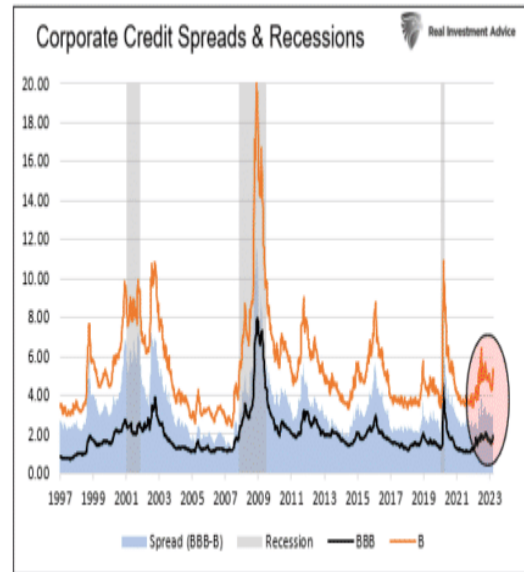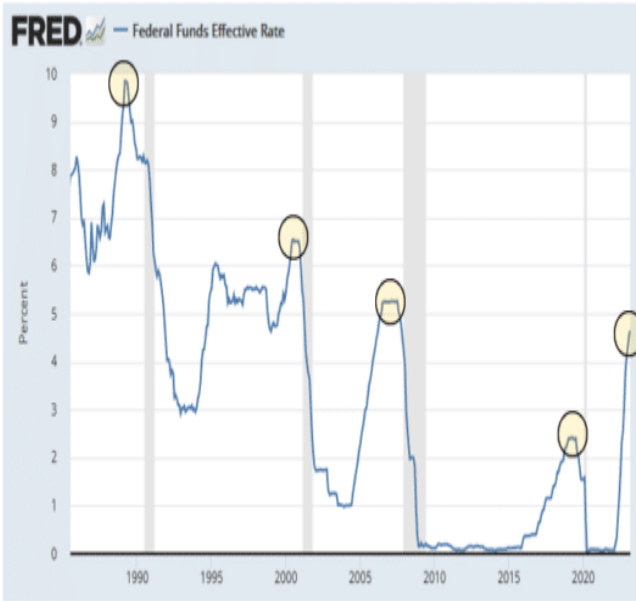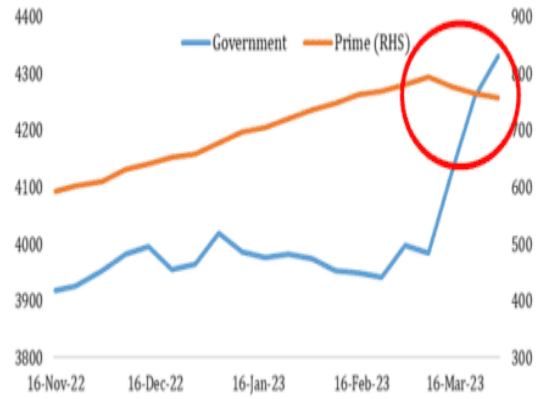# Bond Markets Are Also Sending Confusing Messages

Our most recent newsletter ([Analysts Warn of Recession. Analysts Disagree](#)) discusses confusing signals emanating from the stock and bond markets. To wit: *?Currently, 100% of the 10-yield spreads we track are inverted. Historically, a recession follows whenever more than 50% of those spreads are inverted.* ***Every. Single. Time.****?* Yet despite a 100% reliable recession warning- *?With the market, as shown in the callout, retesting and holding above the 40-week moving average, such confirms both the* ***long-term and short-term bullish trends are intact.****?*

Unfortunately, the signals from within the bond markets are equally confusing. Fed Funds futures (top left graph) expect the Fed to cut rates by .75 to 1.00% by year end. The graph on the bottom left shows that Fed Funds peaked and declined, as the market currently projects, before the start of the last four recessions. Despite recession concerns, corporate bond spreads (bottom right), which tend to widen before and during recessions, send no such signal. Lastly, the most risk-averse investors are shifting from prime money market funds to government money market funds. Prime funds, holding short-term corporate bonds, have negligible risk, yet the flight to safety is pronounced, as we show (top right). Investment and mental flexibility will be important this year as diverging signals sort themselves out.

Fed Funds Expectations

MEETING DATE	175-200	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
5/3/2023								0.0%	0.0%	0.0%	0.0%	0.0%	40.3%	59.7%	0.0%
6/14/2023			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	37.6%	58.4%	4.0%
7/26/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	15.4%	46.1%	36.1%	2.4%	
9/20/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.8%	36.9%	39.1%	12.5%	0.7%	
11/1/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.3%	29.5%	38.4%	21.0%	4.5%	0.2%	
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.4%	22.9%	36.8%	25.6%	8.9%	1.4%	0.1%	
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.2%	19.1%	33.0%	27.8%	12.5%	3.0%	0.3%	0.0%	
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	3.5%	16.6%	30.7%	28.7%	15.1%	4.6%	0.8%	0.1%	0.0%	
5/1/2024	0.0%	0.0%	0.0%	0.4%	5.0%	18.2%	30.4%	27.2%	13.9%	4.2%	0.7%	0.1%	0.0%	0.0%	
6/19/2024	0.0%	0.0%	0.2%	2.5%	11.2%	24.0%	28.9%	20.9%	9.3%	2.5%	0.4%	0.0%	0.0%	0.0%	
7/31/2024	0.0%	0.2%	2.2%	9.8%	21.9%	28.1%	22.2%	11.2%	3.6%	0.7%	0.1%	0.0%	0.0%	0.0%	
9/25/2024	0.1%	1.8%	8.3%	19.5%	26.9%	23.4%	13.4%	5.2%	1.3%	0.2%	0.0%	0.0%	0.0%	0.0%	

Money Market Fund AUM ($bln)

Legend: Government — Prime (RHS)

X-axis: 16-Nov-22, 16-Dec-22, 16-Jan-23, 16-Feb-23, 16-Mar-23

Source: Investment Company Institute

FRED — Federal Funds Effective Rate

Y-axis: Percent (0–10)
X-axis: 1990, 1995, 2000, 2005, 2010, 2015, 2020

Corporate Credit Spreads & Recessions

Real Investment Advice

Y-axis: 0.00–20.00
X-axis: 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015 2017 2019 2021 2023

Legend: Spread (BBB-B), Recession, BBB, B

Fed Funds Expectations

Money Market Fund AUM ($bln)

Legend: Government — Prime (RHS)

X-axis: 16-Nov-22, 16-Dec-22, 16-Jan-23, 16-Feb-23, 16-Mar-23

Source: Investment Company Institute

FRED — Federal Funds Effective Rate

Y-axis: Percent

Corporate Credit Spreads & Recessions

Real Investment Advice

Y-axis: 4.00–20.00

What To Watch Today

Earnings

	Company	Time	Estimate		Growth	Surprise
✓ CAG	Conagra Brands, Inc.	7:30 AM ET	$0.64	$3.10 B	6.4%	+ = -

Economy

Time	Event	Impact	Actual	Dev ⓘ	Consensus	Previous	
	WEDNESDAY, APRIL 5						
11:00 🇺🇸 USD	MBA Mortgage Applications(Mar 31)		-	-	-	2.9%	🔔
12:15 🇺🇸 USD	ADP Employment Change(Mar)		-	-	200K	242K	🔔
12:30 🇺🇸 USD	Goods and Services Trade Balance(Feb)		-	-	$-69B	$-68.3B	🔔
12:30 🇺🇸 USD	Goods Trade Balance(Feb)		-	-	-	$-91.6B	🔔
13:45 🇺🇸 USD	S&P Global Composite PMI(Mar)		-	-	53.3	53.3	🔔
13:45 🇺🇸 USD	S&P Global Services PMI(Mar)		-	-	53.8	53.8	🔔
14:00 🇺🇸 USD	ISM Services Employment Index(Mar)		-	-	52	54	🔔
14:00 🇺🇸 USD	ISM Services New Orders Index(Mar)		-	-	57.6	62.6	🔔
14:00 🇺🇸 USD	ISM Services PMI(Mar)		-	-	54.5	55.1	🔔
14:00 🇺🇸 USD	ISM Services Prices Paid(Mar)		-	-	65.2	65.6	🔔
14:30 🇺🇸 USD	EIA Crude Oil Stocks Change(Mar 31)		-	-	-1.8M	-7.489M	🔔

Market Trading Update

The market finally took a bit of a breather yesterday after a torrid run last week. Importantly, as discussed yesterday, the market is testing the breakout of the downtrend line from the April high. A failure here will set the market up for an initial retest of the 50-DMA, which, if it holds, will be a bullish setup for another advance. Today?s challenge will be to hold that break above the downtrend resistance line and turn it into support by weeks end.

S&P 500, 1D O4128.03 H4133.13 L4086.87 C4102.53 −21.98 (−0.53%)
Moving Average Double (50, 200, Simple) 4025.53 3939.40

Max Target For This Rally — 4304.51

Initial Resistance — 4102.53 / 4100.22

Retested Support — 3806.00

Bear Market Low?

MACD (12, 26, close, 9) 22.27 25.44 3.18

Jun   Aug   Sep   Nov   2023   Mar   Apr   Jun

TradingView

S&P 500, 1D O4128.03 H4133.13 L4086.87 C4102.53 −21.98 (−0.53%)
Moving Average Double (50, 200, Simple) 4025.53 3939.40

Max Target For This Rally — 4304.51

Initial Resistance — 4102.53 / 4100.22

While the JOLTS data remains strong, this week?s big economic data point is the employment report which will likely determine the Fed?s next move. Given that the reports have consistently come in above expectations, a strong report will most assuredly keep the Fed on its current rate-hiking trajectory, which will not be market-friendly. As I noted in **_this past weekend?s newsletter_**, some selling pressure this week was unsurprising. To wit:

> *?After last week?s bullish push higher, every major sector and market is now highly overbought short-term. Look for a bit of correction next week, which will provide an opportunity to increase exposure for the next couple of weeks. April tends to be one of the more robust performance months of the year, and while markets are short-term overbought, they remain on solid bullish buy signals for now.?*

Year To Date Performance

Ticker	Performance
VWO	3.64%
VEA	7.62%
XLC	20.80%
TLT	6.84%
SLY	2.21%
MDY	3.53%
XLY	15.78%
XLV	-4.70%
XLU	-3.99%
XLP	0.21%
XLRE	1.22%
XLK	21.35%
XLI	3.02%
XLF	-5.99%
XLE	-5.30%
XLB	3.84%
SPY	7.05%

YTD Price - S&P Sectors Recalibrated To $50/share

Legend: XLB, XLE, XLF, XLI, XLK, XLRE, XLP, XLU, XLV, XLC, XLY, SPY
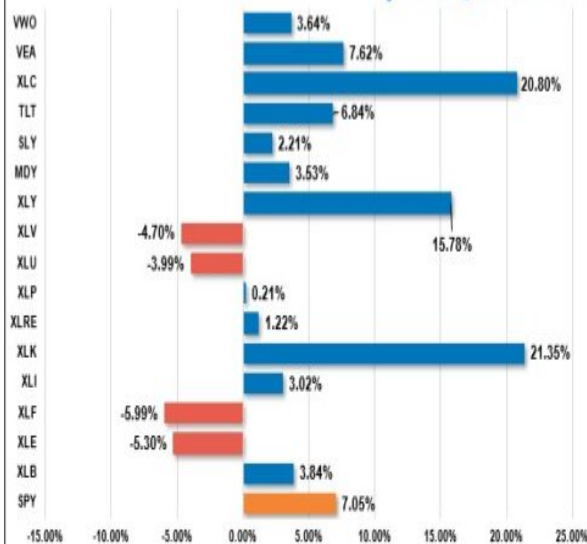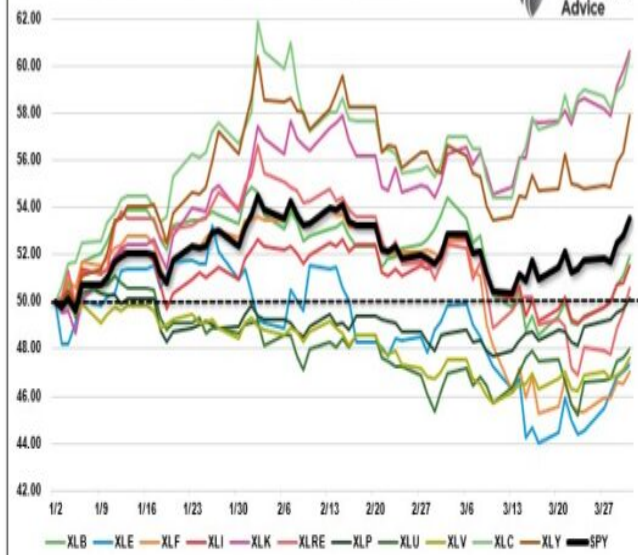
Year To Date Performance Relative To S&P 500

Values: 13.75%, 14.30%, 8.73%, 0.57%, 0, -0.21%, -3.21%, -4.03%, -5.83%, -6.84%, -3.52%, -4.84%, -3.41%, -12.35%, -13.04%, -11.04%, -11.75%

SPY XLB XLC XLE XLF XLI XLK XLRE XLP XLU XLV XLY MDY SLY TLT VEA VWO
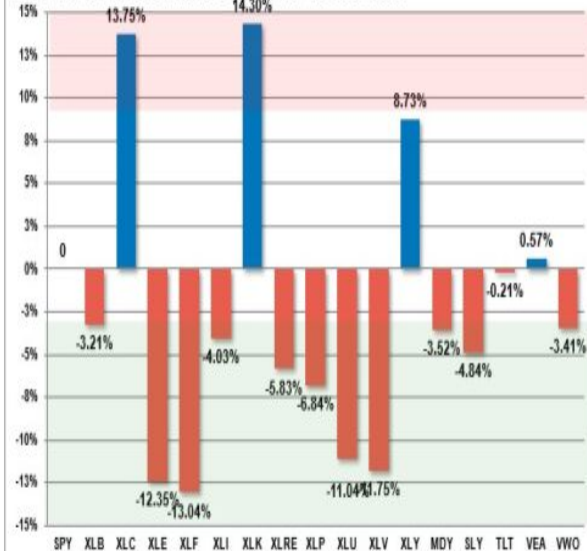
Price Deviation From 50-Day Moving Average

Values: 2.02%, -0.36%, -2.49%, -7.23%, 0.50%, 7.73%, -2.68%, 2.51%, 0.91%, -0.19%, 2.74%, -3.63%, -2.16%, 1.89%, 5.12%, 1.05%, -0.56%

SPY XLB XLE XLF XLI XLK XLRE XLP XLU XLV XLY MDY SLY TLT XLC VEA VWO
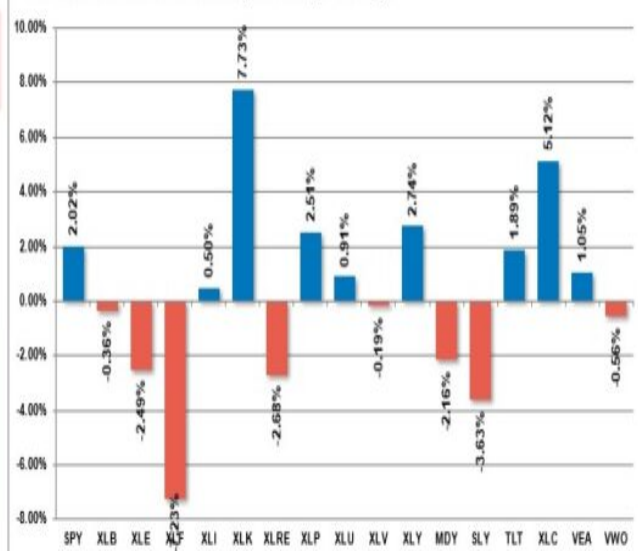
Overbought/Oversold 14-Periods

Composite Average, (1.91)
Composite Median,
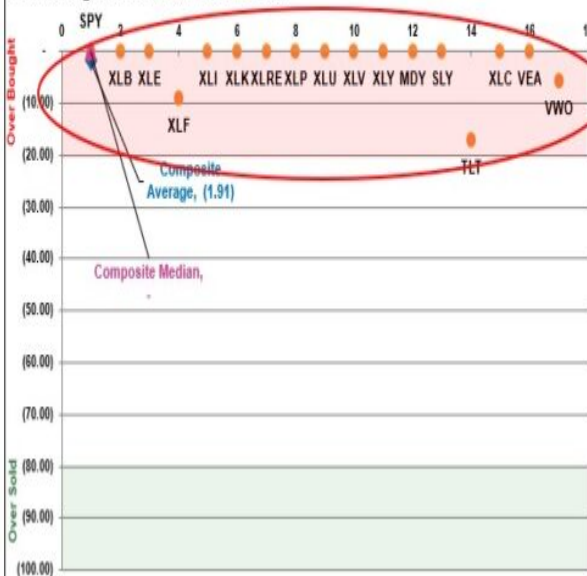
Size / Sector ETF YTD Trading Range

Ticker	Low	High
SLY	79.99	93.53
MDY	433.1	497.12
SPY	379.38	416.78
XLY	128.39	156.16
XLV	124.15	135.85
XLU	63.7	72.08
XLP	71.11	75.78
XLK	121.18	151.01
XLRE	34.62	41.83
XLI	96.51	103.67
XLF	30.98	37.00
XLE	76.97	93.11
XLB	75.51	85.21

Year To Date Performance

Ticker	Performance
VWO	3.64%
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XLC	20.80%
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MDY	3.53%
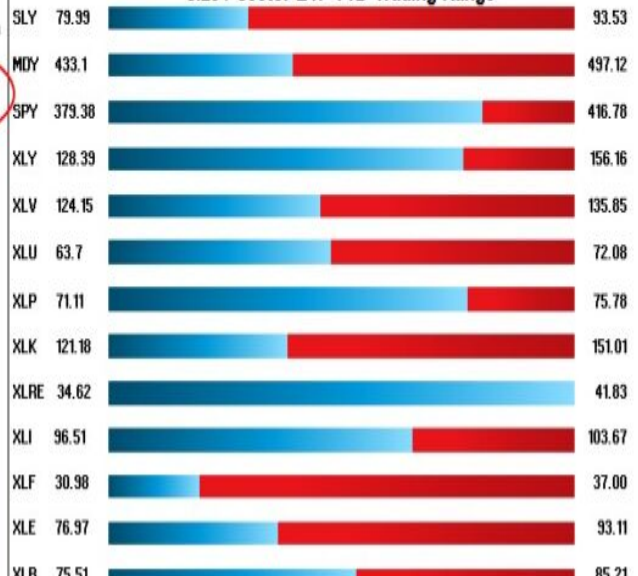
YTD Price - S&P Sectors Recalibrated To $50/share
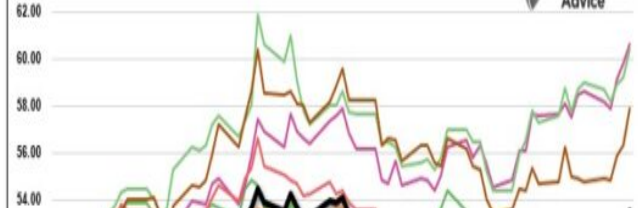
Cognitive Dissonance- Behavioral Traits II

Cognitive dissonance is similar to confirmation bias. This condition is experienced by an individual who holds two or more inconsistent thoughts simultaneously, including new information that conflicts with existing beliefs.

As we led this Commentary, the stock and bond markets and traditional recession signals are sending inconsistent messages. As a result, we must strive to be flexible in our outlook and trading behavior. Listening to diverging data points is important. But having an open mind and considering that this time may be different is equally critical to investment success.

Jolts, ISM, and the Atlanta Fed Point to Slowing Growth

The number of job openings plunged in February from 10.5 million to 9.9 million. January?s number was revised lower by about 300k jobs as well. The number of openings is still very high, but the trend is lower. Because JOLTs reflect February data, it has not captured any employment actions resulting from the banking crisis.

US Job Openings

⊟■ Mid Price	9931.0
T High on 03/31/22	12027.0
+ Average	5163.8
⊥ Low on 07/31/09	2232.0

∠ Annotate

12000
11000
9931.0
9000
8000
7000
6000
5000
4000
3000

'01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22
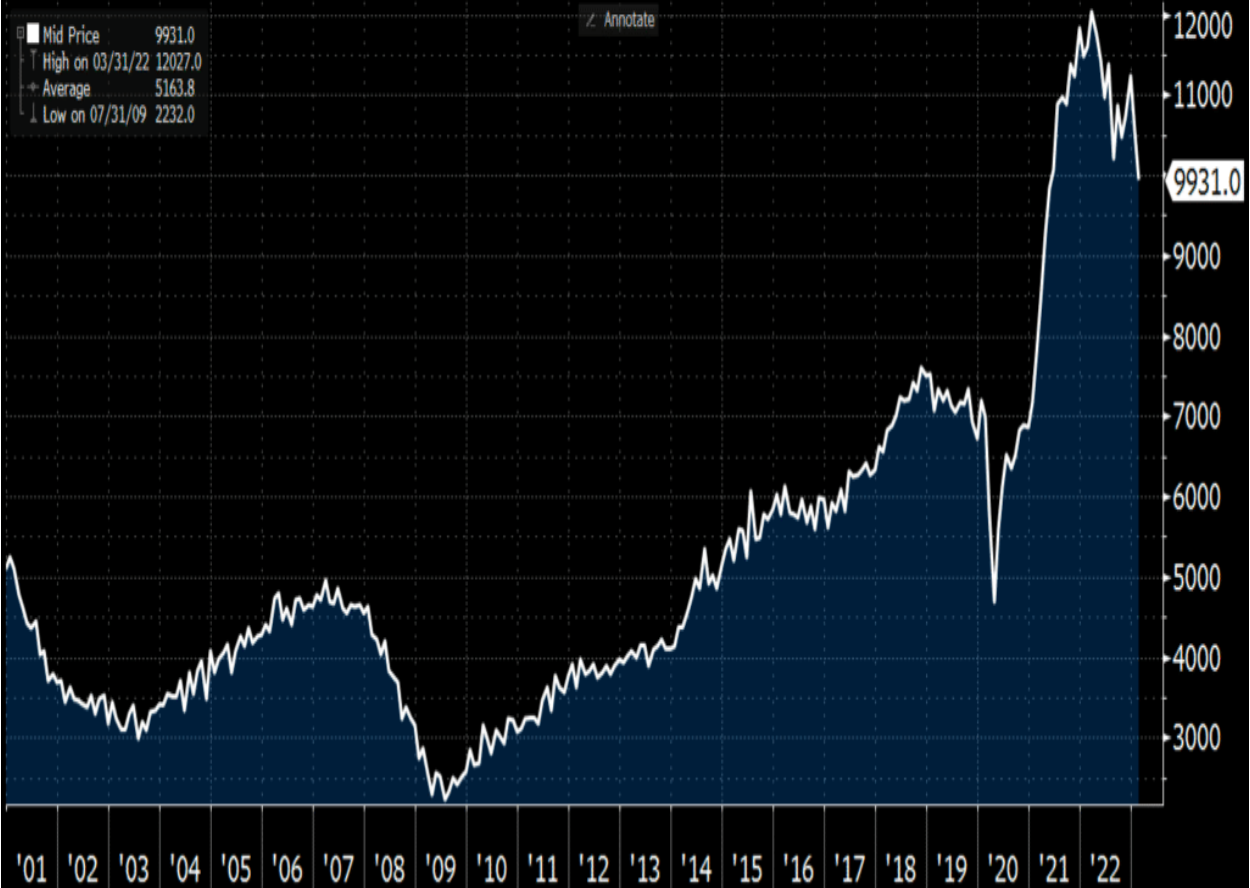
Source: Bloomberg

The ISM manufacturing survey, as shown below courtesy of Bianco Research, slipped to 46.3. Since 1950 the index has been below the current level 15 times. Only three of those instances did not accompany a recession. All of the subindexes, including employment, are in economic contraction territory. New Orders, a reliable leading indicator, fell from 47 to 44.3.

Institute of Supply Management (ISM)
Manufacturing Purchasing Managers' Index (PMI)

When Below 46.3, Always A Recesion

Apr-52
36.7

Apr-67
42.8

Jan-96
45.5

Apr-03
46.1

Mar-23
46.3
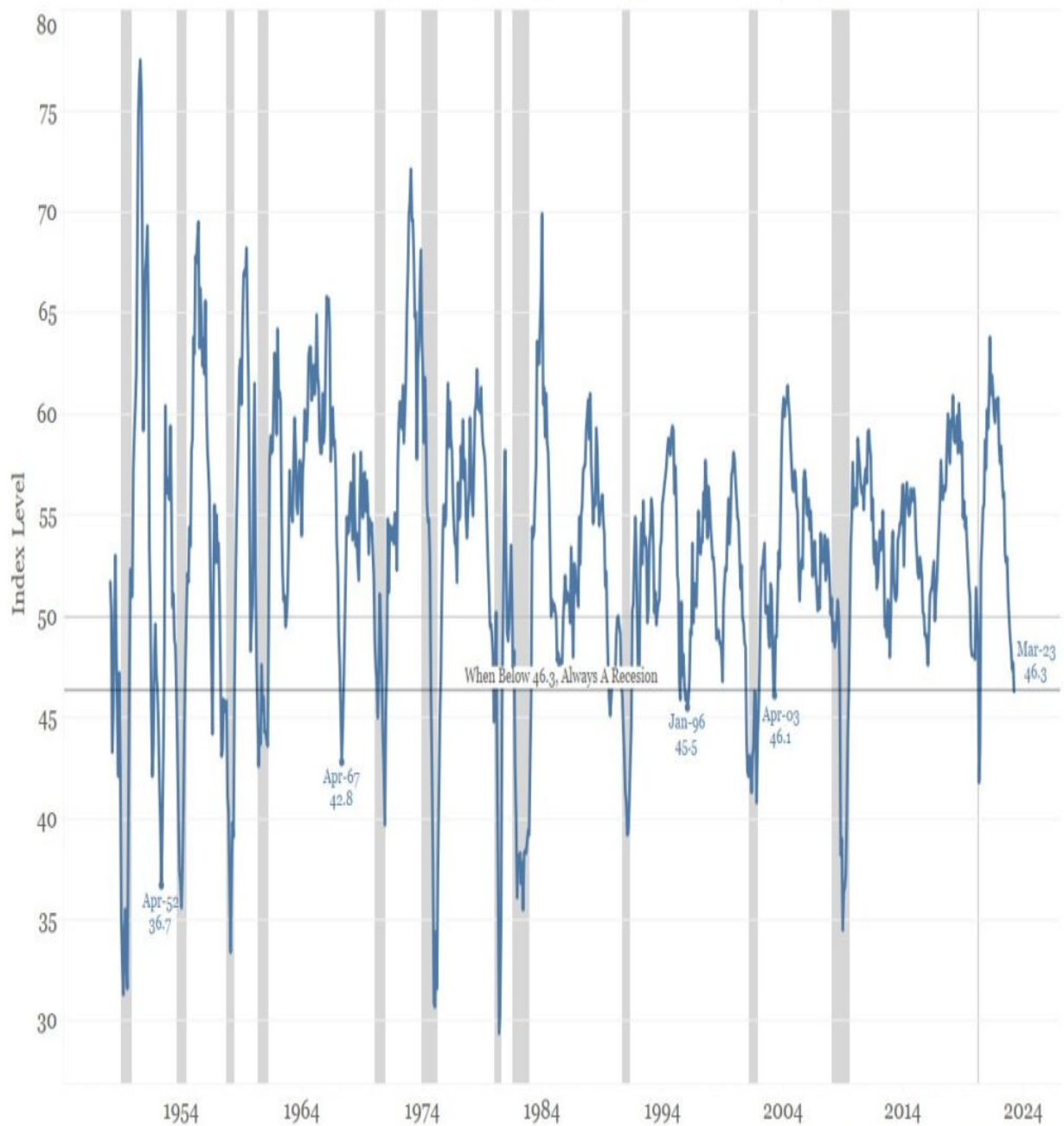
Source: Institute of Supply Management, Bloomberg

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https://www.biancoresearch.com/

Institute of Supply Management (ISM)
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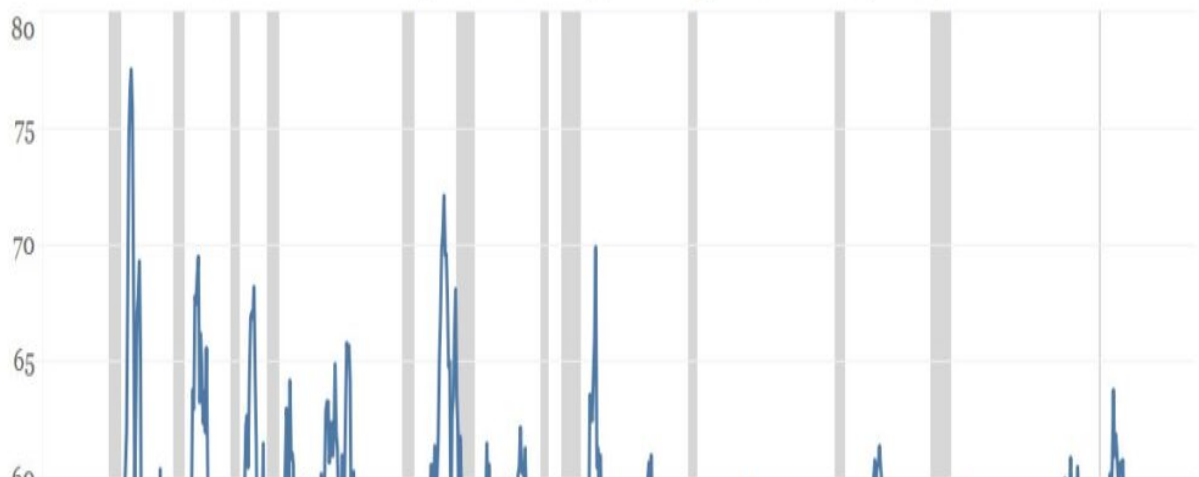
Lastly, the Atlanta Fed?s GDP forecast is falling quickly. The projection only uses actual data. The GDP projection in late March was +3.5%. That largely included data from January and February. Therefore, given the sharp decline, the forecasts point to rapidly slowing economic activity in March.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q1
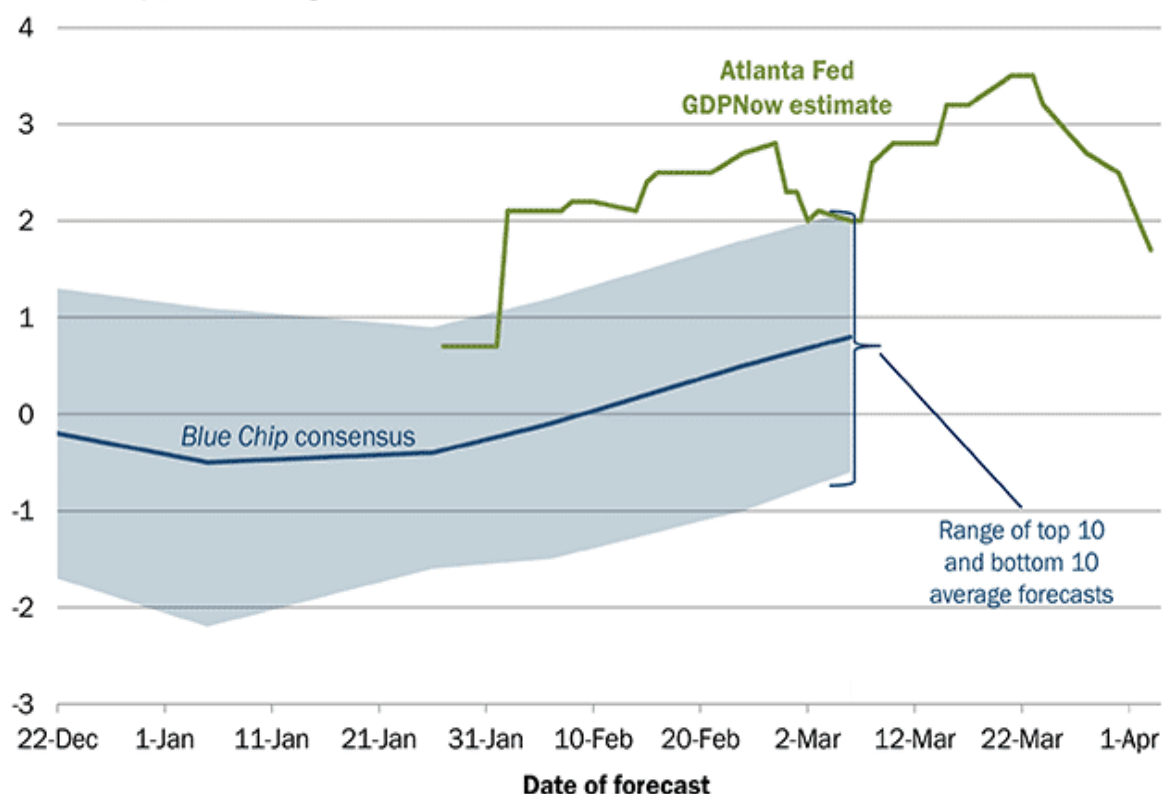
Quarterly percent change (SAAR)

Atlanta Fed GDPNow estimate

Blue Chip consensus

Range of top 10 and bottom 10 average forecasts

Date of forecast

Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q1

Quarterly percent change (SAAR)

Atlanta Fed GDPNow estimate

Blue Chip consensus

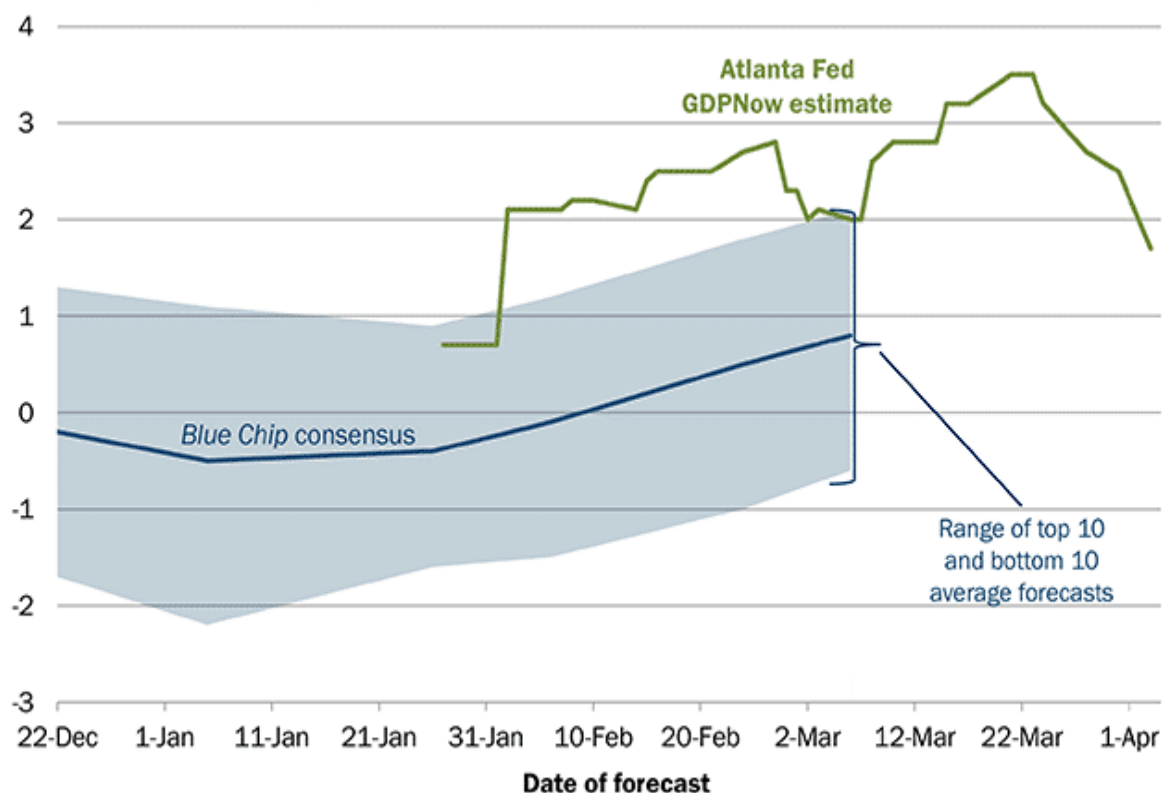Range of top 10 and bottom 10 average forecasts

Date of forecast

Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Profit Margin Compression

The graphs below from the Daily Shot show the broadest margin compression since 2000. The diffusion index measures the net percentage of S&P 500 firms reporting higher versus lower profit margins. Similarly, the second graph shows that profit margins have retracted. But they still have more room to fall to get back to normal.

S&P 500 Operating Margin Diffusion Index* @SoberLook

S&P 500 Operating Margin

© Alpine Macro 2023
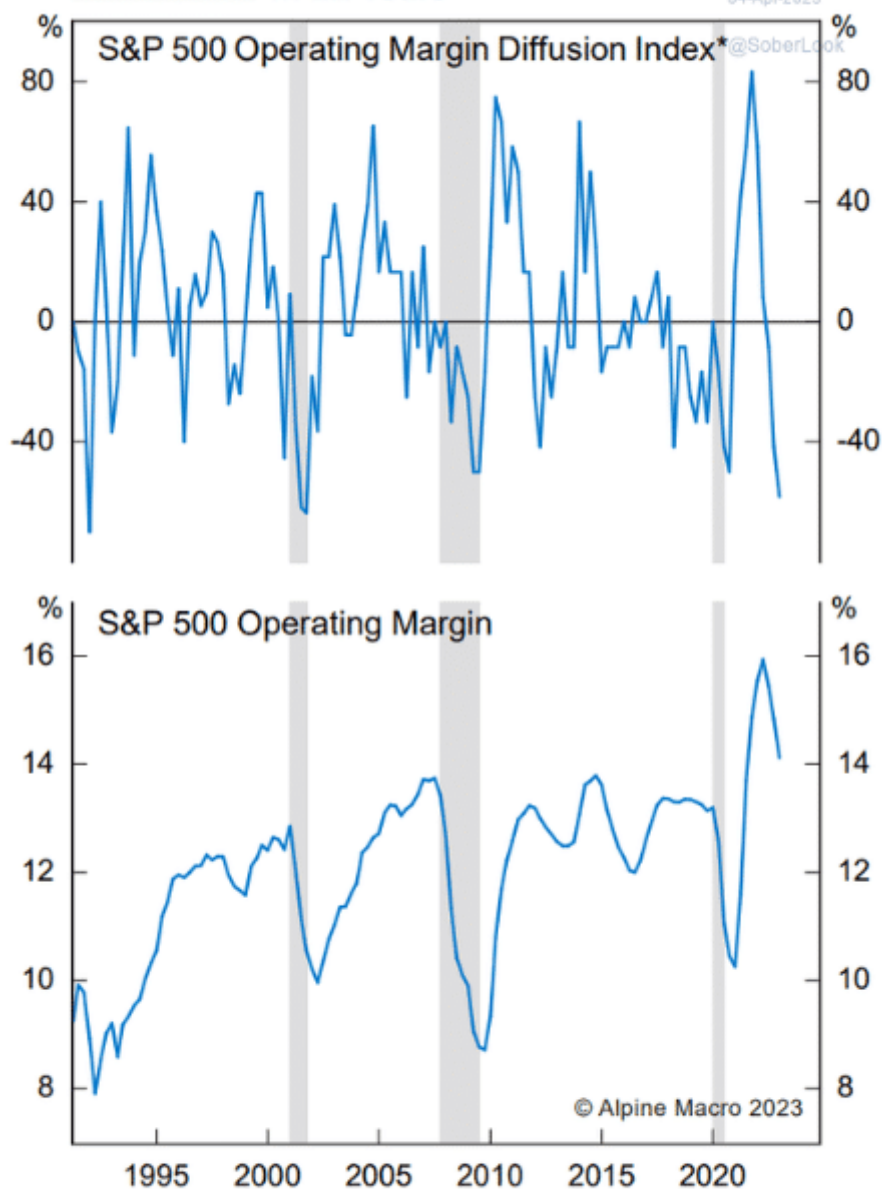
*% of sectors with rising operating margins minus % of sectors with decreasing operating margins
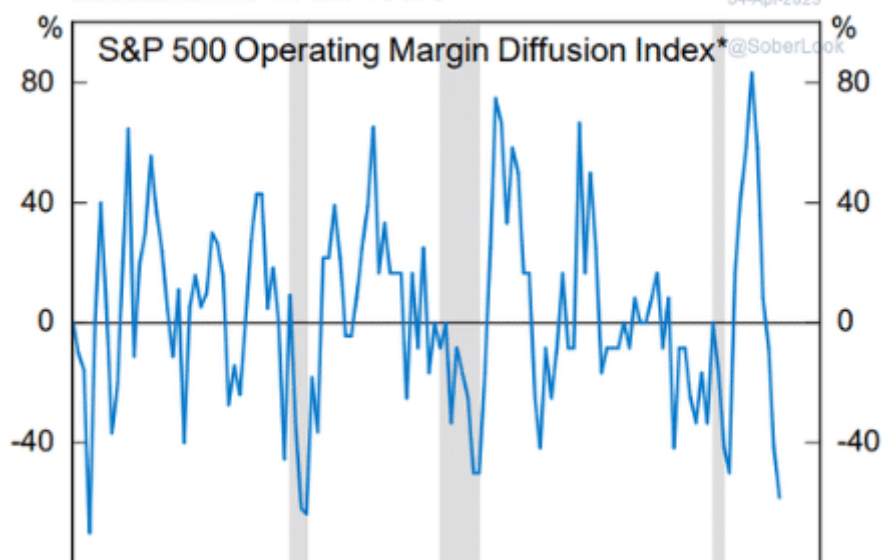Source: Bloomberg Finance L.P.
Note: Shading denotes U.S. recession periods

Tweet of the Day

Cameron Dawson ✓
@CameronDawson   ...

Tech's PE has now jumped so much that it now trades at a 38% premium to the S&P. This is even higher than at the pandemic bubble peak in late 2021!
Wild to think that pre-Powell pivot in 2019, tech traded at just a 4% premium to the market.

Technology PE Premium vs. S&P 500

Source: Bloomberg, NewEdge Wealth, as of 3/31/23

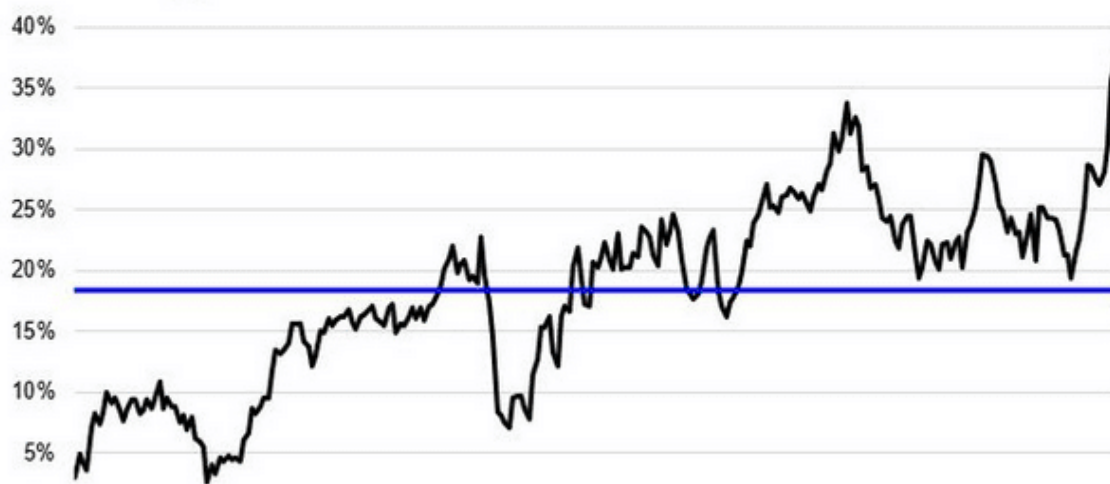
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Technology PE Premium vs. S&P 500

Please [subscribe to the daily commentary](#) to receive these updates every morning before the opening bell.

If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.