FLORIDA PRIME™

Weekly Commentary

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Looking out for a U-turn

The first serving of alphabet soup in the financial markets designed to resolve coronavirus dislocations came with all of the Federal Reserve emergency programs—including the slew of money market special purpose vehicles such as the Money Market Mutual Fund Liquidity Facility (MMLF), Commercial Paper Funding Facility (CPFF) and Primary Dealer Credit Facility (PDCF). Then came Congress' Coronavirus Aid, Relief and Economic Security Act ("CARES Act").

More recently, as the U.S. and much of the world have tumbled into recession, new letters have arisen to forecast the shape of the GDP curve as the economy recovers. Various proposals range from optimistic prediction of a V-shaped curve meaning a return to pre-Covid levels soon to the pessimistic L-shaped one that envisions a long slump. Federated Hermes' best case scenario is for a U-shaped recession. If that does come to pass, it should be a positive for liquidity products as it means the time spent at ultra-low rates might be limited. No matter the shape of the curve, we aren't expecting anything like the low-rate time frame of 2008 to 2016. But we do expect credit spreads to remain slightly elevated due to lingering concerns about quality and continued concern over the course of the virus.

The London interbank offered rate (LIBOR) curve continued to decline this week. While 1-month LIBOR remained at 0.17%, 3-month slipped to 0.37% and 6-month fell to 0.57%.

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