

## April 2000 Credit Market Review

As we wait to see if the few April showers bring May flowers, the big question is now upon us. Will we see a more aggressive Fed this month? Having been a firm proponent of Fed gradualism, it now appears that the Fed is poised to be a little more aggressive. The Fed has raised rates five times in the past year each move being 25 basis points. It now appears that the Fed may tighten by 50 basis points at the May 16 FOMC meeting, rather than the *gradual* 25 basis points most have expected. A rate hike of 50 basis points would take the Fed funds rate to 6.5%.

Talk of a 50 basis point move increased following the release of last month's economic indicators, concluding the first quarter of the new millennium. The employment cost index (ECI) rose 1.4% in the first quarter and was up 4.3% from a year ago, it's most in nine years. First-quarter GDP growth at 6%, is clearly too fast for the FED. For economic growth to slow, consumer spending must slow. Consumer spending jumped at an 8.2% rate in the first quarter, the fastest rate since 1983, when the economy was recovering from a deep recession. The wealth effect is more than likely responsible for this explosion of consumer spending. Capital spending on equipment and software jumped at a 24% rate in the first quarter. Both technical and non-technical capital spending was strong.

The US Government Agency market continues to show exceptional value compared to Treasuries. The six to ten month sector remains the most attractive, with yields in the 6.75% area.