Tortoise QuickTake Podcast

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

Welcome to the Tortoise Credit Strategies weekly podcast. I'm Jeff Brothers, senior portfolio manager for Tortoise Credit.

Normally, August is the summer doldrums for the bond markets, with skeleton crews and subdued trading volumes, as investors squeeze in final vacation plans. The past week, however, was anything but quiet, and in today's podcast we will review the important news headlines and their impact on the fixed income markets.

The market took its cue from the political headlines again this week. The threats and sabre rattling in North Korea quieted down, but were unfortunately replaced by the violence in Charlottesville and the terrorist attacks in Spain. President Trump's mixed message in response to the demonstration in Charlottesville created turmoil and volatility across the financial markets. The backlash led investors to question the administration's ability to follow through on important tax reform and infrastructure spending. The market took particular notice when Trump's CEO Council was disbanded and when Gary Cohn, the National Economic Council director, was rumored to be resigning. Cohn is viewed as an important player in the administration's hopes for tax reform and has also been talked about as a possible replacement for Janet Yellen to chair the Federal Reserve. The uncertainty created a flight to quality in the bond market, and 10-year U.S. Treasuries rallied to a low yield of 2.16% and the stock market suffered one of its biggest declines in over three months. By Friday, the markets found some stability, especially with the ouster of the controversial White House strategist Steve Bannon, but we will have to wait to see how the financial markets and the fragile administration weather the storm.

Somewhat overshadowed by the political news were the headlines from the Federal Reserve. On Monday, New York Fed President William Dudley sounded more hawkish on Fed policy when he stated that if the forecast evolves as he expects, then he would favor another rate hike later this year. Dudley felt the jury was still out on whether the low inflation environment was a structural change or if it would just take more time for inflation to move higher. He did seem to favor the latter with his belief that inflation over the next six months should be higher than the previous six months. In addition to the Dudley interview, we also received the Fed minutes from their July meeting, which revealed a committee confident in the pace of economic growth and the strength in the labor markets, but confused over the stubbornly low inflation readings. Some committee members believed the "recent decline in inflation had probably reflected idiosyncratic factors" while others felt "inflation might remain below 2% longer than expected." The minutes also showed the participants questioning the Fed's inflation model with a few suggesting the "framework was not particularly useful in forecasting inflation." For now, it appears the Fed will go ahead with an announcement to begin reducing their balance sheet in September, but may hold off on additional rate hikes until the inflation conundrum is resolved. This would support the market expectations, which put the probability for a December rate hike at around 35%.

Finally, the retail sales report from last week stood out in a slate of economic news that was mostly mixed. The report came in with a much better than expected increase of 0.6%, and prior months were also revised higher. Many credited the influence of Amazon Prime Day spending for the positive report, but the gains were actually broad based with even the beleaguered department store sector increasing 1.0%. The Atlanta Fed's GDP Now forecast for the third quarter moved higher to 3.8%, following the strong retail sales report.

Overall, the bond markets had a muted reaction to the political headlines. The 10-year Treasury yield finished the week unchanged at a yield of 2.19%, and the credit markets only modestly underperformed despite the sell-off in the equity markets.

We can't provide any guarantees, but we do think the week ahead could actually be a quiet summer market.

Thank you for listening, we'll talk to you next week.

Thank you for listening to the Tortoise Credit Strategies podcast and hopefully you will join us for next week's edition.

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@tortoiseinvest.com.

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