-quality is the primary driver of this extreme bond market strength. Global investors are witnessing the spread of the coronavirus, not only in China, but outside its borders with hundreds of new cases reported in South Korea and Japan. The Chinese economy, which now makes up roughly 16%-17% of global GDP, has effectively been shuttered. Delta, United and American airlines have suspended all flights in and out of China through April. High profile U.S. companies including McDonalds, Starbucks, Tesla and Disney have closed operations in China until further notice. Goods shipments out of the countries are on hold. February auto sales in the world's second largest economy have all but ceased. South Korean automaker Kia reportedly may be forced to cut production as it runs out of parts supplied by Chinese factories.

Weeks ago, comparisons were made to the 2003 SARS pandemic which infected over 8,000 with almost 800 fatalities. Today, an estimated 75,000 have been infected with the new virus and over 2,200 have died. Like many of the recent problems affecting the markets, uncertainty is the driving force. No one knows how this will play out. SARS essentially fizzled away, but the coronavirus appears to be a more formidable challenge.

The minutes to the January FOMC meeting showed Fed officials recognized the virus as "a new risk to the global outlook," which they pledged to closely monitor. Obviously, this risk has grown exponentially since the January meeting. U.S. economic growth has averaged just +2.1% over the past five quarters and already appears to be slipping. Compounding the problem is the strongest U.S. dollar since 2016. With inflation largely in check, and an inverted yield curve, the Fed seemingly has a green light to cut rates in the coming months. Most economists apparently didn't recognize the severity of the virus threat 10 days ago when the Bloomberg survey was taken, but the bond market is signaling loud and clear that it believes the Fed will respond to the mounting crisis.

This morning, the IHS U.S. Markit Composite PMI unexpectedly dropped from 53.3 to 49.6 in February, the first month of outright private sector contraction since October 2013. New orders declined for the first time since 2009 when the data series began. This is a relatively minor release, but it's timely and revealing, and indicates that domestic growth is being impacted to a greater degree than analysts had expected.

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Market Indications as of 10:15 A.M. Central Time

DOW	DOWN 236 to 28,983 (HIGH: 29,551)
NASDAQ	DOWN 124 to 9,626 (HIGH: 9,817)
S&P 500	DOWN 31 to 3,342 (HIGH: 3,386)
1-Yr T-bill	current yield 1.43%; opening yield 1.45%
2-Yr T-note	current yield 1.34%; opening yield 1.39%
5-Yr T-note	current yield 1.31%; opening yield 1.36%
10-Yr T-note	current yield 1.47%; opening yield 1.52%
30-Yr T-bond	current yield 1.90%; opening yield 1.96%

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