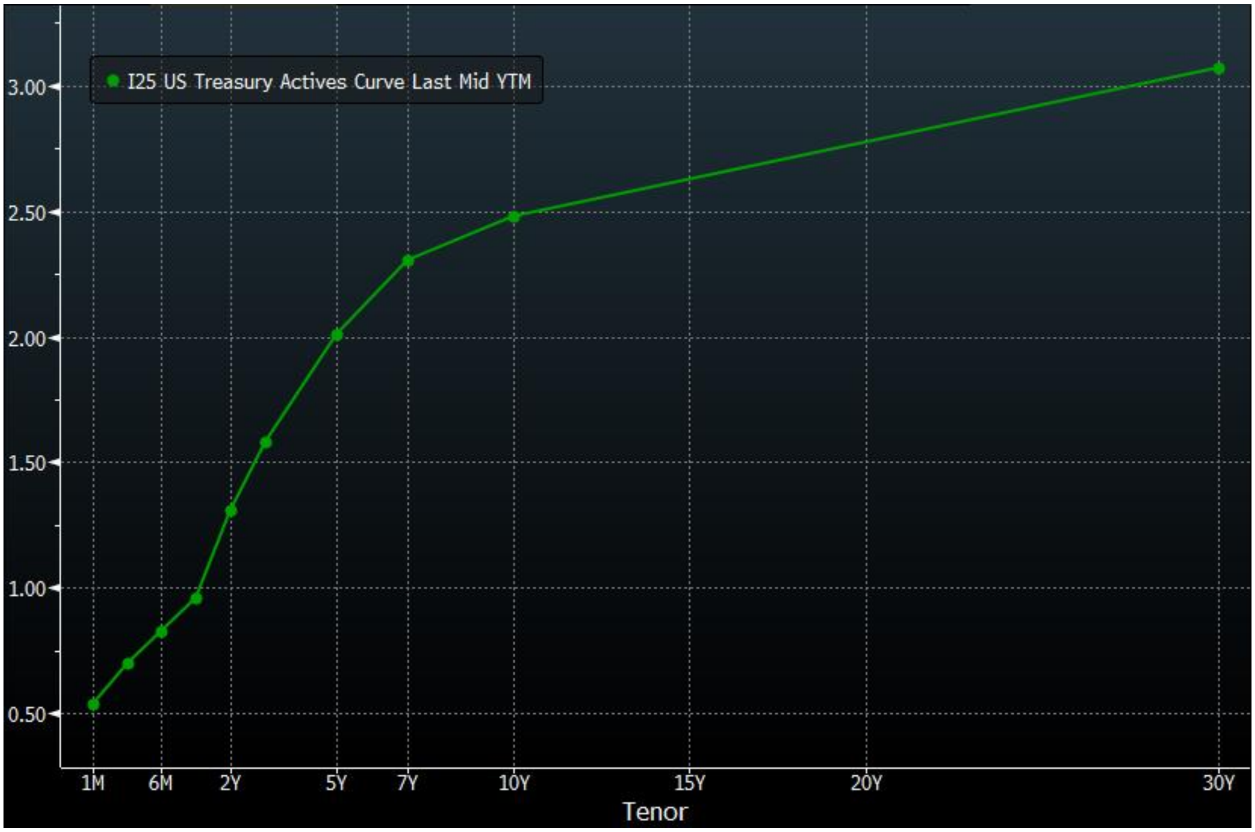
Bond Report

This past week, the main concern of the bond market was related to the likelihood of an interest rate hike from the Federal Reserve as soon as March. In addition to that, investors have been expecting Trump's speech in front of the Congress to get a better idea of the timeline of the new president's planned fiscal policies. On Monday, as Dallas Fed President Robert Kaplan made comments that increased the likelihood of a March hike to more than 50%, Treasury yields increased slightly. Impact of this news was yet limited, as the market expects Trump to give indications regarding his tax plan. In the last weeks, market has been concerned that expected fiscal policies might have a limited impact this year. On Tuesday, ahead of Trump's speech, Treasury yields marginally fell on concerns that Trump's fiscal policies may be delayed. One of the main reasons of this expected delay is the statement from the White House that replacing Obamacare was a difficult and time-consuming task that had to be tackled in priority. On Wednesday, even though market deemed Trump's speech to a joint session of Congress to be a success, some investors were disappointed as President Trump failed to give more details regarding his fiscal policies timeline. Eventually, yields were send higher (largest one-day increase in almost four months) as comments from several Fed officials increased the probability of a March hike to as much as 70%, against 30% a week earlier. On Thursday, yields kept on climbing as Wall Street estimated the probability of a hike to be 77.5%. As a weak labor report may delay the Fed's plans to increase interest rates, investors were relieved as data released on Thursday showed Initial Jobless Claims had fallen to their lowest level since 1973. Finally, on Friday, yields remained fairly constant as Janet Yellen stated that a hike would be likely as long as labor and inflation data were "in line with the Fed's expectations". Now, probability of a hike during the Fed's two-day meeting to come in the next weeks is as high as 82%. Through the week, short-term Treasury yields generally advanced, as the yield on the two-year note increased 16 basis points to 1.304%. Regarding long-term Treasury bonds, the trend was the same as the 10-year Treasury yield reached 2.492% (a 17.5 basis points advance during the week) and the 30-year Treasury yield jumped by 13.1 basis points to 3.084%.



What's next and key events

Next week, few official reports and data releases are expected and will likely give indications of the state of the market and the US economy ahed of the FOMC meeting to take place on March 14th and 15th. On Wednesday, data about MBA (Mortgage Bankers' Association) Mortgage Application will be released. This indicator not only gives the general state of the housing market, but also gives indications about households' confidence. This past week, the index increased by as much as 5.8%, showing a considerable increase in people's confidence over the economy's health. On Thursday, data regarding Initial Jobless Claims will be released. As explained above, this indicators has recently reached its 40-year low (223,000 initial claims last week), showing that fewer people are filing for unemployment benefits. Confirmation of last week's data may be a hint that the labor market is solid enough for the Fed to proceed with its interest rate hikes. Consensus for next week however is 238,000 initial jobless claims, an increase of 15,000 from last week. Finally, still on Thursday, data for Consumer Comfort Index will be released. This release will give a more precise idea of households' views on personal finances, buying climate, and on the economy in general.