Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

The cash markets, after being rattled for much of April by the FDIC's decision to effectively raise the insurance assessment fee on banks (thus pushing overnight rates down sharply on supply-constraint concerns), settled at lower levels last week while awaiting this week's meeting of Fed policymakers. Overnight repo rates ended the week in the high single digits, well above the near-zero levels earlier in the month but off from the highs of the previous Friday, a settlement day in the markets. Meanwhile, London interbank offered rates (Libor) held relatively steady.

The big news of the week was Standard & Poor's decision to downgrade its rating outlook on U.S. government debt to "negative'' from "stable'' on concerns that Congress and the Obama administration may be unable to resolve the nation's burgeoning budget deficit woes before the 2012 president election. It put the odds that it would lower the nation's AAA sovereign-debt rating at one-in-three in the next two years. The announcement initially spooked the equity markets, which plunged on the announcement. But the fixed-income markets effectively yawned, viewing S&P's analysis as old news. In fact, Treasury prices actually strengthened and yields fell following the rating agency's move last Monday.

The economic news on the holiday-shortened week was sort of blah, with a lot of "buts'' and "howevers'' accompanying mainly positive reports. For example, March housing starts rose more than expected but remained at depressed levels. March existing home sales also came in above forecasts; however, more than a third of the sales were cash deals for distressed properties as prices continued to slip—the average purchase price fell 5.9% year-over-year and the Federal Housing Finance Agency's separate monthly gauge of home prices posted its second biggest monthly decline on record in February. Elsewhere, March's index of leading economic indicators rose an above-consensus 0.4%, but that was still less than half February's upwardly revised 1.0% increase. And the latest weekly jobless claims fell by 13,000, but remained above 400,000 for a second straight week.

As for this week, all eyes and ears will be on Fed Chairman Ben Bernanke, whose push for greater transparency about Fed operations has led him to schedule a press conference at Wednesday afternoon's conclusion of the policy-setting Federal Open Market Committee's two-day meeting. With the second round of quantitative easing set to expire at the end of June, observers will be looking for clues from Bernanke and the FOMC about what's next.