

Weekly Bond Commentary

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Investors bring anxiety on their summer holidays

At a time when investors should be enjoying vacations, geopolitics keeps reasserting itself. The latest came last week, when Italy's government surprised the markets by calling for a snap election. That likely would be held in October—just as the final negotiations over Britain's exit from the eurozone come to a head.

Of course, America has its own uncertainty: its trade war with China. The latest steps came last week. In addition to increasing tariffs on more Chinese goods, President Trump labelled China a currency manipulator, increasing doubt that a bilateral trade deal would come to fruition. In fact, the two sides are now no closer to resolution. Predictably, markets swooned, with investors shunning equities and seeking safer assets such as U.S. Treasuries. Expectations of further Federal Reserve rate cuts also grew, as the markets hoped these could offset the impact of ongoing trade woes.

Later last week, Trump continued to jawbone the Fed. He wants the FOMC to substantially cut the federal funds rate in order to weaken the dollar—in effect demanding the same thing for which he is criticizing the Chinese. His continued public criticism breaks with longstanding tradition of presidents expressing support for a strong dollar and for Fed independence.

Economic data was relatively light last week. Weekly jobless claims, a vital concurrent indicator of the economy, eased lower again. But at 209,000, it remained in a range it has maintained for more than a year. Apparently, trade fears and financial market volatility have not yet weighed too heavily on the labor market, and by extension the firms that employ labor.

For the week, Treasury yields decreased across the curve, as 2-year yields fell from 1.71% to 1.62%, 3-year yields fell from 1.67% to 1.55% and 5-year yields fell from 1.66% to 1.54%.