FLORIDA PRIME™

# Weekly Commentary

JANUARY 2, 2019

**Paige Wilhelm**
*Senior Vice President*
*Senior Portfolio Manager*
*Federated Investment Counseling*

## 2019 Outlook for cash

The Federal Reserve's rate hike to a target range of 2.25%-2.50% and lowering of its 2019 projections to two hikes in its December policy meeting fit with how the economy is performing now and how it might moderate in the near future. Furthermore, the unanimous statement and Chair Powell's no-nonsense press conference suggest policymakers want to simplify their message. Look for them to constantly reiterate that their decisions are based on keeping inflation stable and maintaining strong employment. Inflows to liquidity products will likely continue, spurred by equity market volatility. The question is, when the markets eventually settle down, how much of the influx will remain due to the high level of return cash is now offering.

We expect a rate hike to come in the first half of this year with one more arriving in the second half before a potential pause, with the $50 billion-a-month flood of securities from quantitative tapering putting additional upward pressure on rates. With the potential for steady corporate-earnings and economic performance, the Fed will likely be more watchful and data dependent about policy in 2019.

In December, the short end of the London interbank offered rate (Libor) steepened ahead of the policy move. One-month Libor ended at 2.52% and 3-month at 2.80%. However 6-month Libor slipped to 2.87%.

*G40461-19 (1/19)*