FLORIDA PRIME

Weekly Commentary

JUNE 30, 2014

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Sometimes it is better not to know about something. During the brutal winter weather and into spring, a parade of poor reports made it quite clear that the U.S. economy slowed significantly and that Gross Domestic Product in the first quarter of 2014 had essentially frozen. Last week, the Bureau of Economic Analysis confirmed this when the release of its final revision of first-quarter GDP showed the economy contracted several percentage points. No telling what effect that knowledge might have had if the markets in the first and early second quarters had known that the effect of the adverse weather was that severe. Thankfully, we didn't find out until more recent data had already indicated a rebounding economy. This allowed the country to put the surprising depth of the contraction in the rear-view mirror as it drove on to resurgence.

Case in point, amid the poor GDP revision, other metrics from last week were broadly positive: among them an increase in manufacturing, a rise in homes sales, higher consumer confidence and a drop in jobless claims. Even inflation showed signs of healthy growth that brings it closer to the Federal Reserve's target of 2%.

But with increased conflict in the Middle East, a flight to safety pushed the yield on government bills downward. The 1-month Treasury dropped two basis points to 0.010% and the 3-month ticked down a basis point to 0.025%. The 1-and 3-month London interbank offered rates (Libor) remained at 5 basis and 23 basis points, respectively.

The Fed's overnight fixed-rate reverse-repo facility remained at last week's rate of 0.05%, but the overnight Treasury and mortgage-backed repo rates rose to 0.07% and 0.10%, respectively, due to quarter-end funding pressures.

G40461-19 (6/14)

Views are as of June 30, 2014, and are subject to change based on market conditions and other factors.