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Weekly Commentary

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In addition to raising rates by 25 basis points at its policy-setting meeting last week, the Federal Reserve laid out a potential path to reduce its mammoth balance sheet of Treasuries and mortgage-backed securities. As expected, gradual was the watchword. The proposal simply entails not reinvesting a certain amount of holdings when they mature. The amount per month is low for now, but the cap will grow in future months in the absence of a major event.

Economic data about May arrived poorer than expected: subdued inflation, falling retail sales and weak sentiment. Housing data was on the low side, with starts and permits disappointing.

The short end of the London interbank offered rate yield curve rose and flattened slightly last week, with 1-month Libor rising 8 basis points to 1.21%, 3-month moving up 3 basis point to 1.27% and 6-month up 1 basis point to 1.43%.

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