



PKB's Market Espresso

Short. Rich. Strong.

After payrolls comes inflation

US job growth topped all forecasts in March confirming (for now) the strength and resilience of the labor market.

- **Non-farm payrolls** for March **increased by 228k**, above estimates of 140k
- **Unemployment rate rose** slightly (to **4.2%** from 4.1%) but this was due to rounding issues
- After the report Chair **Powell reiterated** that **Fed** is in **no hurry** to act but **acknowledged** that **impact of tariffs** will be much **larger** than expected
- On **Thursday March Inflation** data will be out with **core CPI** expected to **climb** by **3.0%** from a year ago (0.3% from February) with annual pace being the slowest since 2021
- Economist will look into **goods inflation** as this will help showing how **quickly US tariffs** on Chinese products **feed through** to **American consumers**

Extreme sell-off, what next?

President Trump's announcement of tariffs on "Liberation day" and the subsequent retaliatory measures by China caused one of the **most violent sell-offs** on the markets in history

- Equity indices in developed markets recorded double-digit losses of between **10%** and **15%** within **just three days**
- The **VIX index** reached an intraday level of **60**, a value not seen since the outbreak of Covid and the global financial crisis of 2008
- The **Fear & Greed Index**, which is used to gauge the mood of the market, reached a **minimum level of 4** this Monday on a scale from 0 to 100
- Usually **such extreme readings** of these indicators have been followed by very significant stock market **recoveries**, in the absence of a deep and lasting recession

Turmoil on US Treasuries

Extreme volatility in longer dated **US Treasuries** as acceleration in trade war creates **doubts** about the **haven status** of **US government debt**

- **Yield on 30-year** Treasuries **soared** as much as 25bp to levels last seen in November 2023 – moved is fueling a broader selloff in government bonds worldwide
- **Various** are the **reasons** in trying to explain this movement: the willingness of **investors** to **turn** to more **cash-like investments**, the **fear** of **tariff-driven inflation** with the Fed unable to cut rates and the **speculation** of **foreign countries selling** their holdings of US debt as retaliation
- **Another** potential **reason** could be the **unwinding** of the **basis trade** (strategy used by hedge funds to wager the difference between cash Treasuries and futures prices)

Tariffs so broad, even Penguins pay!

The long **list of countries** now **subject to U.S. trade tariffs** also includes some curiosities. Likely **administrative errors** resulting from an automated tariff calculation add a strangely **human touch** to this **complicated phase for globalization...**

- **The Heard & McDonald Islands**—uninhabited and home only to penguins and seals—were hit with a **10% U.S. tariff**
- No humans live there. Just wildlife... and now, apparently, trade policy victims.
- **Recorded U.S. trade?** Likely a **clerical error** (*unless penguins have started exporting*)
- Rumor has it they made the list due to their *.hm* internet domain—**confused with a real country?**
- **No retaliation announced** by the penguins and seals so far

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