CenterState
CORRESPONDENT DIVISION

Market Update

February 19, 2019

Treasuries

Treasury Curve	Today	Week Change
3 Month	2.41%	+0.02%
6 Month	2.49%	+0.04%
1 Year	2.54%	-0.02%
2 Year	2.50%	-0.02%
3 Year	2.47%	-0.04%
5 Year	2.48%	-0.05%
10 Year	2.66%	-0.05%
30 Year	3.01%	-0.04%

Short-Term Rates

Fed Funds	2.50%
Prime Rate	5.50%
3 Mo LIBOR	2.68%
6 Mo LIBOR	2.75%
12 Mo LIBOR	2.91%

Swap Rates

3 Year	2.575%
5 Year	2.555%
10 Year	2.677%

Economic Calendar

Date	Statistic	For	Briefing Forecast	Market Expects	Prior
Feb 19	NAHB Housing Market Index	Feb	59	59	58
Feb 20	FOMC Meeting Minutes	Jan30	NA	NA	NA
Feb 21	Durable Goods Orders	Dec P	1.7%	1.8%	0.7%
Feb 21	Durables Ex Transportation	Dec P	0.3%	0.3%	-0.4%
Feb 21	Durable Shipments NonDef Ex-Air	Dec P	0.1%	0.0%	-0.2%
Feb 21	Bloomberg Consumer Comfort	Feb 17	60.0	60.0	60.0
Feb 21	Leading Index	Jan	0.2%	0.2%	-0.1%
Feb 21	Existing Home Sales	Jan	5.00m	5.00m	4.99m
Feb 21	Existing Home Sales MoM	Jan	0.2%	0.2%	-6.4%

Top 5 Events for the Week

FEB 19-22, 2019

1. Trade Talks—All Week
2. FOMC Meeting Minutes & Fed Speak –Wednesday
3. December Durable Goods Orders—Thursday
4. January Leading Index—Thursday
5. January Existing Home Sales —Thursday

Trade Talks and Fed Speak

In this holiday-shortened week the data is further confined between today and Thursday. The highlight will be tomorrow's FOMC minutes from the January meeting where the dovish turn of the Fed was on full display. While we know the substance of the meeting was a likely rate-hiking pause for several meetings, we'll be interested in the discussions surrounding the latest estimates of the neutral rate and the concern, if any, with the gathering global slowdown. Away from the Fed we expect to hear some happy talk regarding trade negotiations with China as the March 1 tariff deadline approaches. If history is any guide we expect the deadline to be extended and soothing words offered regarding the state of the talks. That should provide some room for equities to rally and put a little pressure on Treasuries. January existing home sales and the Leading Index should provide a lift to equities as well with a small but positive uptick in January after a tough December.

1. China Trade Talks–All Week

With the government now funded through September attention can turn to the ongoing China trade talks. We expect that we'll be greeted this week with positive headlines and a possible extension of the March 1 tariff deadline. That should provide a positive backdrop to equities and concomitant pressure on Treasuries. We don't, however, expect that pressure to lead to any material back-up as investor concerns with the global slowdown story and consumer spending in the first quarter after a dismal December should act to keep the long-end range bound.

2. January FOMC Minutes and Fed Speak —Wednesday

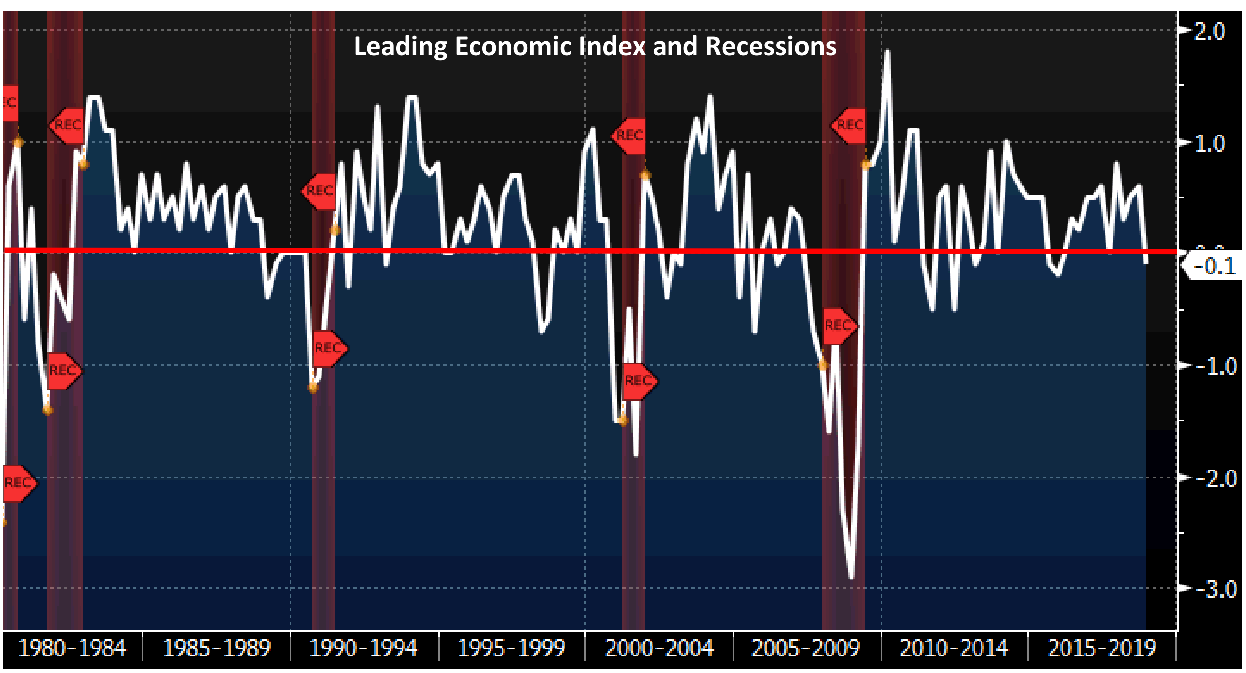
While the policy substance of the January meeting is already out in the open, other discussions at the meeting will be informative. We will be interested to read members' views regarding the latest estimates of the neutral rate and whether we are at, above, or below that rate given a 2.50% upper bound fed funds level. We also want to see whether there were substantive discussions regarding the global slowdown story and how much concern was expressed. It obviously had some impact on the dovish turn by the Fed but we'd like to see the extent of the discussions that revolve around that issue as it could be a continuing driver of a rate pause if the slowdown deepens.

3. December Durable Goods Order-Thursday

The release of this report was delayed by the government shutdown and so it's a bit dated but it could fill-in some pieces to what is quickly looking like a tough December. The retail sales report last week was dreadful but the durable goods numbers are expected to see a rebound after a weak November. Perhaps the durable goods sector was quicker on the slowdown switch than the consumer but faster on the uptake? In any event the headline orders number is expected to be up 1.7% versus 0.7% in November. Durables less transportation are expected to be up 0.3% versus –0.4% the prior month. Shipments of goods less defense and air— a proxy for business investment— are expected to be up 0.1% versus –0.2%. So a decent read from the durable goods sector in December is expected compared to the weak consumer retail sales numbers that we saw last week.

4. January Leading Index —Thursday

The Conference Board's Leading Index is a compilation of metrics that tend to lead the economy and the index, but perhaps more important these days it also has a solid track record of predicting recessions. As the chart below shows, the index always falls well below zero prior to a recession and currently the index has been flirting with the zero-level. The index, however, will need to move below-1.0 to provide a more reliable recession signal. That being said, the January number is expected be up 0.2 versus –0.1 in December. If that comes to pass it will be another signal that while a slowing economy is expected, the probability of dipping into recession remains slight.

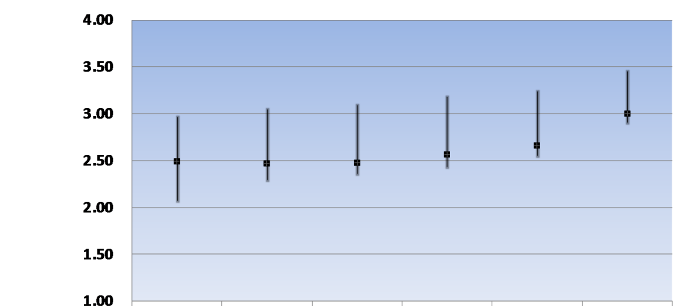


5. January Existing Home Sales —Thursday

The housing market has become a key tell in trying to divine whether the economy is truly headed south or is just settling into a lower but steadier pace. Existing home sales account for nearly 90% of the residential market and as such gives us the broadest view of its health, but with data based on closings it can be a bit dated. January existing home sales are expected to have increased ever-so-slightly to 5.00 million annualized units versus 4.99 million in December. The average over the past year has been 5.34 million annualized so in keeping with recent housing releases a below-average print while being nearly unchanged month-over-month.

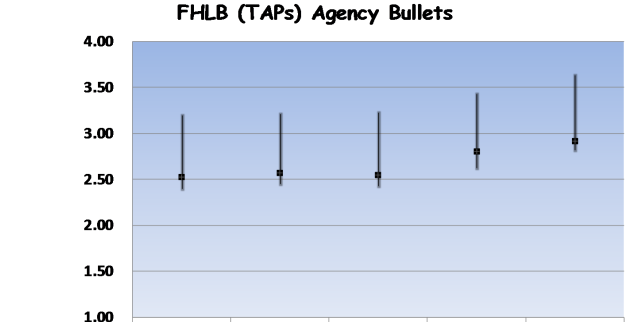
Investment Yield Ranges Over Last Year

US Treasuries



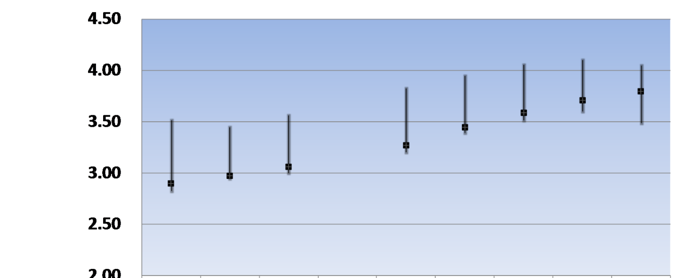
	2 year	3 year	5 year	7 year	10 year	30 year
▪ CURRENT	2.50	2.47	2.48	2.56	2.66	3.00
52 WEEK HIGH	2.97	3.04	3.09	3.17	3.24	3.45
52 WEEK LOW	2.08	2.29	2.36	2.43	2.55	2.90

FHLB (TAPs) Agency Bullets



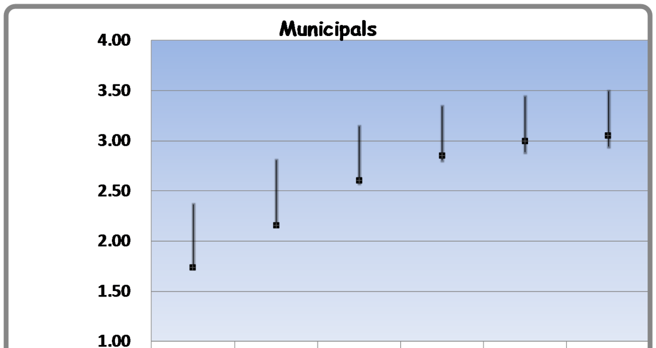
	2yr TAP	3yr TAP	5yr TAP	7yr TAP	10yr TAP
▪ CURRENT	2.52	2.57	2.55	2.80	2.92
52 WEEK HIGH	3.19	3.21	3.22	3.43	3.63
52 WEEK LOW	2.40	2.45	2.43	2.62	2.82

Mortgage Backed Securities (FNMA)



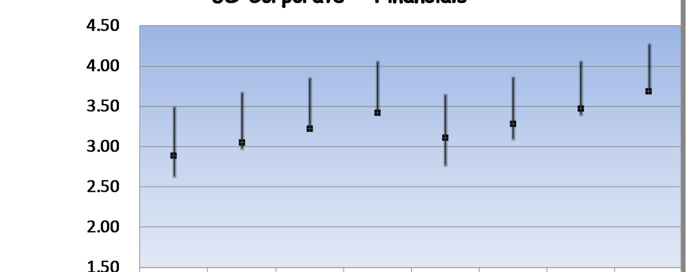
	15 yr 2.5%	15 yr 3.0%	15 yr 3.5%		30yr 3.0%	30yr 3.5%	30yr 4.0%	30yr 4.5%	30yr 5.0%
▪ CURRENT	2.90	2.97	3.06		3.27	3.44	3.59	3.71	3.79
52 WEEK HIGH	3.51	3.44	3.56		3.82	3.94	4.05	4.10	4.04
52 WEEK LOW	2.83	2.94	3.00		3.20	3.39	3.51	3.60	3.48

Municipals



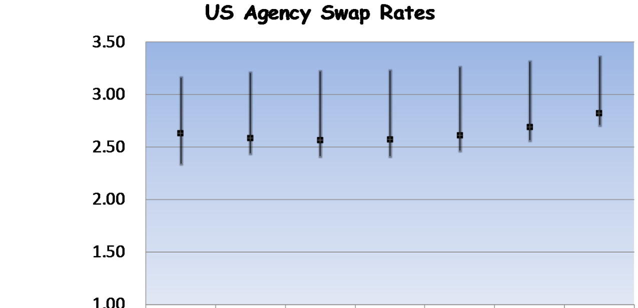
	5yr AAA	10yr AAA	15yr AAA	20yr AAA	25yr AAA	30yr AAA
▪ CURRENT	1.74	2.16	2.60	2.86	3.00	3.05
52 WEEK HIGH	2.36	2.81	3.15	3.35	3.44	3.50
52 WEEK LOW	1.74	2.16	2.58	2.81	2.89	2.94

US Corporate – Financials



	3yr AA	5yr AA	7yr AA	10yr AA	3yr A	5yr A	7yr A	10yr A
▪ CURRENT	2.89	3.05	3.22	3.42	3.11	3.28	3.47	3.68
52 WEEK HIGH	3.48	3.66	3.84	4.05	3.64	3.85	4.05	4.27
52 WEEK LOW	2.64	2.98	3.22	3.42	2.77	3.10	3.41	3.68

US Agency Swap Rates



	2yr	3yr	4yr	5yr	7yr	10yr	30yr
▪ CURRENT	2.64	2.58	2.56	2.57	2.61	2.69	2.82
52 WEEK HIGH	3.16	3.20	3.21	3.22	3.25	3.31	3.36
52 WEEK LOW	2.34	2.44	2.41	2.41	2.46	2.56	2.71

*Source: Bloomberg

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