Tortoise QuickTake Credit Podcast

Tortoise

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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, Tortoise provide 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. The U.S. bond markets have been moving full speed ahead towards joining the expanding list of countries with negative-yielding debt. Last week, U.S. interest rates in dramatic fashion reversed course and headed higher. In today's podcast, we will discuss what changed and where we might be heading in U.S interest rates.

Two weeks ago, the 10-year U.S. Treasury note fell to a yield of 1.46% following a relentless rally of 178 basis points from the high in November of last year. The markets were sailing to lower yields on the strong tailwinds of slower global growth, muted inflation, trade tensions and the gravitational pull of negative yields abroad. Last week, a number of developments put the brakes on the rally, as 10-year Treasuries moved 34 basis points higher to a yield of 1.90%.

The bond markets had to reconsider recessionary risks and the current pessimistic outlook, as economic data came in better than expected. The August retail sales report beat estimates and increased 0.4% to a healthy 4.1% year-over-year rate. This was the sixth consecutive monthly increase and highlighted the resilience of consumer spending. The University of Michigan Consumer Confidence survey showed consumers remain optimistic and the decline in initial jobless claims relieved some of the concerns around the slowing labor market. In another good sign for the economy, the yield curve between 2-year and 10-year Treasuries moved back into positive territory. A yield curve inversion, when short rates move above longer term rates, has been one of the more accurate recession indicators. The inflation data also surprised to the upside with larger than expected increases in the core PPI and CPI inflation indices. Core CPI increased by 0.3% for the third straight month to an annual rate of 2.4%, the highest since 2008. The Federal Reserve's preferred inflation measure, the Core PCE, still remains below the 2% target, but the recent trend may make it difficult to dismiss price pressures in the U.S. economy.

The markets also responded to positive news on the trade war with China. Both sides took steps to de-escalate the tensions with President Trump delaying an increase in tariffs and China agreeing to purchase agricultural products and exempt some tariffs. President Trump also indicated he may be willing to consider an interim trade deal that could potentially delay or roll back tariffs in exchange for commitments on intellectual property and agriculture purchases. We remain skeptical, but perhaps the upcoming election and China's struggling economy could force at least a cease-fire on the trade war. The China news along with positive signs on Brexit resulted in a rally in riskier assets and a sell-off in the safe haven Treasury market.

It is only one week, but the recent news supports our view that interest rates had moved too far, too fast and that the U.S. economy was slowing, but should still maintain a solid 2.0% growth rate. The markets will look for direction from this week's Fed meeting to see if Chairman Powell can successfully thread the needle by satisfying market expectations, but not overcommit to future rate cuts. Between now and the end of the year we expect rates to remain in a holding pattern, anchored by slower global growth, easier monetary policy and still contained inflation pressures.

Thanks for listening and 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.

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