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. It has been a remarkable reversal for the financial markets over the past two weeks. The stock market hit all-time highs, bond yields are up sharply, the Treasury yield curve has steepened and corporate bond spreads have narrowed. Sentiment can change quickly, but all four markets point to a renewed optimism in economic growth. In today's podcast, we wanted to explore any budding economic green shoots that would support the improved outlook.

The trade dispute with China, along with the Fed rate hikes in 2018 and waning benefits from the tax cuts, played a central role in the economic slowdown. Reports this week that the "Phase One" negotiations could include a roll back of some tariffs, a precondition for a deal from the Chinese side, represented a potential significant de-escalation of the trade war. Unfortunately the good news was somewhat offset by the postponement of the meeting between President Trump and Xi and when Trump stated there was no agreement on rolling back tariffs. With the U.S. and China both growing below trend, there is a strong incentive for a trade deal, but winning trade deals may not be as easy as Trump claimed. With "Phase One" still undecided and more difficult hurdles ahead, the trade war green shoots seem fragile at best.

As my colleague John Heitkemper described in last week's podcast, Federal Reserve Chairman Jay Powell dressed up as Goldilocks for Halloween, delivering another 25 basis points cut and a signal that policy was on hold. The Fed's wait and see message on future policy may not seem fertile soil to nurture green shoots, but the three cuts this year mark a dramatic reversal from the beginning of the year when expectations were for more rate hikes. In addition, the Fed's balance sheet, which shrank from $4.5 trillion to $3.8 trillion, is growing again at a $60 billion a month clip. In Chairman Powell's press conference, he said policy remains accommodative and was in a "good place." The steepening Treasury yield curve seems to agree with the Chairman's assessment. The yield curve between 2-year and 10-year yields ended last week at 25 basis points, comfortably above the negative territory months ago. An inverted yield curve, when 10-year Treasury yields fall below the 2-year yields, has been widely viewed as an accurate predictor of future recessions.

You have to look hard to find green shoots in the current economic data, with both global and domestic growth slowing. There are, however, some signs that the downside risks are beginning to fade. The October jobs report was much better than expected and calmed fears of a slowing labor market. With the prior month's revisions, the three-month average of new jobs increased from 119,000 to a healthy 154,000. Consumer spending, which has been slowing, but remains the one bright spot for the economy, should benefit from the improved employment picture. The report also gave some credibility to the Federal Reserve's decision to signal a pause in monetary policy easing. In another sign of stabilization, the non-manufacturing ISM report beat expectations and climbed to 54.7 from a three-year low of 52.6 last month. Consumer confidence weakened in October, but confidence remains near record levels. Global growth also showed tentative signs of improvement with the global PMIs moving modestly higher and China's exports falling in October, but at a much slower pace.

Some concluding thoughts. We continue to believe the U.S. economy will avoid a near term recession based primarily on the strength of consumer spending. The recent positive news from the trade negotiations, the Federal Reserve, and some of the economic data further diminishes the recession probabilities, but is unlikely to lead to a rapid acceleration in either growth or inflation. We still expect GDP growth around 2.0% for the coming year and believe it is too early to declare a turnaround based on these tenuous green shoots.

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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