FLORIDA PRIME

Weekly Commentary

DECEMBER 30, 2013

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Short rates held at low levels last week even as long rates continued to trend up on more signs of a strengthening recovery and a Fed that is set to start easing off the gas. London interbank offered rates (Libor) were unchanged across the Libor curve, while overnight repo rates traded in the low-to-mid single digits amid typical end-of-the-year window dressing that drew in supply.

The move up in longer rates, which saw 10-year Treasury yields hovering around 3%, came in the year's final two weeks after Fed policymakers announced plans to begin a very modest taper in January, dropping the $85 billion in monthly asset purchases known as quantitative easing (QE) to just $75 billion. At the same time, the post-December Federal Open Market Committee (FOMC) meeting statement and comments from Ben Bernanke in his subsequent press conference—his last as Fed chair—reinforced the notion the target funds rate will remain effectively anchored at 0% well beyond the time when the unemployment rate drops below the 6.5% threshold, which could be breached as early as summer.

On the economic front, a rash of reports in the year's final weeks was indicative of an economy capable of standing on its own. The Commerce Department's take on third-quarter GDP put growth at a much better-than-expected 4.1%, the strongest spurt in nearly two years, while employment, manufacturing, consumer spending, housing and confidence data also surprised to the upside. This combination of stronger growth and a less-accommodative Fed suggests the bias on short rates appears to be up for 2014, though any increases are likely to be measured given the Fed's language on the benchmark funds rate and inflation that continues to be at the low end of the Fed's preferred range.

G40461-19 (12/13)

Views are as of December 30, 2013, and are subject to change based on market conditions and other factors.