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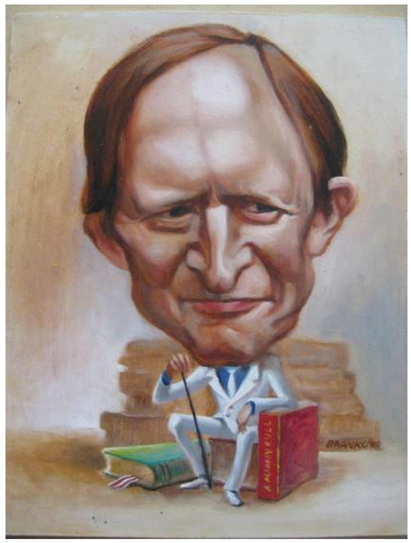
# Status Quo




By **William H. Gross** | July 21, 2023

*I find sometimes it's easy to be myself*

*Sometimes I find it's better to be somebody else*

Dave Matthews "So Much to Say"

Before you say "not me" to Matthews' jewel of introspection, you should know that at some point(s) in your life you probably did – want to be someone else. So did I. As a matter of fact, since my early 20's I've always dreamed of being a rock star. I loved music but the fixation was more a question I think of the crowd, the adulation, the girls(?) – well maybe. But if it was the girls, then rock star "status" was probably my objective because then I might have become as psychiatrist Carl Jung wrote a "persona". These "personas" seem somewhat bigger than life to others and the closeness may give a brief ego boost to their followers. Take a look at a golf tournament where the pros are walking between greens and the next tee. Spectators reach out to touch hands which could be a friendly gesture but more likely is an attempt to connect with a "star," someone with status on a quest they would like to pursue.

Tom Wolfe, author, addressed status in several of his books – especially in "A Man in Full" which posed superstar status for his fictitious "Man." Wolfe, though, trashed the superficial conclusion that status was worth anything, and today's media barrages of instant – and then not so – superstar status more than confirms his thesis. In religion, the Buddha dissed status as well, professing that "Nirvana" was a quest for statuslessness.

So we all move forward in life, some of us worldly wise earlier than others, some of us being taught a few of life's hard lessons later on, but most of us toward the end likely admitting inwardly (and sometimes in public!) that the quest for status has its benefits, but it's mostly a bunch of bullshit. Status brings only temporary happiness. Before attempting Buddha's goal of "statuslessness," a happy person (as I once read), probably has "someone to love," "something to do," and "something to look forward to." If you are that person then you be my "rock star!"

Well what's the status of the U.S. bond markets? Like life, it has its complications primarily because monetary and fiscal policy, dictated by Congress and managed by the Treasury, are usually positively correlated, but with lags. I have tweeted recently that the recent bout of near hyper-inflation was really a joint creation of an oblivious Fed, and a 4-trillion-dollar-plus Covid fiscal policy that continues to feed consumer spending. This positive correlation of higher deficits and tighter monetary policy with a lag have produced an increase in the Treasury 10 year of 325 basis points from its 2021 bottom. But with inflation back to 3% or so and the Fed nearing the end of its tightening cycle, it would appear to many that a new bond bull market is about to begin. While I think that the 10 year at 3.80% may have peaked at 4% for 2023, a bull market is not in the cards. Here's why:

(1) While the Covid fiscal deficit of 3 trillion-plus is now a more reasonable $1 trillion, the $1 trillion is still higher than that during the Great Recession. Supply and the current Quantitative Tightening (QT) program by the Fed, promise to keep yields above 3.5% for a long, long time. Medicare, Medicaid, and Boomer Social Security benefits will floor the 10 year near current levels.

(2) If Jay Powell's goal of 2% inflation is achieved, a 2.5% Fed Funds level (.5% real) historically has led to a +140 basis point spread for the 10 year over FF, what is commonly known as the "term premium". That suggests 3.9% for the 10 year at 2% inflation. The market at 3.75% is already there and then some. If 2% inflation cannot be achieved and sustained then 2024/2025 may see 4%+ yields.

(3) While the U.S. Treasury market may be the world's lead horse, it does not necessarily dictate if other bond markets will follow stride for stride. Germany's 10-year Bund has risen 300 basis points from its bottom, much like the U.S., but the ECB has more work to do than the Fed and may exert a gravitational upward pull in future months. Similarly, UK 10-year Gilts – and yes Japanese 10-year JGBs show little sign of bullishness.

So the status of U.S. 10-year rates, like the "persona" status of Tom Wolfe's "A Man in Full" -- is superficial. Ultimately, but not now as the market awaits a future Fed easing policy, bondholders will experience a continuing bear market, with negative implications for stocks as well.