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Weekly Commentary

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Pass the grain of salt, please

Overreaction is the nature of the markets, and it usually comes when investors look at only one or two issues, ignoring the rest. So take the volatility and falling yields last week with a grain of salt. The culprit was concern over the trade war with China and a slowing global economy. But U.S. data was telling a different tale, with retail sales blowing past expectations and the housing market heating up. According to surveys, small business owners are optimistic and consumer sentiment remains strong.

Yet the futures market's implied probability of Federal Reserve policy forecasted more rate cuts in the remainder of the year; the 2- to 10-year Treasury yield curve briefly inverted; and yields on the short end fell, as did those of the London interbank offered rate curve (Libor). We think these reactions are overdone and that the U.S. reports added needed context to exaggerated response.

The short end of the Libor continued to fall last week, with the 1-month rate dropping from 2.20% to 2.18%, the 3-month rate decreasing from 2.18% to 2.12% and the 6-month rate falling from 2.05% to 2.01%.

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