MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST

Weekly Bond Commentary:

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Strong Q1 GDP growth not without concerns

Don't get too excited about the surprisingly robust preliminary report on first quarter gross domestic product (GDP) growth released last week. Yes, it grew 3.2%, trouncing expectations and the 2.2% rate of the fourth quarter of 2018. But the elements that drove it, prominently inventory and trade, may not be sustainable. Particularly disconcerting is inventory, often a double-edged sword that pushes up one quarterly growth rate at the expense of the next. If consumer demand and spending do not increase soon—domestic sales grew at a slow pace in the first quarter—the euphoria over the better-than-expected GDP growth may not last long. Imports also can wield that sword as they often raise growth rates, masking weak consumer spending.

On the other hand, many businesses spent funds improving themselves in the first quarter. If this continues, GDP might not retrench in the second quarter. Capital expenditures are more indicative of longer-term growth.

One last double-sword analogy comes with housing. New home sales increased, pushing the 3-month average sales rate near its best level since December 2007. That is indeed saying something, but starts and permits decreased, pointing to slower sales in future months.

Treasury yields ended the week with 2-year yields at 2.31%, 3-year yields at 2.28%, and 5-year yields at 2.33%.

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