MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST

Weekly Bond Commentary:

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Fed in holding pattern as reports remain clouded

The holiday-shortened week brought a full complement of economic data, some new and some catching up from the government shutdown. What we didn't get was any consensus on the economy.

Weekly jobless claims, one of the best and most timely barometers of the labor market fell from 239,000 to 216,000. Durable goods orders rose 1.2% in December, but nearly all the gain came from the transportation sector, as unfilled orders slid 0.1% and inventory growth slowed. The Philadelphia Federal Reserve regional index fell, as the headline number posted its single largest monthly drop since August 2011. Looking beneath the surface reveals a more mixed picture, as demand continued to outpace supply, with constraints lengthening delivery times and increasing unfilled orders. And the Markit U.S. manufacturing survey slipped from 54.9 to 53.7 in February, the lowest reading since September 2017, as both output and new orders slipped.

Looming large for the markets was the release of the Federal Reserve January meeting minutes. The key takeaway is that the Fed, while on pause for now, would likely raise the federal funds rate again if it determined that market risks had abated. The Fed became very cautious in January because risks had increased; if they retreat and economic data become supportive, then the case for resuming rate hikes is stronger.

For the week, Treasury yields eased lower across the curve, as 2 year yields fell from 2.51% to 2.50%, 3 year yields fell from 2.49% to 2.47%, and 5 year yields fell from 2.49% to 2.48%.