Tortoise QuickTake Credit Podcast

April 30, 2019

Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, Tortoise provides a timely update on trending topics in the market.

Welcome to the Tortoise Credit weekly podcast, I am Jeff Brothers, senior portfolio manager for Tortoise. Sometimes things are different from how they appear, like a car with a fancy paint job, but a clunky engine under the hood. That certainly was the case with last Friday's first quarter GDP release, which looked great on the surface, but the underlying details were not nearly as strong as the headline growth rate suggested. In today's podcast, we will share our thoughts on the GDP report and the potential implications for the bond market and Federal Reserve policy.

The bond market was eagerly anticipating the first quarter GDP report, especially in the context of the ongoing global economic slowdown, U.S. recession fears, and the impact of the government shutdown. The report showed growth increased at a much better than forecast 3.2% rate versus expectations for a gain of only 2.3%. The surprising first quarter GDP topped the full year 2018 growth rate of 3.0%, which was the best year for the U.S. economy since the start of the expansion. In addition, the first quarter has typically been the weakest quarter for U.S. growth and the strong 3.2% rate was the highest first quarter since 2015. This should relieve some nervousness around a near term recession and could potentially be a positive sign for the remainder of the year.

Bond investors, however, ignored the strong headline number and instead reacted to the details below the surface. 10-year Treasuries yields rallied strongly following the report and dipped below 2.5%. In addition, the robust headline growth did not change market expectation for a Fed rate cut in 2019. The details of the report show first quarter growth was driven by an increase in net trade and an accumulation of inventories. These two factors combined for over half of the overall growth and are very likely not sustainable. Trade benefited from a front running of trade tariffs as soybean exports surged and imports weakened. After three consecutive quarters of accumulation, inventories seem unsustainably high relative to sales and we would expect a drawdown in the coming quarters. In addition, the two main drivers of the long economic expansion were sluggish, with consumer spending falling from 2.5% to 1.2% and business investment declining from 5.4% to 2.7%. We will be watching closely to see if the weak consumer spending and business investment were a temporary setback resulting from the sharp equity sell-off in December, the government shutdown, and weather or perhaps something more long lasting. The final underwhelming aspect of the GDP report was the softer than expected inflation reading, with the core PCE price index falling to a 1.3% annualized rate. The report reinforces the lack of price pressures and should allow the Federal Reserve to remain patient and firmly on hold.

We remain positive on the U.S. economy and expect a slower, but still solid growth rate of 2.0% in 2019. While the 3.2% first quarter GDP growth rate is flattering, it should dispel exaggerated recession fears. Consumer spending and business investment will need to rebound to keep the long economic expansion moving ahead. The recent strength in March retail sales and durable goods orders indicate spending may rebound to offset the potential drag from trade and inventories. As mentioned on prior podcasts, we have been in a good environment for the bond markets with low inflation, solid growth, and the Federal Reserve on hold. This GDP report with a hot headline number, but cold underlying details could perpetuate the Goldilocks outlook.

Thank you for listening, we will talk to you again next week

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Tortoise believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Tortoise, through its family of registered investment advisers, does provide investment advice to Tortoise related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, Tortoise does stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*