FLORIDA PRIME

Weekly Commentary

OCTOBER 24, 2011

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

The European Union's agonizingly drawn-out process in dealing with Greece and other debt-laden peripheral countries continues to hang over the credit markets, somewhat overshadowing additional signs that the U.S. economy may be finding firmer footing. There was no breakthrough when EU leaders met over the weekend, but they appeared to be inching toward some sort of agreement on Greece (where lawmakers approved another round of austerity measures despite violent protests), a euro-wide bailout fund and a broad plan to help recapitalize some of Europe's major banks. They meet again this Wednesday.

This "will they get it done and if so, when?'' environment is the primary factor behind the recent spike in volatility in the credit and equity markets. Until there is a clear resolution to the sovereign-debt ills threatening the euro zone and several of its major European banks, we would expect trading to continue to vacillate between "risk-on'' and "risk-off.'' This should keep short government and credit rates in a tight range, with the former bouncing around historical lows and the latter exhibiting a slight upward bias.

Meanwhile, expectations are building that this week's advanced reading on third-quarter GDP in the U.S. could come in higher than the current 2% consensus increase, bolstered by stronger-than-expected export growth, back-to-school sales (particularly cars and trucks) and manufacturing activity. While it's still early in the reporting season, third-quarter corporate earnings have surprised to the upside so far, on both the earnings and revenue front. September's headline consumer and producer prices both came in above forecasts, but core prices were subdued, with core PPI rising slightly above forecasts and core CPI rising slightly below, at 0.02% and 0.005%, respectively.

On the rate front, the one-month London interbank offered rate (Libor) held at 0.24% a third straight week, but 3-month, 6-month and one-Libor rose marginally last week to a respective 0.42%, 0.61% and 0.92%, each representing a new 52-week high. On the government end, yields on four-week Treasury bills rose half a basis point to 0.015%, 13-week bills doubled to 0.03%, and 26-week bills rose 2 basis points to 0.065%.

G40461-18 (10/11)

Views are as of October 24, 2011, and are subject to change based on market conditions and other factors.