

Bond Market Bombshells

May 9, 2005

It was quite an eventful week in bond market history, last week. The Treasury announced the probable re-issuance of the 30-year treasury bond and, of course, there was the downgrading of General Motors and Ford company debt to junk. Let's take them one at a time and give you our sense of importance of these two seemingly unrelated occurrences.

We welcome the re-issuance of the 30-year government bond. It is much needed, as there is a dearth of high quality debt in the long area. Government securities are one of only a handful of AAA quality debt issues in the market place. Just like the 10 Little Indians, it won't be long until there is only one and it's the Federal Government. As a matter of fact, we would suggest that the Treasury should consider issuing 50-year securities just as France and Germany have recently done. Other than providing quality paper to the market place, it allows those who need to match assets to liabilities a much needed source. For too long, institutional investors have relied on common stocks to provide this matching and now find themselves in serious trouble. There is a time to use stocks and there is a time to use bonds. And there is also a time to use only government bonds. Since 1999, that's where all should have been (governments) and it ain't over yet.

Last week was the death knell of the U.S. manufacturing industry. In our opinion, it will take nothing less than the All Mighty to save every manufacturer in this country whose market is large in size and heavily dependent on labor – particularly union labor. From a human standpoint, it's extremely unfortunate that it has come to this. But the simple facts are that we cannot afford to save the “buggy whip” people and their employees. General Motors and Ford (and probably Chrysler) are today unable to make a decent profit when 17.5 million cars are being sold a year in the U.S. Where will they be when the number falls to something like 13 million?

The U.S. economy is rapidly becoming one of financial traders, lawyers, accountants, regulators, politicians, and hamburger flippers. As we have said before: it's not the end of the world, but it may seem like it for a while as we go through the transition from widgets to time on the couch.