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Despite turmoil in the Mideast that continued to feed the oil-price spike and more signs of a strengthening economy at home, short rates held steady again last week. This isn't as incongruous as it may look.

For one, exposure by the money markets to the Mideast-North Africa is extremely limited—holdings by some European banks are extremely small. The result is that the cash yield-curve is reflective of the securities being offered by high-quality countries and institutions. Moreover, with so much slack still in the economy, the money markets remain more focused on signals being sent by the Fed and leaders in Washington, and on those fronts last week, the tone continued to favor low rates. In testimony before Congress, Fed Chairman Bernanke made clear he's committed to carrying through with QE2 and to maintaining the fed funds target rate at historic lows for the foreseeable future. And on Capitol Hill, a potential government shutdown was averted as congressional leaders and the White House kicked the can down the road for another two weeks by passing another continuing resolution while talks continued on a compromise for a permanent budget.

To be sure, macroeconomic events suggest that the low-rate environment in which we've been mired for more than two years could be in its final stages. We at Federated have said we expect the fed funds rate to begin to rise sooner than consensus, which appears to be early next year. Stronger growth, as evidenced by last week's solid increase in February's private payrolls, the accompanying drop in the jobless rate below 9% for the first time in 22 months, and better-than-expected February ISM manufacturing and services readings undoubtedly will add to upward pressures on rates. And layered over these fundamentals are the spiking oil and agricultural commodity prices. Even though core inflation readings remain at the low end of Fed targets, sharply higher food-and-energy prices likely will raise inflation expectations at the consumer level—which as we've stated can become self-fulfilling—and eventually work their way through to core readings to some degree. The timing and magnitude remain to be seen, but it's probably safe to say that the low-rate environment's days are numbered.