

Market Update

February 25, 2019

Treasuries

Treasury Curve	Today	Week Change
3 Month	2.44%	+0.03%
6 Month	2.51%	+0.02%
1 Year	2.55%	+0.01%
2 Year	2.51%	+0.01%
3 Year	2.48%	+0.01%
5 Year	2.49%	+0.01%
10 Year	2.68%	+0.02%
30 Year	3.04%	+0.03%

Short-Term Rates

Fed Funds	2.50%
Prime Rate	5.50%
3 Mo LIBOR	2.65%
6 Mo LIBOR	2.71%
12 Mo LIBOR	2.89%
Swap Rates	
3 Year	2.557%
5 Year	2.546%
10 Year	2.689%

Economic Calendar

Date	Statistic	For	Briefing Forecast	Market Expects	Prior
Feb 25	Housing Starts & Permits (MoM)	Dec	-0.4%	-0.2%	3.2%
Feb 26	S&P CoreLogic CS 20-City Home Pr.	Dec	4.55%	4.50%	4.68%
Feb 26	Conference Board Consumer Conf.	Feb	124.3	124.7	120.2
Feb 26	Fed Chair Congressional Testimony	Feb 26	NA	NA	NA
Feb 27	Pending Home Sales (MoM)	Jan	1.0%	0.8%	-2.2%
Feb 28	GDP Annualized (QoQ)	4Q A	2.3%	2.3%	3.4%
Mar 1	Personal Income & Spending	Dec	-0.2%	-0.2%	0.4%
Mar 1	ISM Manufacturing Survey	Feb	56.0	55.6	56.6
Mar 1	U. Michigan Consumer Sentiment	Feb F	96.0	95.8	95.5



Top 5 Events for the Week

FEB 25– MAR 1, 2019

1. Fed Chair Powell Congressional Testimony–Tue./Thurs.
2. Fourth Quarter GDP –Thursday
3. Housing Activity—Mon./Tues/Wed.
4. February ISM Manufacturing Survey—Friday
5. February Consumer Confidence —Tuesday

Fed Chair Goes to Capitol Hill

Despite a plethora of economic releases this week the spotlight will fall on Fed Chair Jay Powell's semi-annual address on Capitol Hill. He'll testify to the Senate Banking Committee on Tuesday and the House Financial Services Panel on Thursday. After chewing through the minutes from the January FOMC meeting we'll be looking for any new details on balance sheet tapering and whether the slight bias-to-hike is the correct interpretation. A half dozen other Fed members will also be speaking this week so plenty of headlines will be forthcoming as to future monetary policy. Away from Fed Speak we'll get plenty of first-tier data headlined by the long-delayed first estimate of fourth quarter GDP on Thursday (2.3% expected). Three separate housing reports will give us additional insight into that sector which clearly stumbled into the new year after struggling in late 2018. January Pending Home Sales will give us the latest read which will reflect activity after rates declined 50bps from the November highs.

1. Fed Chair Powell Testifies on Capitol Hill – Tuesday/Thursday

Despite a steady flow of economic releases this week the highlight will be Fed Chair Powell's semi-annual Congressional testimony. He'll kick-off the two-day affair testifying in front of the Senate Banking Committee which, while not as amusing as the House sessions, usually offers the more insightful questioning. We hope to hear some clarification with regards to what the end of balance sheet runoff is going to look like, and whether our interpretation from the minutes that the Fed still has a bias to tighten if inflation and/or growth obliges is correct. From the minutes the FOMC seemed about evenly divided between those willing to hike only if inflation moves above 2% while the other group appears fine with hiking as long as growth meets their forecasts. Trying to determine where Powell comes down will be a focus of the testimony. Away from the Chairman there will be another half-dozen Fed speakers this week so we'll be encountering an onslaught of Fed speak that will hopefully inform more than confuse as to future expectations for monetary policy.

2. First Estimate of Fourth Quarter GDP – Thursday

The first estimate of fourth quarter GDP has been delayed nearly a month due to the government shutdown but on Thursday we'll get a look at what is expected to be a 2.3% rate of growth per Bloomberg consensus. It should also be noted the usually accurate Atlanta Fed's GDPNow model has the rate estimated much lower at 1.4%, so quite a range of possible outcomes. Early Bloomberg consensus estimates for first quarter growth are around 2.0%. Despite the range of estimates it is clear GDP growth is slowing from the 4- and 3-handle rates in the second and third quarters of last year. That is a big reason for the Fed's recent shift to a more patient policy approach. They want to see if growth rebounds in subsequent quarters, or continues to struggle before making further adjustments. As mentioned above, the bias, however, appears to be they expect the economy to rebound such that a rate hike remains the most likely next move.

3. Housing Activity – Monday/Tuesday/Wednesday

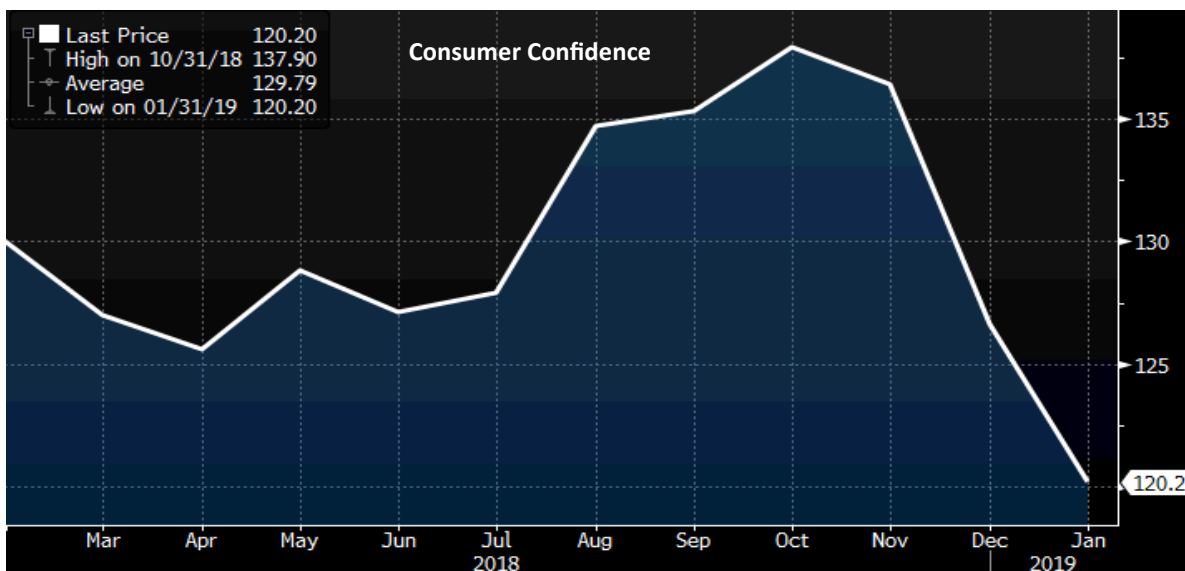
After the rather dismal December existing home sales read from last week we'll get a trio of housing reports this week that may provide more details on the direction of the housing market. The first report is the Housing Starts and Permits for December that was held up by the government shutdown but will be released later this morning. As with other December reports a slowing in activity is expected versus November numbers. The S&P CoreLogic CS 20-City Home Price Index is due tomorrow with year-over-year appreciation expected to continue moderating from 4.68% to 4.50%. Perhaps the timeliest tell will be Pending Home Sales for January due Wednesday which are based on signed contracts and not closings that have longer lead times. Thus this report will include activity happening after mortgage rates dipped 50bps from the November highs. A slight rebound in sales is expected versus the slow activity noted in December.

4. February ISM Manufacturing Survey – Friday

With the jobs report not due for release until March 8th, the ISM Manufacturing Survey will be the first report giving us a look at February activity. Some regional surveys have posted significant declines in the last couple months but the nationwide ISM series has resisted that trend. The forecast for February is expected to print a 55.6 versus 56.6 in January and below the 12-month average of 58.5. While a slight slowing in momentum is expected the read is still forecasted to be well above 50 which denotes an expanding sector.

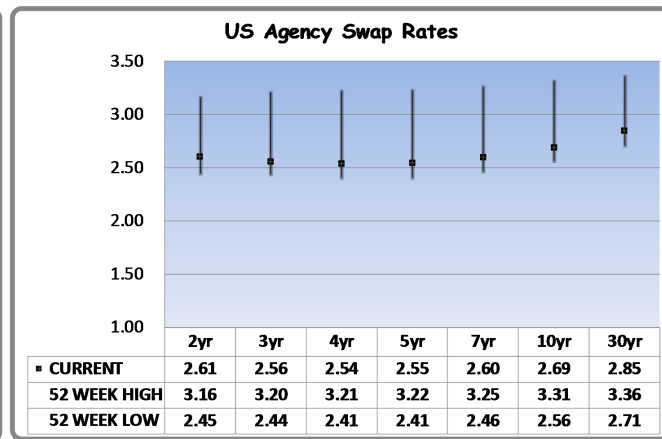
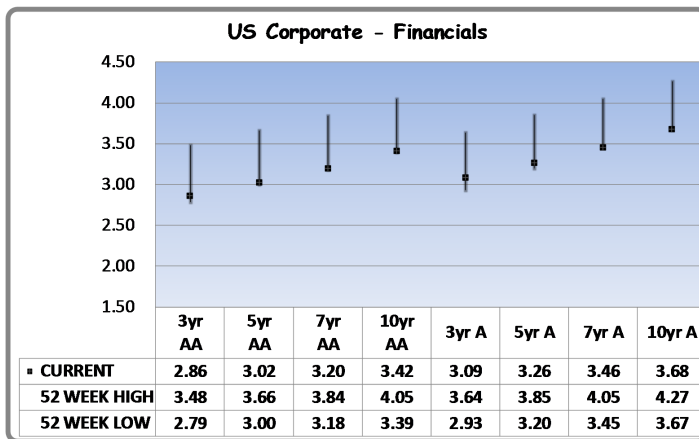
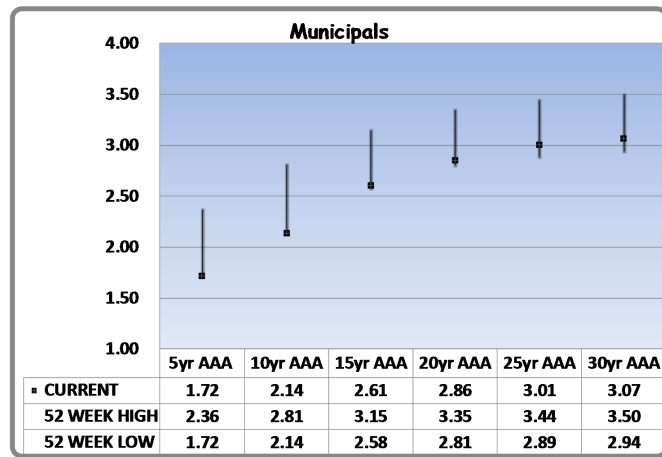
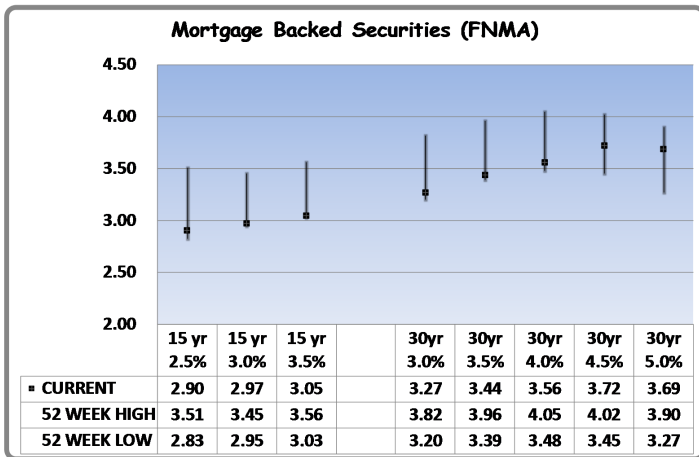
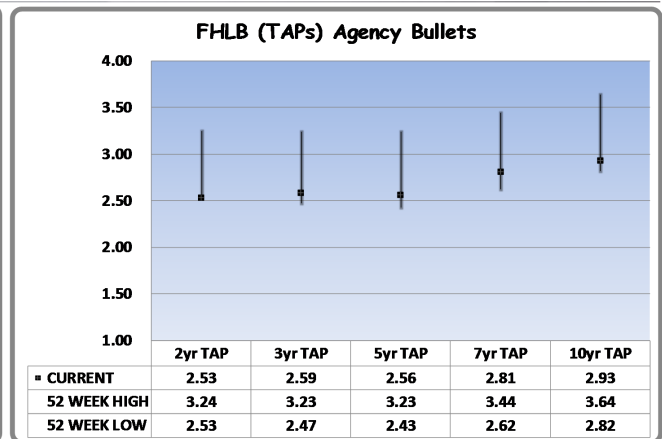
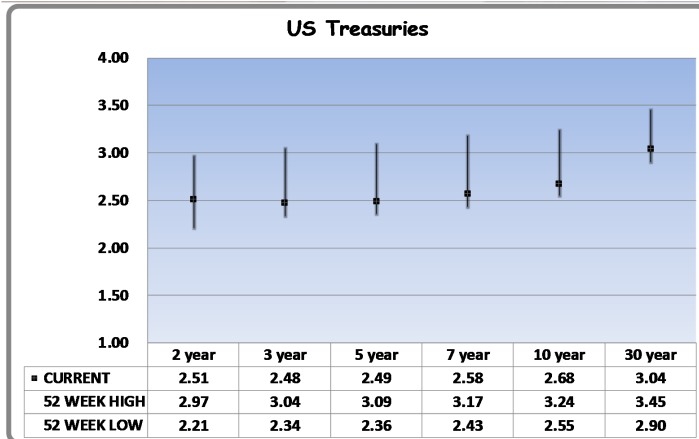
5. February Consumer Confidence – Thursday

The Conference Board's consumer confidence reading peaked at 137.9 back in October and has slid each month since to 120.2 in January. The February read is expected to rebound to 124.7 which makes some sense given the rebound in stocks so far in 2019. The twelve-month average for the series is 129.8 so while a rebound is expected it's not likely to get close to the heady confidence readings from last year. Given the U.S. economy is two-thirds consumer consumption a rebound in confidence seems a prerequisite to getting consumers spending at levels seen earlier last year.





Investment Yield Ranges Over Last Year



*Source: Bloomberg

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