MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST

Weekly Bond Commentary:

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Spenders undeterred by negative news

Consumers are amazingly resilient these days. Their impressive ability to shrug off recent bad news and remain optimistic about the future has been tested but not diminished by the partial government shutdown, trade and tariff concerns and the potential for Federal Reserve rate hikes.

The University of Michigan consumer sentiment survey released last week showed that confidence rebounded from January's levels. Half of respondents reported improved finances and 44% anticipated increased prospects, with only 8% expecting worsening finances. That's the best net balance since January 2004. In addition, consumers' long-term inflation expectations fell to the lowest level in the last half century, meaning they expect gains in their inflation-adjusted incomes at the highest pace in the last 15 years.

Supporting this optimism, prices rose at a modest 0.2% rate in January, and 1.6% over the last year, down from December's 1.9% run-rate. Weekly jobless claims rose slightly last week to 239,000, but there's likely government shutdown-related noise in the data.

Somewhat of an outlier, the December retail sales data showed a surprising drop of 1.2%. Delayed by the government shutdown, these data do not square with industry surveys and company reports, or even with consumer confidence. For instance, Amazon said its sales grew 19.7% over the last year. Likewise, December Redbook chain-store sales growth was the strongest in the report's 22-year history. Economists look for an upward data revision when the January retail sales report is released.

For the week, Treasury yields rose slightly across the curve, as 2-year yields rose from 2.47% to 2.51%, 3-year yields rose from 2.40% to 2.49% and 5-year yields rose from 2.44% to 2.49%.