Group Project #5: Fixed Income Research

Revised: January 6, 2009

Submit via Blackboard by 9am March 31.

You are delighted to have a summer internship in JP Morgan's capital markets group. Your first rotation: Fixed Income Research. On your first day, the Managing Director gives you a small project to get your feet wet. Noting that bond markets are driven largely by macroeconomic news, she asks you to write a report summarizing the near-term prospects for the US economy — specifically, the change in employment (nonfarm payroll) between now and, respectively, 1 and 6 months from now.

Your report should look like a professional business document and include:

- A list of what you think are the most useful indicators of future employment along with a short description of what they are and why you think they are useful.

- A statistical analysis of what each of these indicators implies for the change in employment between now and next month (March) and 6 months from now (August).

- A combination forecast that aggregates — in some way — the information in each of your chosen indicators into a forecast of the change in employment.

- A narrative to be shared with clients about the likely evolution of the US economy over the next 6 months including, if you wish, a discussion of factors that may not be captured by your quantitative analysis.

She hands you a spreadsheet containing a large number of economic indicators and walks away.

Keep in mind:

- Your mission is to forecast the change in employment, not the growth rate. Why? Because that's the industry standard.

- If you find your forecasting regression has an R^2 over 0.2, you should check to make sure you're really forecasting — that you have the timing right in the regression. It's generally easier to forecast the future with future data than with current data, but it's not really a forecast.

- The March employment report will be released Friday.