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Weekly Bond Commentary

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Trade war isn’t slowing debt issuance

Investors must have enjoyed their Labor Day weekend, because markets regained some animal spirits last week.

Companies sold near-record amounts of investment-grade corporate debt, no doubt entranced by very low costs of borrowing. As a sign of how far interest rates have fallen, Walt Disney sold debt, including a new 30-year corporate bond at a rate of 2.75%, the same level as U.S. Treasury 30-year bonds yielded in late May. Even though it has over $90 billion of cash and short-term investments on its balance sheet, an opportunistic Apple sold $7 billion of new debt, its first issuance since 2017. This enthusiasm carried over to equities, as stock prices gained on the week.

Economic data supported the position that the U.S. economy continues to chug along. Weekly jobless claims, a good concurrent barometer of the labor market, remained at their 12-month average of 217,000. August payrolls showed a gain of 130,000, down slightly from July’s 159,000, but still solid. Average hourly earnings rose 3.2% over the last year, and unemployment remained low, at 3.7%. Manufacturing activity has slowed somewhat, given the trade and tariff uncertainty, which may weigh on third quarter GDP, but with consumers feeling confident, growth should still continue.

For the week, Treasury yields rose slightly across the curve, as 2-year yields rose from 1.50% to 1.53%, 3-year yields rose from 1.43% to 1.46% and 5-year yields rose from 1.39% to 1.43%.

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