# Bond market points to lower US growth

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The US bond market has been sending out signals that the much-vaunted US economic recovery could be short-lived. This is indicated by a persistent fall in yields over the past months after they rose earlier this year in expectation of higher growth due to the Biden administration's stimulus measures and the Federal Reserve's continuing support.

The stock market, fuelled by the massive inflow of money from the Fed, is reflecting perplexity over the direction of the economy. After a significant fall on Thursday, the three major Wall Street indexes closed at record highs yesterday.

In what the *Wall Street Journal* described as a "topsy-turvy" week, the S&P rose 1.1 percent, following its largest one-day fall since the middle of last month, the Dow rose 448 points or 1.3 percent, and the NASDAQ was up by 1 percent as investors moved in to "buy the dip."

However, the falls in bond market yields may be a surer indicator of longer-term trends. On Thursday, the yield on the benchmark 10-year Treasury bond fell to 1.29 percent, down from a high of 1.75 percent at the end of March. Rising bond prices and the consequent fall in yields (the two have an inverse relationship) are generally taken as an indication of lower growth as investors seek a safe haven.

A *New York Times* article noted that whereas the expectation had been for higher growth, the shift in the bond market pointed to a "reversal of that narrative" suggesting that a "period of slower growth" could lie ahead.

In its economic projections the Fed has insisted that the present rise in inflation will prove to be "transitory." Now the opinion is being voiced that this characterisation may apply to growth as well.

One of the major factors pushing in that direction is the escalation of COVID infections both in the US and globally as a result of the Delta variant.

A financial analyst cited by the *Wall Street* noted: "Delta, or the next Delta, will be a recurring risk in markets," adding that surveys of the US economy in recent days had fallen short of expectations. One of those indictors was the rise in filings for unemployment benefits to 373,000 last week, up from 371,000 the previous week and greater than expectations.

In an interview with the *Financial Times* yesterday, the president of the San Francisco Fed Mary Daly warned that the spread of the Delta variant and low vaccination rates in many parts of the world posed a threat to the global economy.

Daly, who is a voting member of the Fed's policy making committee and a supporter of continuing stimulus by the central bank, said: "I think one of the biggest risks to our global growth going forward is to prematurely declare victory on COVID."

Daly warned that difficulties in containing the virus in Japan and other countries, rising infections and lagging vaccination rollout were constraining an economic rebound internationally and in the US.

She indicated that the lower bond yields reflected "an increasing sense of the downside risk to the global economy."

The meeting of G20 finance ministers and central bankers being held in Venice is expected to issue similar warnings. According to the meeting's draft communiqué, while the global outlook has improved, "the recovery is characterised by great divergences across and within countries and remains exposed to downside risks in particular the spread of new variants of the COVID-19 virus and different paces of vaccination."

The impact of the pandemic on the US and other major economies was the subject of a report by the Organisation for Economic Cooperation and Development (OECD) issued on Wednesday. It said that 21 million jobs had been saved by job support schemes but some 22 million jobs had been lost in advanced economies which faced rising long-term unemployment rates as unskilled workers struggled to get back into the workforce.

"Many of the jobs that have been lost during this pandemic crisis will not be recovered," Stephane Carcillo, the head of the OECD's jobs and income division said in a press briefing on the release of the report.

Younger sections of the workforce are likely to be the most adversely affected. Stefano Scarpetta, director of employment, labour and social affairs at the OECD, said: "The scars could be felt for a long time for young people in terms of employment and wages." Youth in the US, Canada, Mexico and Spain have been among the hardest hit.

In the longer term, the notion that the US could lead a global recovery was given short shrift in a comment by Ruchir Sharma, Morgan Stanley Investment Management chief global strategist, published in the *Financial Times* this week.

Sharma pointed to processes that undermine claims by the "commentariat" of an "American Renaissance" leading a world recovery. He noted that "significant voices" were arguing for America to spend freely because of the position of the US dollar as the world's most wanted currency.

"But easy money flowing out of the Fed is threatening to weaken the dollar and feeding the rise of zombies—companies which earn too little to make even interest payments on their debt. They barely existed in the US 20 years ago, but accounted for 20 percent of listed companies by 2010, and almost 20 percent last year," Sharma wrote.

With the federal government and corporations so deeply in debt it was "hard to imagine how they can further boost the economy."

Sharma pointed out that in 2010, the US owed the world $2.5 trillion, equivalent to 17 percent of GDP. After rising to $10 trillion and more than 50 percent of GDP early last year, these liabilities now stand at $14 trillion, equivalent to 67 percent of GDP.