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Market Scan

Investors Running Out Of Places To Hide

Melinda Peer, 11.05.08, 7:15 PM ET

Although there was enough bleak U.S. economic data on Wednesday to trigger a rush into government-issued bonds, the safe havens lost some of their appeal after the Treasury said it would sell $55.0 billion in new securities to finance government spending.

Yields on short- and long-term U.S. Treasury debt securities were only modestly lower, despite a sharp slide in Wall Street equities. The mild declines in interest rates seems to have reflected investor worries about the upcoming new supply, which will include three-year and 10-year notes and 30-year bonds as a way to foot the bill for spending packages aimed at easing fears in the credit markets (See "The Global Financial Crisis.") The yield on the three-month Treasury bill fell to 0.40% from 0.44% and the two-year Treasury note's yield slipped to 1.35% from 1.39%, while the yield on the 10-year Treasury bond dropped to 4.14% from 4.26%.

The iShares Lehman 10-20 Year Treasury Bond exchange-traded-fund, which tracks the long-term end of the government bond market, rose 1.0%, to $104.94, a gain of $1.04.

Bill Walsh, chief Executive of Hennion & Walsh, an investment-services company, said the modest improvement in bond prices--which lowers yields--was a flight to safety spurred by data released Wednesday showing that the U.S. job market weakened October.

The U.S. private sector lost 157,000 jobs in October, according to Automatic Data Processing, provides payroll processing to many companies and uses its data to predict overall American employment statistics. The drop in payrolls was much wider than the 115,000 decline expected by economists and doesn't bode well for Friday's employment report from the government. The Labor Department's data--considered the most accurate measure--includes government jobs and typically shows deeper declines than the ADP National Employment report.

In September, the ADP reported 8,000 job losses in the private sector but revised the month's number downward to 26,000 on Wednesday. According to the Labor Department, the U.S. economy lost 159,000 jobs in September.

Although the ADP said October job losses were largest in the goods-producing sector, where payrolls declined by 126,000, the service-providing sector posted its first drop since November 2002. The 31,000 decline there reflects widespread efforts by beleaguered hospitality, travel and banking industries to cut costs by enacting massive lay-offs.

Data from the Institute for Supply Management, meanwhile, underscored the weakness in the U.S. service sector. The ISM nonmanufacturing index, which measures economic activity in the services sector, fell 5.8 percentage points, to 44.4% in October, from 50.2% in September. A reading under 50.0% indicates a contraction, and the latest result follows two months of growth. According to respondents of the ISM report, the economic downturn is hurting the hospitality and dining industry, which is seeing fewer customers and smaller check averages. Sapped discretionary spending continues to pressure the entertainment industry and jobs are slowing for companies providing financial, technical and professional support services.

"This is an inevitability because you can only stretch the rubber-band so far," said Ron Altman, Portfolio Manager to the Aston/MB Enhanced Equity Income Fund, called the service sector's slowdown "an inevitability."

For the past 50 years, Altman said the consumer's percentage share of gross domestic product has gone from the low 60s to the low 70s as a percentage of GDP. "Altman said the days of using credit as leverage to uphold consumption growth are over. "It's time to start moving some of the GDP growth from the consumer side to the capital-investment side and I think, quite fortunately, we've elected just the guy to do it," Altman said, pointing to president-elect Barack Obama's plan to accelerate infrastructure spending. (See "The New President.")

Altman's take is bad news for the consumer-driven services industry, which will suffer more job losses and remain weak for the next five to 10 years by his estimates, but good news for other industries like technology, construction and clean energy.