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Weekly Commentary

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Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Economy hanging in there

The fallout from the Federal Reserve's forecast in its meeting that it will ease monetary policy soon lingered over the markets last week, but several data points suggest that while moderating, the economy is still solid.

While the pace of new home sales fell in May, it appears seasonal adjustments skewed the data, as mortgage applications are soaring, residential bank lending is rising, existing home sales are good, permits and starts were decent, and pending sales are rebounding. Ex-transportation, durable orders rose more than expected in May and the job market is still tight. Although backward looking, it was comforting to know that first-quarter U.S. gross domestic product was not revised last week from its robust 3.1% growth.

The recent inversion in the short end of the London interbank offered rate curve (Libor) continued last week, with the 1-month rate at 2.40%, the 3-month at 2.33% and the 6-month at 2.21%. While inverted curves have predicted recessions in the past, and the U.S. Treasury curve has also done so, we do not think one is imminent based on economic data.

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