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Jobless Claims Up, Fiscal Spending Up

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Stocks were flat after spending most of the session in positive territory. The Dow Jones Industrial Average creeped forward 39 points to 23,515 while the S&P 500 finished 2 points lower to close at 2,797. The Nasdaq Composite moved lower by 1 point to 8,494. The market pulled back from session highs as officials in China indicated that the Gilead anti-viral drug Remdesivir was not effective in late stage patients and they closed their trial early.

The labor department announced that another 4.4 million Americans filed for unemployment claims last week. While still at eye-popping levels, it was less than last week and less than estimated by wall street. No matter how you look at it, 4.4 million jobless claims is awful. If there is anything positive, it is that both New York and California saw significant drops in jobless claims. This new report brings the total job losses to more than 26 million since the virus outbreak triggered stay-at-home public health measures, erasing the entirety of the 22.78 million jobs created since the Great Recession a decade ago. With a total labor force of about 162 million people, the claims figures suggest unemployment will be well past the 10 percent peak seen during the 2008 financial crisis.

After the market closed, the U.S. House of Representatives overwhelmingly approved the $484 billion coronavirus relief bill, aka spending bill #4. Taken together, the four bills amount to about $3.0 trillion in spending. The measure passed the House by a vote of 388-5.

The fiscal spending response to fill the hole in the economy caused by public health policies to fight the pandemic has been unprecedented. The United States has a total of $24 trillion of debt. If the rumored spending bill #5 comes to fruition, the bills written in six weeks' time, would amount to approximately 15-20% of the total debt. With that much spending the obvious question is who will buy the debt? To date the U.S. Treasury has had no problem finding a home for the additional treasury securities, likely due to global investors' appetite for safe haven investments, regardless of the low yields.

Who holds the debt and what are the chances that they will "dump it" driving interest rates "through the roof"?

Of the $24 trillion U.S. Treasury debt:

- ~ 25% of it is held by other U.S. Government Agencies, such as Social Security
- ~ 33% is held by foreign investors such as central bankers outside the U.S., including Japan and China
- ~ 42% is held by domestic investors including pensions, mutual funds, individuals and corporations.

Investors worry about foreign investors dumping their treasury holdings. However, there is a large penalty for Japan or China to sell treasuries. If they sold U.S. Treasuries and repatriated their investments into their own country, they would be selling treasuries in U.S. Dollars and buying securities in their own currency. The process of selling dollars and buying their local currency would make the dollar fall and their currency rise. A stronger local currency for Japan and China would be devastating to their export-driven economies. Finally, domestic investors could very well sell treasury securities as they asset allocate away from low yielded bonds to something more attractive. That process will happen as the need for safety subsides.