FLORIDA PRIME™

Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Labor market on the mend

The surprising blowout jobs report on Friday is the latest feather in the Federal Reserve's cap. Granted, the U.S. government's mammoth stimulus package had a lot to do with the economy gaining 2.5 million jobs in May. And the reopening of society as Covid-19 cases have dwindled has led to rehiring and the end of many furloughs, all of which helped to pull the unemployment rate down to 13.3% from 14.7% in April. But the Fed deserves a lot of credit. Its many special purpose vehicles created almost in real time likely saved the country from greater havoc. Some of these programs injected cash into the markets, as is the case with the Money Market Mutual Fund Liquidity Facility. Others supported various elements of the economy, such as with the Municipal Lending Facility. And its pledge to buy corporate bonds and commercial paper gave confidence to investors.

Other central banks are following suit. Many already had taken action, but some of the biggest added to that. For instance, this week the European Central Bank increased the amount available for its Pandemic Emergency Purchase Programme, and earlier the Bank of Japan added a second round of stimulus. The hope is that this expanding of monetary policy, along with fiscal stimulus, will help the world's labor markets improve as ours has—and, of course, that the improvement continues. Many people remain unemployed.

Spreads between prime and government securities tightened in May as London interbank offered rates (LIBOR) continued to fall. While 1-month LIBOR remained at 0.18%, 3-month slipped to 0.31% and 6-month fell to 0.48%.