FLORIDA PRIME

Weekly Commentary

OCTOBER 28, 2013

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

With the latest debt-ceiling showdown fading from memory, yields in the cash market last week reverted to their very low pre-Washington drama levels. Four-week, 13-week and 26-week Treasury yields fell to 3, 3.5 and 7 basis points, respectively, while credit as measured by the London interbank offered rates (Libor) were at 52-week lows across the Libor curve. Overnight repo rates also fell back to pre-fiscal crisis levels, trading in the 2 to 5 basis points range for the week. This week's meeting of Federal Reserve policymakers isn't expected to change this low-rate environment, though the market will be looking for hints of potentially more dovish language given a recent softening in the economic data and the nomination of Janet Yellen to replace Ben Bernanke as chair early next year.

As we noted last week, because of delays in gathering data and one-off effects such as layoffs associated with October's 16-day government shutdown, it's going to take the market some time to get a good read on the economy. However, key September reports released last week indicate the economy was slowing prior to October. Nonfarm payroll gains came in below expectations, durable goods orders ex the volatile transportation component declined a third straight month and existing home sales slipped. In addition, consumer sentiment for October hit a low for the year, raising concerns about the holiday shopping season. None of the reports suggested contraction, only a loss of momentum in an economy already struggling with subpar growth.

G40461-19 (10/13)

Views are as of October 28, 2013, and are subject to change based on market conditions and other factors.