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Weekly Bond Commentary

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It’s relative

Is the U.S. economy doing well, or not? It depends on who is speaking and what data they are talking about. The markets wrestled with this quandary last week.

On the face of it, economic data continues to paint a picture of a strong labor market, as weekly jobless claims fell back toward multi-decade lows and the Bloomberg consumer comfort index rose after dropping the last three weeks. A happy, confident consumer likely means continued economic expansion, as consumer activity makes up over two-thirds of domestic economic growth.

But the Markit U.S. purchasing managers survey for August fell sharply, from 50.4 to 49.9. That’s the first time it has fallen below 50 since September 2009. The 50-point mark is the dividing line between economic expansion and contraction. Leading the measure lower was a sharp decline in export orders, indicating that the trade war is hurting U.S. manufacturing.

The markets also were waiting for a signal from the annual Federal Reserve gathering at Jackson Hole, Wyo. In his speech, Federal Reserve Chair Jerome Powell reviewed recent Fed actions and history before addressing how the Fed can deal with trade policy uncertainty. This is a new challenge, not in the Fed’s purview (it is the responsibility of the President and Congress). The Fed will try to look through what may be passing events, focus on how trade developments are affecting the outlook and adjust policy to promote (statutory) objectives. In short, the Fed will act as appropriate. No new ground here, but it was a frank admission that monetary policy cannot provide a settled rulebook for international trade.

For the week, Treasury yields rose slightly across the curve, as 2-year yields rose to 1.56%, 3-year yields rose to 1.48% and 5-year yields rose to 1.45%.

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