MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST

Weekly Bond Commentary:

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Fed lowers expectations

If the Federal Reserve does not raise its federal funds rate, is that good, or bad?

That's what the markets chewed on after policymakers did not hike the short-term benchmark rate at its meeting last week. The Fed noted that the labor market remains solid, but that economic growth has slowed from the fourth quarter. Household spending and business fixed investment also pulled back.

This language was perceived as dovish, justifying not raising rates. But what really caught the market's attention was the change in the quarterly Summary of Economic Projections. This indicated the Fed sees no additional hikes in 2019, and only one in 2020—down from its December projection of two hikes this year and another in 2020. The Fed also sees lower GDP growth in 2019 and 2020 than it had in December, with a higher unemployment rate in both years.

Markets tried to digest the information, but were interrupted by weaker foreign economic data releases, in particular, slower German manufacturing data. That helped push German 10-year government bond yields below 0%. Of the major economies, German, Japanese and Swiss 10-year government bond yields are all below 0%, making the US yield of 2.45% look cheap!

For the week, Treasury yields fell across the curve, as 2-year yields fell from 2.44% to 2.33%, 3-year yields fell from 2.39% to 2.26%, and 5-year yields fell from 2.40% to 2.26%.