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Weekly Commentary

JUNE 24, 2019

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A Pivot in Expectations

It appears we are at a pivot point in Federal Reserve monetary policy. Last week's Federal Open Market Committee (FOMC) acknowledged that business investment has softened and inflation has declined in the seven weeks since policymakers last met. Yet it also noted household spending seems to have strengthened and the labor market remains strong. As a whole, policymakers' view of the economy moderated somewhat from their prior meeting as they cited “uncertainties” and muted inflation pressures that threaten their ability to reach its 2% inflation target. The Fed statement dropped “patient” from its language, indicating that it will closely monitor incoming data, a change that signals risks have shifted to the downside.

It's hard to tell how closely the housing market follows Fed policy, but when rates are likely to fall, it usually benefits. And so, existing home sales surprised in May, rising 2.5% off an upwardly revised April figure. Mortgage applications have surged to multiyear highs, and there's been a pickup in both housing starts and permits.

The London interbank offered rate (Libor) ended the week slightly lower, with the 1-month rate at 2.40%, the 3-month at 2.33% and the 6-month at 2.21%.

G40461-19 (6/19)