FLORIDA PRIME™

Weekly Commentary

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Decembers past, present, and future

The Federal Reserve seems to have a thing for policy shifts in the month of December, at least recently. Last year, it hiked rates, but was less optimistic about the economy. That eventually led to a 180-degree turn from a period of raising rates to one of cuts. October's Federal Open Market Committee meeting statement, and officials' communications that followed, suggest another sea change in December. This time, policymakers project they will refrain from further cuts that month and next year. And now, fed funds futures predict a toss-up between no action and a rate cut next year, but not until—you guessed it—December of 2020.

While no one likes to spend the holidays thinking about shifts in monetary policy, a pause puts liquidity products in a good position. It allows their core attributes of relative safety, liquidity and diversity to play their traditional roles. There's plenty of uncertainty out there in politics alone, and any of it can lead to volatility that makes this historically more stable asset class potentially crucial for investors. With the Treasury yield curve no longer inverted and that of the London interbank offered rate (Libor) sporting a slightly positive slope, investors are getting some risk premium again for going out the curve.

Anything can happen in economics, but we are confident the economy's moderate growth underpinned by the robust labor market will support the Fed pause.

One-month Libor decreased last week from the previous week from 1.71% to 1.70%, 3-month remained at 1.91% and 6-month rose from 1.89% to 1.90%.

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Views are as of December 2, 2019, and are subject to change based on market conditions and other factors.