FLORIDA PRIME

Weekly Commentary

MARCH 28, 2011

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Yields on Treasury bills reversed course a bit last week as market worries over events in Japan and North Africa eased while the domestic economy continued to show signs of improvement. There were hiccups—Portugal's rejection of new austerity measures and a subsequent downgrade by Moody's reignited simmering euro sovereign credit concerns, with the focus shifting to Spain, which also was downgraded. And weaker-than-expected reports on February durable goods orders and home sales cast a few clouds over the U.S. recovery. Still, both four-week and 26-week T-bills inched up 1.5 basis points on the week to a respective 0.075% and 0.15%, while short credit rates held steady.

On the economic front, the final read on fourth-quarter 2010 GDP was revised up to 3.1% from the previous 2.8%, slightly above consensus forecasts and closer to the initially estimated 3.2% increase. The upward adjustment was driven by inventories and nonresidential investment, while corporate profits rose at a 10% annualized pace in the quarter—slower than earlier in the year but still strong enough to push profits above their previous 2006 peak, capping a year in which profits grew their fastest in six decades.

Also last week, the Labor Department said the 4-week moving average of jobless claims fell to 386,000 in the latest week, a level historically associated with stronger job growth. On the downside, February durable goods orders unexpectedly slipped 0.9%, though January's increase was revised higher, with orders excluding the volatile transportation sector also down. The decline was curious, given extremely strong regional reads of manufacturing and new orders as well as the national ISM report, which in February hit a 7-year high.

February also saw already weak new and existing home sales fall more than expected, with new home prices their lowest since 2003 and the inventory of new homes the lowest since 1967. Few analysts were expecting housing to add much if any to the economy this year and the February reports reflect why. Finally, the University of Michigan's final read on March sentiment was slightly worse than expected, as winter's spike in food and gasoline prices continued to weigh on expectations.

G40461-18 (3/11)

Views are as of March 28, 2011, and are subject to change based on market conditions and other factors.