FLORIDA PRIME

Weekly Commentary

SEPTEMBER 12, 2011

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

For the week ending September 9, 2011, growing worries about the European sovereign debt crisis and its potential impact on the health of the continent's banks led to steep declines on world equity markets, particularly among financial shares. The U.S. stock market responded in kind, although losses were mitigated by a surprisingly upbeat reading on the Institute for Supply Management's gauge of activity in the U.S. service sector.

Federated's conservative stance on managing and monitoring every security within its money market portfolios has resulted in extensive and continuous review of exposures to European senior bank debt. Since the extent of the sovereign debt crisis was first uncovered in 2010, this process has led portfolio management to shorten maturities, downgrade certain names and to eliminate others from its list of investable securities. Because all of these securities roll over at short intervals, Federated is able to quickly address its exposures to any security.

On the U.S. Central Bank front, the Federal Reserve appeared to be taking a wait and see approach to initiating substantial new steps to bolster growth following a September 8 speech by Fed Chairman Ben Bernanke. He offered no signals that further measures would be announced at the coming September 21-22 policy meeting. He noted that he expected inflation to moderate in the coming quarters.

From September 2, 2011 to September 9, 2011, three-month London interbank offered rates (Libor) rose from 0.33% to 0.34% while six-month and one-year Libor held steady at 0.50% and 0.81%, respectively. Treasury yields fell as investors sought a haven from an increasingly unsettled marketplace.

Reporting activity picks up next week with information on August inflation from the Producer Price Index and Consumer Price Index. There will also be data on imports and exports, retail sales, manufacturing, industrial production and consumer confidence.

G40461-18 (9/11)