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Weekly Bond Commentary:

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Fed shutdown not showing up in data...yet

The government shutdown ended Friday, but President Trump has said he may close it again if funding for a wall across the U.S./Mexico border is not included in a deal within three weeks. The markets so far have shaken off the uncertainty stemming from the long government shutdown, but a new close might test that.

The limited economic data released last week because of federal agencies being shuttered was mixed. Existing home sales fell 6% and mortgage applications fell nearly 3%, but manufacturing indexes were stronger than had been expected. The purchasing managers' survey showed that private sector firms have not seen any negative impact on their output due to the shutdown. Weekly jobless claims fell below 200,000 for the first time since 1969. Initial filings of federal government employees jumped by 15,000, moving up to 25,419 for the week ended Jan. 12. These numbers are not included in the headline number, which reflects state unemployment-insurance programs. They should begin to flow into future weekly reports.

Fourth-quarter corporate earnings reports have so far been fairly strong and have helped calm the markets. Reports of higher shipping, input and labor costs continue, but so far there has been limited impact from the shutdown. The Jan. 30 Federal Reserve meeting is not expected to surprise the markets, but as usual, any indication of policy change will be closely monitored.

Treasury yields fell across the curve, as 2-year yields fell from 2.61% to 2.59%, 3-year yields fell from 2.60% to 2.57% and 5-year yields fell from 2.62% to 2.58%.

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