Early last year, concerns about the possibility of future rate increases may have contributed to a falloff in bank share prices. Since then, however, the Federal Open Market Committee has held its core rates constant, and bank share prices have accelerated again, with the NASDAQ banking index rising 49% since April.

A favorable interest rate environment may help explain the good fortune enjoyed by bank investors. Consistent with declining inflation expectations, long-term mortgage rates fell throughout 1997, with 30-year rates dropping nearly 100 basis points after peaking at 8.11% in April (15-year rates are down 89 basis points from their 1997 high of 7.66%).

In contrast, short-term rates varied little over the last part of the year. Other consumer loan rates also remained relatively constant over 1997. Although down 21 basis points from their level at the beginning of the year, credit card rates held steady for most of 1997, following a dramatic 109-basis-point decline in 1996.

On the funding side, 6-month CD rates have hovered around 4.8% since the middle of 1997, following a 14-basis-point increase between March and June (from 4.68% to 4.82%). In contrast, money market rates have declined somewhat over the last few months.