MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST

Weekly Bond Commentary:

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Poor payrolls report a boost to investors

The clunks you heard Friday at 8:30 a.m. ET were the sound of investor jaws hitting the floor upon getting the dismal May labor market report. The economy added only 75,000 nonfarm jobs in May and the report also revised March and April's figures downward. But investors quickly sported smiles as they think that the Federal Reserve will consider cutting interest rates soon to stem a slowdown. The markets have already put forth the trade conflicts as a reason the Fed could trim rates, so the poor payroll report added to that conviction.

Another reason for investor enthusiasm is that inflation remains low by Fed standards and wage growth has moderated, giving the central bank no pressing need to raise rates.

The uncertainty stemming from the U.S.-China trade war, and the reality of tariffs already in place, has begun to be reflected in slowing capital expenditures by U.S. businesses. In fact, construction capex did not increase at all in April, when many expected it would grow. Nonmanufacturing activity rose in May, with more orders and increased hiring as main reasons.

For the week, Treasury yields fell across the curve, with 2-year yields fell ending Friday at 1.86%, 3-year yields at 1.83% and 5-year yields at 1.86%.