

A Father's Best Wishes for His Daughter

I find that in order to better understand the world economy, I must now and again put down the "business news" and read something, anything, totally unrelated. Try as I do, I still see the economics underlying each journal I read. Take for example the November edition of the Atlantic monthly, a magazine that focuses on "foreign affairs, politics, and the economic cultural trends". According to Wikipedia, the Atlantic Magazine is primarily aimed at a target audience of "thought leaders", so I generally like being seen reading the magazine when on an airplane or in a coffee shop, as it makes me look "intelligent".

Regardless, I came across an Atlantic article named "All the Single Ladies", written by Kate Bolick, which highlights a very interesting corollary of the global financial crisis. Over the last couple of decades, and in particular since the Great Recession, the demographics behind North America's economic model have been changing.

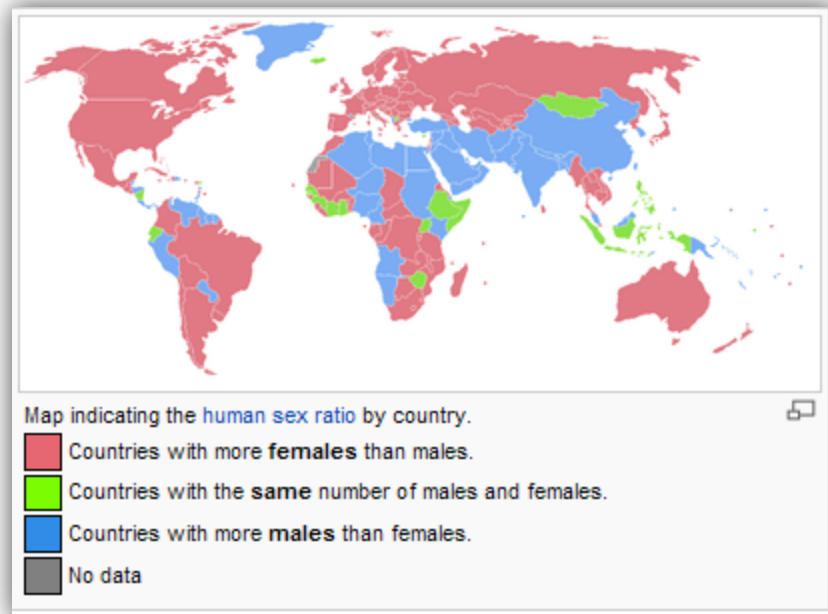
An interesting analysis by Michel Greenstone, an economist at MIT, firstly reveals that, after accounting for inflation male median wages have fallen by 32% since their peak in 1973. Over this same period of time, women's earnings have grown 44%. Although in 2008, women still earned 77 cents to the male dollar, a study in 2010 found that, on average, women now earn 8% more than men.

There are several reasons over the last few years leading to this earnings shift that one can point to, such as the demise of the North American manufacturing sector, a traditionally male dominated industry. However, to offer this as the only reason men seem to be falling behind would be very short sighted.

Today, women are more likely to go to college: in 2010, 55% of all college grads ages 25-29 were female. At University of Toronto, Canada's largest university, the male to female ratio is 44 to 56. Similar ratios can be found at most Canadian universities. The small handful of notable exceptions is easily explained by the nature of the institution or the focus of their programs. For example, the Royal Military College has a 78 to 22 male to female ratio and the University of Ontario Institute of Technology reported a 59 to 41 ratio.

Hanna Rosin, in her 2010 Atlantic Magazine article entitled "The End of Men", pointed out that over the last decade men have been rapidly declining – in income, education and future job prospects – relative to women.

Women now hold 51.4% of all managerial and professional positions in the USA, up from 26% in 1980. Women also earned 60% of all bachelor's and master's degrees awarded in the USA in 2010 and men are now more likely to hold only a high-school diploma. Women have clearly surpassed men in education.



No doubt the Great Recession accelerated this imbalance, as nearly three-quarters of the 7.5 million US jobs lost in the depths of the recession were lost by men, making 2010 the first time in history that women made up the majority of the workforce in the USA...and as mentioned earlier, the jobs least likely to come back are in traditionally male dominated sectors, like manufacturing.

While the rise of women has been good for everyone, the decline of males has obviously been bad news for men – and bad news for marriage. Women are faced with a radically shrinking pool of what are traditionally considered to be "marriageable men" – those that are better educated and earn more than they do. The traditional marriage regime based on the man being the breadwinner is gone.

For many of us this should not come as a surprise, as young ladies today are being raised to be independent – career wise, financially and matrimonially. In fact, I have made a point of not remembering my daughter's boy friends' names until she reaches the age of 26, while she advances her education and builds the foundation of her career. In the 1960's the median age for one's first marriage in the USA was 23 for men and 20 for women. Today, it is 28 and 26, respectively.

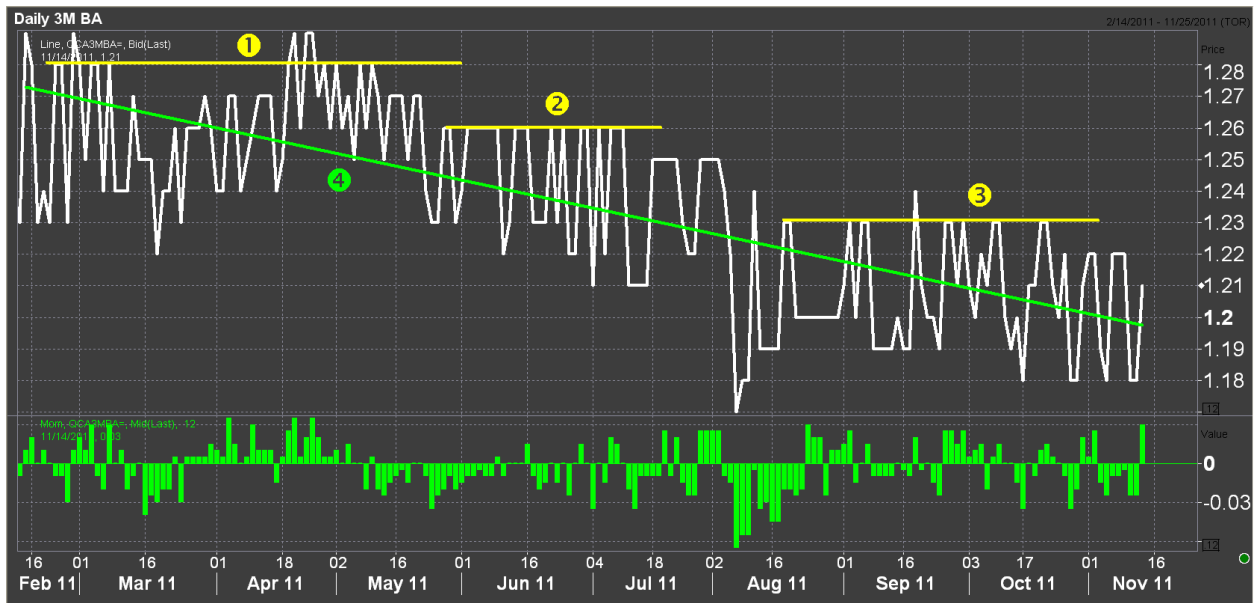
Although the underlying message in the Atlantic Magazine article was "waiting to get married until the age of 26 may not such a good strategy for young women today as there are now fewer and fewer "good catches" out there the longer you wait", I instead saw the article as an excellent essay on changing social hierarchies and economic demographics within North America.

Even so, I will talk to my daughter.

90-Day Rates

Short-term Perspective

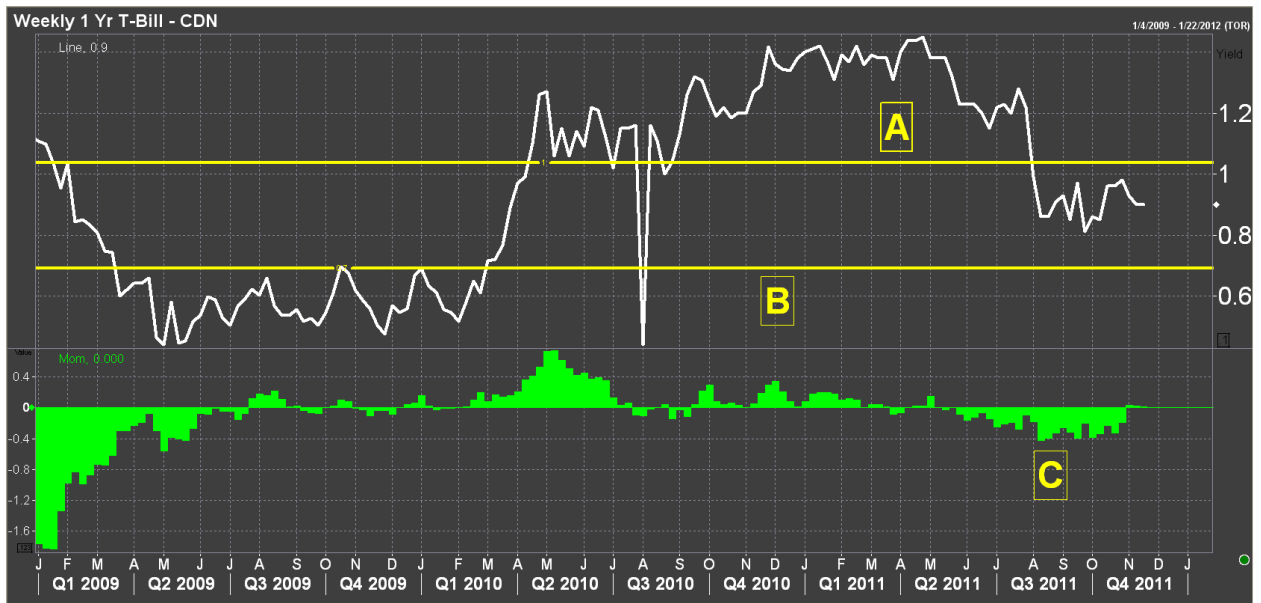
- Canadian 90-day BA rates have been falling throughout 2011 in a waterfall fashion, slipping 2 or 3 basis points at a time.
- The green line (4) is the regression line for 90-day rates over the last 10 months.
- Expect these rates to continue to slip as we move into 2012.
- As the Prime rate move in line with 90-day rates, there does not appear to be much prospect of the Prime Rate rising anytime soon.



One Year Rates

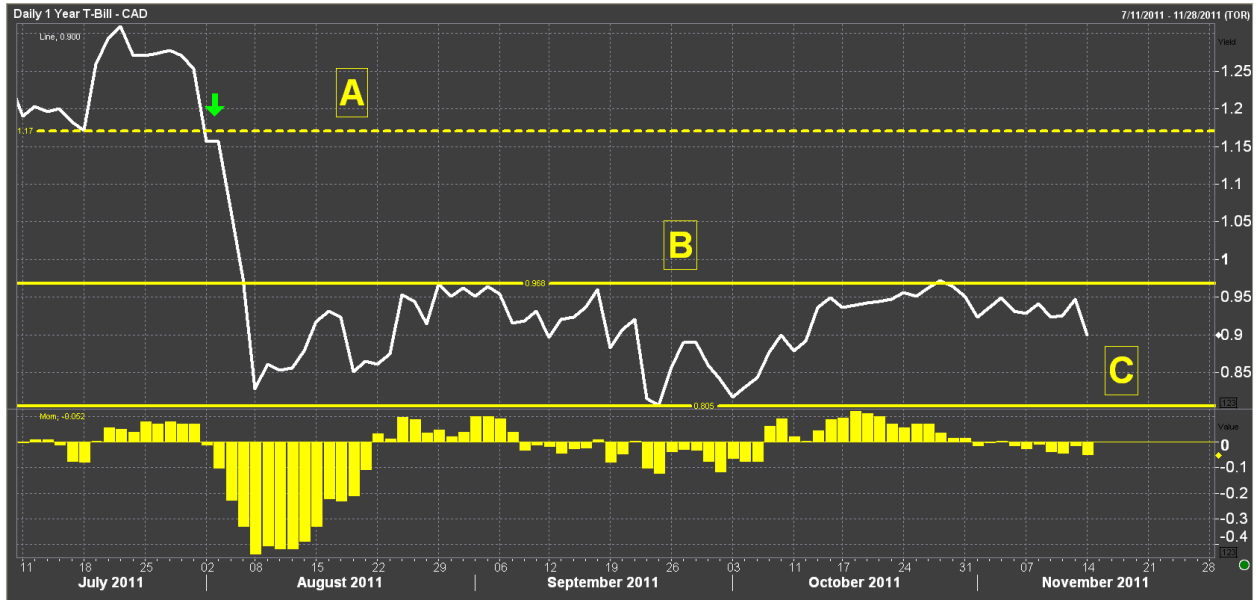
Mid-term Perspective

- The chart below clearly shows that the market place cannot support one-year rates above 1.0%.
- Today, one-year rates are moving sideways in a channel between 1.0% and 0.80%, with the potential to fall to 0.60%.
- It is important to watch for any extreme signs of upward or downward movement when rates move sideways. These extremes are defined by lines A & B.
- Currently, the probability of these rates falling is higher than them rising.



Short-term Perspective

- Focusing on a daily short-term perspective chart allows us to gain a better view of the sideways channel one-year rates are currently in.
- There really is not much momentum associated with these rates.
- One thing is certain, being the difficulty one-year rates are having moving above line B, located just under 1.0%.
- These rate are likely to move back down to line C, at 0.80%.



Three-year Rates

Many Tuff Risk clients offer three year products, so in this edition of the Fixed Income Strategies newsletter we switched our focus down the yield curve from five-year to three year rates.

Long-term Perspective

- The chart below illustrates once again that interest rates do trend. Not only do they trend, they move in the same direction for some time before turning in the other direction.
- Unfortunately rates don't move in a straight line.
- These long-term perspective charts are used to view the overall trend of rates, whereas the shorter term perspective charts deliver strategic insight.



Mid-term Perspective

- It is interesting to note that today's 3-yr term environment looks a lot like it did back in Q1 2009, which is highlighted by the red box (1). Here, after a significant fall in rates, the three-year rate moved up above line C.
- Although this could again happen, it seems unlikely.
- Tuff Risk sees the decline in these rates since Q2 as a sign that the market place does not support 3-yr rates above 1.8%
- Three-year rates are now stuck in channel A. Should they fall below 1.1%, expect further declines. On the upside, be surprised if they rise above 1.6%.



Short-term

- Quite the telling decline since April 2011 along line A.
- By August the decline had stopped, as 3-yr rates instead moved sideways refusing to fall further.
- Although October saw 3-yr rates move up a bit, there is clear pressure for them to again fall to line B, at 1.05%.
- Should they instead rise above line C, at 1.43%, take note.



Long-term Bonds

Long-term Perspective

- Generally rates either rise or fall sharply from a symmetrical triangle formation. Both triangles A/B and C/D are symmetrical triangles.
- Once making their move, rates tend to recover about 50% of their initial fall or give back 50% of their initial rise.
- Since leaving the symmetrical triangle C/D, long bond rates have fallen 100 basis points. In theory then, one should expect them to regain at least 50 basis points.
- Fat chance looking at the chart before us! But... never say never.



Mid-term Perspective

- Long bond rates fell with certainty over the summer months.
- Now they seem to be forming a new sideways channel between line B & C.
- If these rates move above line B, at 3.05%, perhaps then you could look for the 50% move discussed in the long-term perspective section.
- Keep in mind however that the major trend is still downwards.



Short-term Perspective

- This short-term perspective provides a very clear look at the decline in long bond rates.
- Any upward move in these rates has been lost over the last two months.
- December will tell whether these rates will move sideways or continue their journey lower, as there is no clear signal at this time.



Summary

Short-term Rates

- Short-term rates are not showing any desire to rise
- 90-day BA rates continue to waterfall downwards.
- One-year rates are now in a channel, moving sideways.

Long-term Rates

- These rates will either continue to move downwards or move sideways.
- Nothing suggests an upward move in longer rates.

To take advantage of today's market and to discuss ways of protecting against interest rate volatility, please contact any one of the Tuff Risk team. To discuss the various ways we can be of assistance, please contact us at 1.888.744.7475.
