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Weekly Commentary

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Libor takes turn for the better

It was with a sigh of relief last week that cash managers and investors saw the London interbank offered rate (Libor) curve cease to be inverted. The spread between 1-month and 1-year Libor moved into positive territory, meaning investors are now getting paid for assuming more interest-rate risk. In other words, the curve is working like it should. The question is, will it continue on this positive path or invert again? There is no guarantee in any future market behavior, of course. But data suggests that, on the strength of consumers and the labor market, the U.S. economy could pull through the manufacturing slowdown without worsening. A positive end to the U.S.-China trade war, which thawed somewhat last week, would certainly help.

The Federal Reserve is likely to deliver a quarter-point rate cut at its Federal Open Market Committee (FOMC) meeting this week. We continue to be confident these moves are adjustments to policy rather than the start of a race to low rates.

Libor's shift was as follows: the curve ended the week with 1-month Libor slipping from 2.04% to 2.02%, but 3-month rising from 2.10% to 2.14% and 6-month increasing from 1.99% to 2.07%.

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