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Weekly Bond Commentary

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Spenders undeterred

A robust labor market plus solid consumer spending are still not cooperating with textbooks in producing inflation.

Last week, the Bureau of Labor Statistics said that, while personal income barely rose in July, Americans still spent at a healthy rate. At the same time, inflation remained low—stubbornly so, as economists say often these days. Falling into the same quandary is that the Conference Board reported consumers remain quite confident these days. Neither the U.S.-China trade war nor the capricious financial markets have spooked Americans.

Businesses are another matter. They pulled back on capital expenditures (capex) in July. Core business orders are rising at their slowest annual pace since the winter of 2017. This metric is tied much closer to the trade conflict and is another sign corporations are uncertain about investment plans due to it and the unpredictable White House. Corporate operating profits in the second quarter increased from the first, though, which could mitigate a recession if and when it comes.

For the week, Treasury yields fell across the curve, as 2-year yields declined from 1.56% to 1.50%, 3-year yields decreased from 1.48% to 1.44% and 5-year yields lowered from 1.45% to 1.39%.

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