FLORIDA PRIME

Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

A surprise by the Federal Reserve in the middle of last week ultimately did not affect the short-term market. Minutes from the January Federal Open Market Committee revealed that some officials discussed when the Fed should begin raising interest rates, with some officials making the case for doing so in the second half of 2014. That would be contrary to consensus opinion that a rise in rates would not occur until late 2014 or early 2015.

But the effect on short rates was muted, as the 1-month Treasury moved by only half of a basis point to 0.035% (the 3- and 6-month notes fell slightly). Similarly, the London interbank offered rates (Libor) remained at 0.24%. The Fed's increase in its overnight fixed-rate reverse repo facility, up a basis point to 4 effective Feb. 18, caused the overnight Treasury and mortgage-backed repo rates to trade also in the 4 basis points area last week.

The mention of interest-rate increases were somewhat affirmed by signs that the U.S. economy is still chugging, if slowly, up the growth curve. Several indexes and surveys pointed upward, including purchasing managers' index (PMI), the Conference Board's index of consumer confidence and the Institute of Supply Management's (ISM) business activity index, although retail sales were poor.

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Views are as of February 24, 2014, and are subject to change based on market conditions and other factors.