

Weekly Bond Commentary:

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Market disconnect

Economic data cannot seem to catch up to the rapid changes occurring in geopolitics.

U.S. economic data released last week related mostly to April and early May, and showed that the economy continues to hum along. Consumers are confident: their income gains in April have enabled them to continue spending—and saving, as the saving rate rose from 6.1% to 6.2%. Weekly jobless claims rose slightly, but remain at a very low 215,000 pace. Jobless claims act as a good current read on the economy, reflecting business outlook and feeding into consumer confidence and activity. The Federal Reserve's preferred measure of inflation rose a tick higher in April to 1.6%, still below its 2% target, but getting closer.

The disconnect that sent markets lower last week was led by the mounting concern that trade disputes would worsen. Relations with China seem to be growing colder as ongoing trade talks fail to find solution. Markets were surprised by new threats of tariffs on goods from Mexico, especially troubling given that both countries are currently working to pass the recently renegotiated North American Free Trade Agreement.

The Federal Reserve next meets on June 19, followed soon after by the G20 gathering in Japan. Markets will be anxiously waiting and watching for clues from these meetings.

For the week, Treasury yields fell across the curve, as 2-year yields fell from 2.16% to 1.99%, 3-year yields fell from 2.10% to 1.94%, and 5-year yields fell from 2.12% to 1.96%.