FLORIDA PRIME™

Weekly Commentary

JULY 05, 2022

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Moving on to Q3

The second quarter came to an end last week with the financial markets reeling and inflation still high. The annualized core Personal Consumption Expenditures Index, which strips out volatile energy and food prices, decreased only a sliver in May to 4.7%, down from 4.9% in April. That's hardly a sign inflation is receding, and of course the May core Consumer Price Index was hot. Expectations for a recession continue to grow.

So where's the good news? For one, a recession is not a given, and likely would come in 2023 in any case. Consumer and business spending behavior are in flux due to the last stages of the pandemic, soaring energy prices due to the Russia/Ukraine war, stubborn supply-chain snarls and China's Covid-related lockdown. It's possible the economy will respond quicker to the Fed tightening than is typical, avoiding a full-blown contraction. Plus, the labor market's strength might be a bridge over any potential valley. This week's nonfarm payrolls report for June will let us know how sensitive employers are to the pending slowdown.

Also, short rates have risen tremendously—the ultimate goal of a liquidity pool. At the end of the quarter, yields on 1-, 3-, 6- and 12-month U.S. Treasuries were 1.03%, 1.67%, 2.49% and 2.80%, respectively; the 1-, 3-, 6- and 12-month Bloomberg Short-Term Bank Yield Index rates (BSBY) were 1.62%, 2.24%, 2.87% and 3.54%, respectively; and the 1-, 3-, 6- and 12-month London interbank offered rates were 1.80%, 2.29%, 2.90% and 3.56%, respectively.

G40461-19 (7/22)

Views are as of July 05, 2022 and are subject to change based on market conditions and other factors.