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Analysts See a Steady Week for Bond Market

Compiled by Our Staff From Dispatches
Paris, Monday, December 21, 1998

NEW YORK – U.S. Treasuries face little pressure from the ongoing impeachment struggle in Washington, according to market economists and money managers.

“I don’t think it’s a big deal for the markets as long as Greenspan and Rubin keep their jobs,” said Alan Levenson, economist with T. Rowe Price. He explained that economic policy developments here and in Asia and Latin America will have more impact on the market, Friday morning the House of Representatives began debate on four articles of impeachment against the President, and could vote on them later in the day or Saturday.

“There’s basically two camps” of thought on how the impeachment progress will impact Treasuries, said Mark MacQueen, senior vice president and fixed income portfolio manager at Sage Advisory Services. One line of thinking believes the impeachment will hurt the dollar, which will then weigh on Treasuries, while the other feels the matter “will never get past the Senate,” so it will not be a problem for the market.

“I think, there’s no doubt in Congress” about passing the articles of impeachment, said MacQueen. “But I don’t think they have enough votes in the Senate to remove him,” he added.

Michael Mullaney, a principal and senior portfolio manager at Boston Partners Asset Management said that the moment “the market feels it won’t go through” and gets passed by the Senate. “If he (Clinton) does get taken out of the White House it’s actually going to be a good thing” for the markets, he said. Mullaney added, however, that he felt a removal of President Clinton from office would weigh on the dollar more and not have much more impact on Treasuries.

“The dollar has taken the brunt of (the impeachment process)” so far, he said.

The dollar traded up off lows against the Japanese yen at Y115.70 as of 11:32a.m. EST, after having bottomed out amid impeachment concerns at Y114.55 overnight. In the meantime, the two-year/30-year yield curve was generally expected to steepen in response to the impeachment issue. **“The curve should steepen a bit,” said MacQueen, but he said he expected this even without the impeachment. “There’s a lot of room to rally (in the front-end) if there’s any perception of a Fed ease,” he explained.**

“If there’s a flight-to-quality activity (related to the impeachment or other global events, such as Iraq) that would help the front-end”, said Mullaney. He still expected the impeachment process to have “minor side-show impact” on the market, however.

“If there’s a surprise even we may get some flight-to-quality out of riskier assets,” said Levenson.

Analysts said investors had already discounted the impeachment vote in the House of Representatives, and now that the United States has stopped bombing Iraq, funds seeking a safe haven are not likely to flood the bond market.

The Federal Reserve Board's policy-setting Open Market Committee will meet Tuesday, but the recent spate of stronger-than-expected economic indicators convinced traders and investors that the Fed will leave policy unchanged at this meeting. There will be few U.S. economic reports this week because of the Christmas holiday.

Ted Ake, co-head of government trading at Everen Securities in Chicago, said that while some of the current developments should encourage trading, investors seem determined not to get involved. "With all these things that could move the markets, we can't entice anybody into doing anything," he said.

The yield on the benchmark 30-year bond closed Friday at 5.01 percent, virtually unchanged from 5.02 percent the previous week.

The House's approval of two articles of impeachment means that the matter will now go to the Senate, which will hold a trial on whether to remove Mr. Clinton from office. But most analysts do not expect that to happen.

Michael Mullaney, a senior portfolio manager at Boston Partners Asset Management said that at the moment, "the market feels it won't go through."