

Current Rate Environment

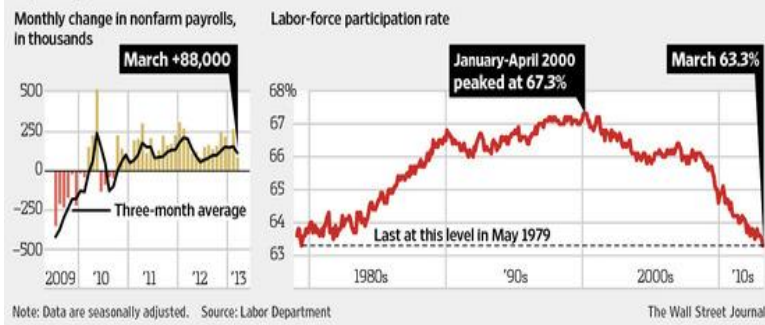
Short Term Rates	Today	Last Week	Change
1-Month LIBOR	0.20%	0.20%	0.00% ○
3-Month LIBOR	0.28%	0.28%	0.00% ○
Fed Funds	0.25%	0.25%	0.00% ○
Fed Discount	0.75%	0.75%	0.00% ○
Prime	3.25%	3.25%	0.00% ○
US Treasury Yields			
2-year Treasury	0.23%	0.24%	(0.01%) ▼
5-year Treasury	0.69%	0.77%	(0.08%) ▼
10-year Treasury	1.71%	1.85%	(0.14%) ▼
Swaps vs. 3M LIBOR			
2-year	0.48%	0.52%	(0.04%) ▼
5-year	0.98%	1.06%	(0.08%) ▼
10-year	1.99%	2.11%	(0.12%) ▼

Fed Speak & Economic News:

- Last week was largely dominated by employment numbers which unfortunately gave us little to get “worked” up about. On Wednesday, jobless claims revealed that more Americans than projected filed applications for unemployment benefits. Claims rose by 28,000 to 385,000 for the week ended March 30, the highest since November 24, 2012 according to Bureau of Labor Statistics figures. However, the more disappointing release was Friday’s change in Nonfarm Payrolls. The U.S. economy added just 88,000 jobs in March, significantly below economists’ expectations of 190,000. These numbers showed the weakest job creation since June 2012, and added to signs of weaker growth heading into the spring. As a result, U.S. stock futures extended losses steeply and equities closed lower on the week. In spite of these metrics indicating the labor market slowing, the unemployment rate has fallen from 7.7% to 7.6%. However, the labor force participation rate hit the lowest level since 1979, pointing to many job-seekers giving up their search and artificially pushing the unemployment rate lower. Interestingly enough, some of these labor force dropouts have begun to assume Social Security disability benefits, and are thus foregoing the trials of the tumultuous job market in exchange for increased, albeit temporary, economic security.
- The Bank of Japan announced its new monetary easing measures last week, and proceeded with bond-buying plans today with little disruption. As market participants began to get a feel for how the BOJ’s proposed initiatives would affect supply and demand for different parts of the yield curve, the central bank received significantly more bids than in its original proposal. The BOJ offered to buy ¥1T (\$10.3B) of Japanese government bonds with maturities of 5-10 years and ¥200B of bonds with maturities exceeding 10 years as part of its aggressive deflation-fighting plans; however financial firms put in bids to sell ¥2.05T and ¥633.7B of bonds in the specified maturity ranges. As a result, the yen has consequentially dipped against major currencies, falling approximately 6% against currencies like the US dollar and the Euro. This mismatch comes as market participants try to determine which levels are fair value.

Working: A Thing of the Past

Spring Brake



The Fed has released its target to hit an unemployment level of 6.5% which may prove to be a fool’s errand. Another 663k people dropped from the labor force bringing the total to 90 million and pulling the unemployment rate down with it. Researchers claim that as much a quarter of the dropouts are people who receive long-term or permanent disability. Ailments that workers would ignore during normal times are more likely to be reported during times of low jobs availability. If we use the long-term average normalized participation rate of 65.8%, the unemployment rate is an alarming 11.6% - vastly different from the reported 7.6%.

U.S. Economic Data

- Construction spending in the U.S. has exceeded expectations during March, increasing 1.2% from its previous decrease of 2.1%.
- ISM’s monthly gauge of manufacturing activity for March was below estimates of 54.2 but still shows sign of sector growth with 51.3.
- Household Employment survey showed that analysts overestimated job growth, showing companies adding 158K jobs instead of projected 200K.

Date	Indicator	For	Forecast	Last
10-Apr	Mar 19-20 FOMC Minutes	Mar	-	-
11-Apr	Import Price Index (MoM)	Mar	(0.5%)	1.1%
12-Apr	Advance Retail Sales	Mar	0.0%	1.1%
12-Apr	Producer Price Index (MoM)	Mar	(0.2%)	0.7%
12-Apr	Business Inventories	Feb	0.4%	1.0%
12-Apr	Empire Manufacturing	Apr	7.0	1.0%

Source of Chart Data: Wall Street Journal Source of Financial Data: Bloomberg

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