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Weekly Bond Commentary:

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Housing market emerges from funk but trade war escalates

Trade tensions are beginning to show up in economic data, confirming the markets' recent softness.

April orders for durable goods, those longer-lasting items, fell 2.1%, hurt by an 18% drop in the volatile aircraft bookings segment. More ominously, though, non-defense capital goods orders fell 0.9%. Overall durable goods orders excluding defense and transportation fell at a 6.6% annualized rate over the last three months, and this was before the recent 15% additional tariffs on $200 billion of imports. Consumers may still remain confident, but manufacturers seem to be finding more reasons to delay capital spending.

Helped by still-low weekly jobless claims and solid consumer confidence, housing data were modestly better last week. According to Freddie Mac, fixed-rate mortgage rates fell to their lowest level of 2019, at 4.06% for a 30-year loan, just in time for the important selling season. New home sales were in line with expectations, pushing the 3-month average sales pace to the highest since October 2007, according to RDQ Economics. The 8.8% increase in the median new home selling price was the first rise since October 2018, suggesting growing buyer confidence.

Minutes from the April Federal Reserve meeting confirm that the Fed had been growing more confident in the domestic economy prior to the flare-up of U.S.-China trade tensions. The Fed did not seem concerned about inflation still sitting below its 2% target, as it viewed its patience strategy as providing enough runway for inflation to return to target, and the Fed was not inclined to cut rates in response to the lower inflation data.

For the week, Treasury yields fell across the curve, as 2-year yields fell from 2.20% to 2.16%, 3-year yields fell from 2.14% to 2.10% and 5-year yields fell from 2.17% to 2.12%.