As a dad with one kid in their first year of college and another as a high school senior, I am sickened by the admission scandal. Parents are already too heavily involved in their kids' lives, now they are bribing officials to get their kids into schools they didn't deserve to get into? And we wonder why this generation feels entitled. We are to blame, not them.

More importantly, now I have to have *another* round of discussions with my kids to explain that no, one of the Desperate Housewives' daughter didn't take *your* spot. Another, more deserving kid got *your* spot. You know, the kid with better grades, better test scores, and more extracurricular activities. That doesn't make you a bad student, it just makes them a *better* student. I got news for you – you aren't going to be the best at everything. Breaking that kind of news to our kids isn't tough love, it's just love.

I had this discussion with them after the rejection letters came in and they only just stopped crying recently. But this scandal has re-opened those wounds and I've had to explain *again* that they didn't get ripped off, someone more deserving got the spot.

Shame on you Aunt Becky for making me revisit those talks! I always suspected Uncle Jesse and his magical hair was too good for you. Now I know for sure.

Also, you spent $500k to get into University of Southern California?! Nothing against USC, but for $500k it better come with an Ivy League diploma (not Cornell or Brown) and at least a hallway named after me or something.

Last Week This Morning

- 10 Year Treasury down another 0.04% to 2.59%
    - German bund basically flat at 0.08%
    - Japan 10yr yielding -0.05%
- 2 Year Treasury down 0.02% to 2.44%
- LIBOR at 2.48% and SOFR at 2.42%
- Core CPI missed slightly, coming in at 2.1% vs forecasted 2.2%
- PM May continues to get hammered in Parliament, but they did vote to delay the exit
- Treasury Secretary Mnuchin called for a delay to the March trade summit with China due to a lack of progress being made

Treasury Volatility

Bank of American has an interesting graph that tracks interest rate volatility. This graph does not show whether rates moved up or down, just the absolute movement – aka volatility.

We are testing all-time lows.

10800 Sikes Pl Suite 220
Charlotte, NC 28827

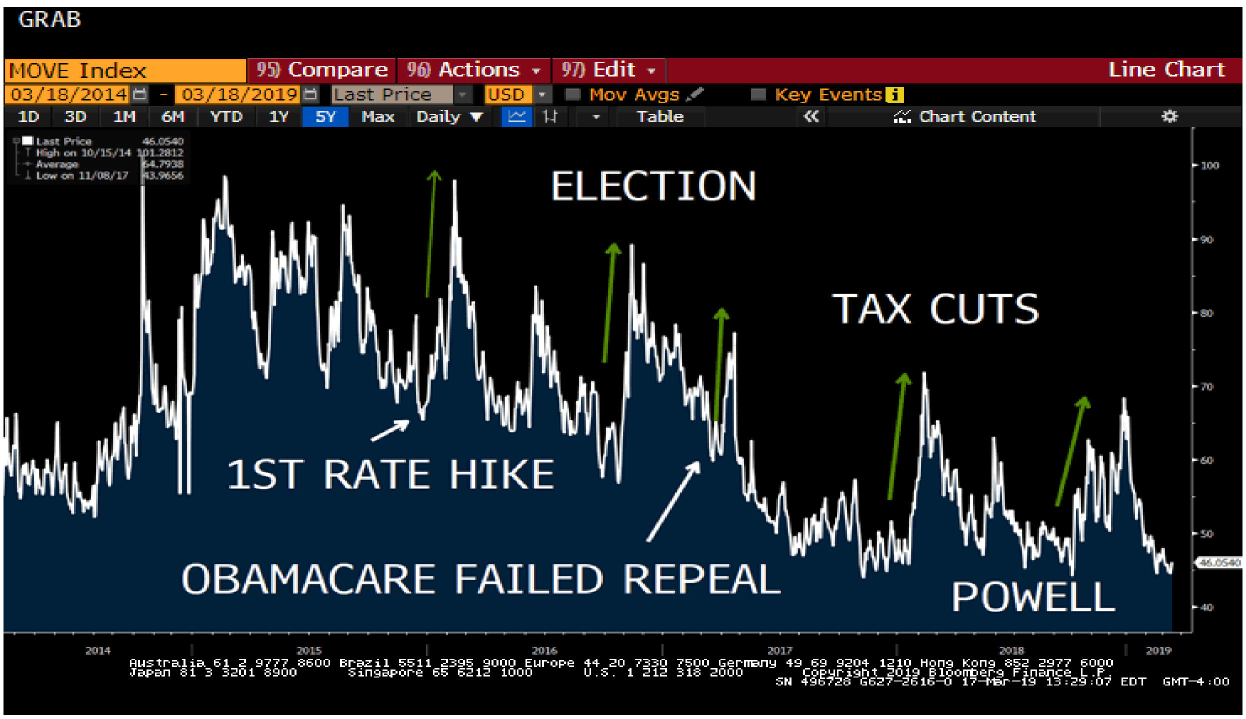
(704) 887-9880
Pensford.com

This week's Fed meeting has the possibility of causing volatility to spike; however, we think it's more likely to have the opposite effect. Powell is still reeling from Q4 market nausea, there's no reason for him to inject certainty right now.

More likely, the Fed will reassure the market and create as much transparency as possible about balance sheet normalization and rate hikes (or lack thereof).

Note how periods of extremely low volatility are usually followed by dramatic spikes. Generally, this spike followed 2-4 months of complacency and then some event caused the spike.

Perhaps Treasury yields are set for a period of complacency…followed by a dramatic spike?



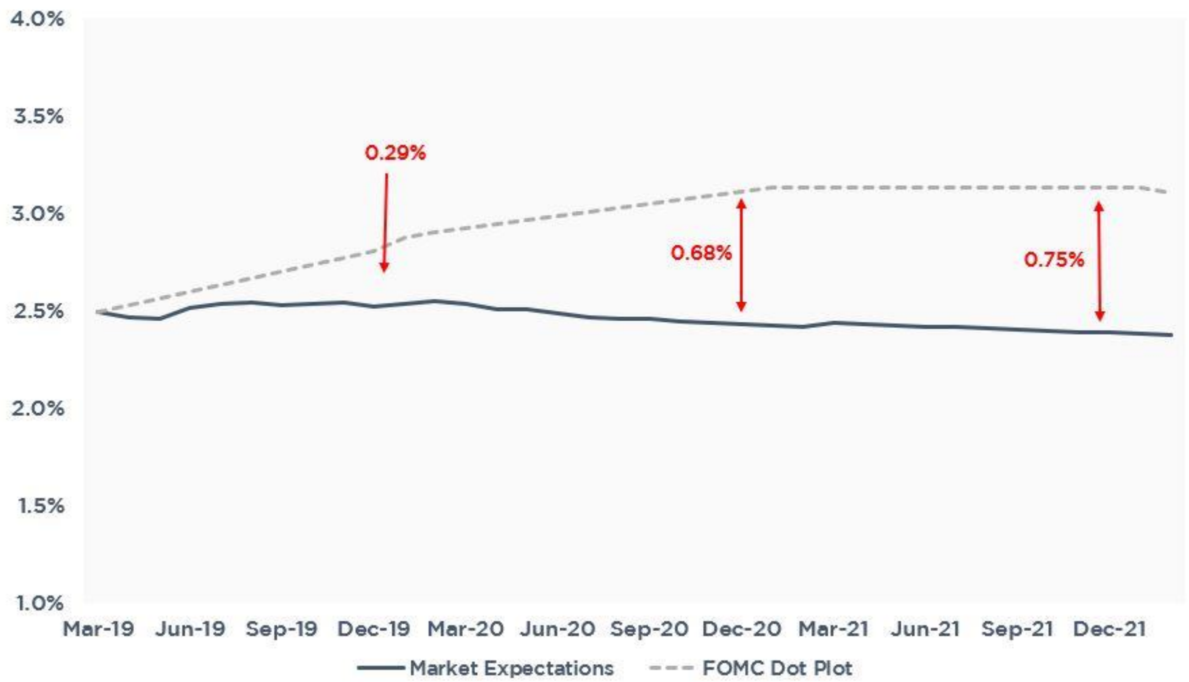
Source: Bloomberg Finance, LP

FOMC Meeting This Week

The Fed's next rate decision is Wednesday. Spoiler alert - they will not be hiking rates.

They will also be removing some rate hikes from their forecasts. They are still projecting three hikes this year even though my grandmother knows that's not happening.

In the graph below, notice the discrepancy between the Fed's projections (dashed line) and the market forward curve (solid line). Over the next 18 months, there's a disagreement of about three hikes.



The Fed historically doesn't like this type of discrepancy and works to keep these two lines on top of each other. There are three ways to achieve this:

- Fed lowers its own projections (dashed line shifts down)
- Fed convinces the market that it will hiking as expected (forward curve shifts up)
- Some combination of both

The Fed will use this meeting to remove one or two of the hikes in its own projections, which would shift the dashed line down. I think they'll leave one hike in this year just because it's easier to remove a hike than to add one back in later on.

They may also provide more guidance on when balance sheet normalization will conclude. Smart money is on year end, but I think it may even be late summer/early fall.

This Week

The Fed meeting and China trade talk will dominate the news, while the 10 Year Treasury is testing the 2.62% level. If it breaks through the 2019 low of 2.54%, watch out below…