

FEBRUARY 24, 2020



Paige Wilhelm
*Senior Vice President
 Senior Portfolio Manager
 Federated Investment Counseling*

Markets weighing Fed's response to virus

As short-term as the liquidity market is, cash managers are beholden to the long-term when it comes to the Federal Reserve. It is here that we feel the greatest effect of concern over the spread of the coronavirus. In their most recent policy-setting meeting, Chair Jerome Powell reiterated that Fed officials are comfortable withholding any further rate action as they examine the market's response to the three cuts of the federal funds rate they enacted in 2019. But there was a caveat that a "material change" in the economy could change that view. He also said that the coronavirus's impact on the economy was not yet known.

As the concern over infections outside of China increases, investors now seem to be betting that the outbreak will indeed qualify as "material" and have increased their expectations of additional rate cuts over the coming months. This pushed the London interbank offered rate and the U.S. Treasury yield curves down last week. The U.S. economy actually had several positive reports in January and early February, including the growth of the housing market and a modest rebound in manufacturing. But it seems investors are discounting these, especially as the virus is slowing manufacturing abroad. It is a case of wait-and-see for cash managers as we focus on the short term while being vigilant about the longer.

Libor's change last week from a week ago: 1-month edged down from 1.65% to 1.63%, 3-month decreased from 1.69% to 1.68% and 6-month slipped from 1.72% to 1.67%.