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MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST

Weekly Bond Commentary

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A rate cut but not guidance

Words matter, and so does how you say them.

The Federal Reserve cut its federal funds target rate last week for the first time since 2008. Markets had been expecting a 0.25% cut (some hoped for 0.50%). Unfortunately, Fed Chair Powell meandered through his post-meeting press conference, giving no clear guidance on what to expect next. Will there be another cut soon—perhaps another 0.25% in September—or was last week's move just one-and-done? Markets reacted defensively after the meeting, with stocks selling off and bond yields falling.

President Trump minced no words in announcing another 10% tariff on $300 billion of Chinese imports, beginning Sept. 1. The action appears to reflect increasing pressure on the Chinese to come to terms, after news reports surfaced they may be trying to wait until after the 2020 elections to make a deal.

Economic data released last week were solid, on balance, as manufacturing reports improved from June, and pending home sales and consumer confidence rose. Confirming these reports were the weekly and monthly employment results: weekly jobless claims rose modestly, but still remain near multi-decade lows, and nonfarm payrolls rose 164,000, right on expectations, as the unemployment rate remained at 3.7%. U.S. economic growth continues to be powered by the confident consumer, standing tall amid numerous global headwinds.

For the week, Treasury yields tumbled across the curve, as 2-year yields fell from 1.85% to 1.71%, 3-year yields fell from 1.82% to 1.67% and 5-year yields fell from 1.85% to 1.66%.