MV Capital Management Weekly Market Flash

Beware the Ides of March

March 6, 2015

March 15 – the Ides – falls a week from this coming Sunday. But this year it's actually two days after the ancient Roman feast of Lupercalia (and anniversary of the death of Julius Caesar) that has the soothsayers buzzing. That's when the Fed convenes for its next policy session, armed with the latest jobs data released earlier this morning. The hills and dales of the Twitterverse are alive with the sound of Fedwatchers: will they or won't they? How many synonyms for "patient" exist in the English language? Is the labor market really Schrödinger's Cat in disguise: tight (5.5% unemployment) and slack (near-zero wage growth) at the same time? How these questions play out in the days leading up to and then beyond the March 17-18 meeting will likely have a meaningful impact on the near term course of stocks and rates.

Strong Growth, No Growth

It is always interesting to follow the chatter after the monthly BLS jobs release: which data point will "win the day" and become the focal point of the conversation? Today's release served up a very impressive headline number: the overall unemployment rate fell to 5.5% and nonfarm payrolls added 295,000 jobs. That's twelve straight months of job creation above 200,000. The past four months represent the fastest pace of jobs growth since the late 1990s.

What looks nothing like the late '90s, though, is the persistently tepid pace of wage growth. One month ago we got a brief glimpse of a green shoot here, with average wages growing 12 cents month-to-month at the end of January. That green shoot appears to have been buried by the latest snowstorm though; wage growth was basically flat for February and in line with the year-on-year pace of 2% that has been the norm for a while.

So which is it, strong growth or no growth? Remember that there was a time, not too long ago, when Fed guidance on rates focused on crossing the unemployment threshold of 6.5%. Obviously that threshold has long since come and gone. What has stayed the Fed's hand has been softness in prices generally and wages in particular. This month's data fail to serve up a conclusive take on what the Fed will be inclined to do come mid-month. But one view is coming in loud and clear: yields on the 10-year have jumped 11 basis points since the jobs data release.

Curve Balls

What is happening on the yield curve today is, in fact, somewhat counterintuitive. The spike in the 10-year yield is of a larger magnitude than movements in the 2-year yield, which as a short term rate is more directly impacted by Fed rate policy. The general consensus among bond market watchers has called for a continued flattening of the curve, with short term rates rising in anticipation of the Fed, while ongoing foreign demand for intermediate- and long-dated issues keeps a lid on yields down-curve. We think it likelier than not that today's curve trades are more noise than signal. With Eurozone QE firing up and foreign currencies plumbing new lows against the dollar, there should be plenty of continuing appetite for Uncle Sam's debt obligations.

Equities are also trending negative today, so stocks and bonds alike seem to be listening to the soothsayers and fearing what comes after the Ides. But, as we have said here time and again, in the long run growth should trump rates. We'll take Fed action – whether a simple removal of "patient" from the lexicon or more decisive guidance on timing – as another signpost on the road towards growth and a reason to stay fully invested in equities.

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