FLORIDA PRIME

Weekly Commentary

OCTOBER 31, 2011

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

The risk trade rallied last week on news that European leaders had reached a tentative deal on a bailout package to assist Greece, other debt-laden peripheral countries and major European banks. While sentiment cooled a bit as limited details dribbled out and concerns arose anew over the viability of the plan, the seemingly successful European Union meeting shifted attention somewhat to the United States, where the week's economic news acted to douse lingering double-dip recession fears.

Third-quarter GDP increased 2.5%, according to the Commerce Department's initial estimate. That was slightly below the consensus, which had been revised up rather substantially the past few weeks as September's economic data rolled in; it's expected that the final take on Q3 GDP will be revised up, too, since the flash read relied primarily on weaker July and August reports. Still, the underlying data in the preliminary Q3 estimate was stronger than the headline. Consumer spending on services rose the most in five years, nonresidential fixed investment rose the most in a year, the year-over-year change in capital expenditures was its highest since 2005's first quarter and real final sales to domestic purchasers—a proxy for final domestic demand—rose at a 3.2% annual rate, well above the long-term average 2.7%.

All of this suggests there's some momentum going into the fourth quarter, despite lousy consumer sentiment readings that remain stuck at recession levels. Inventory restocking could provide some lift, too—inventories were the biggest drag in the third-quarter GDP report, as businesses kept stocks very lean early in the quarter on concerns about a potential double-dip and on uncertainty surrounding the contentious debt-ceiling talks. Now that a second recession seems unlikely, it's anticipated that businesses may be forced to rebuild depleted stocks to meet the rising demand implied in the Q3 GDP report.

On the week, London interbank offered rates (Libor) continued to trend up, with one-month Libor closing at 0.25% and 3-month, 6-month and one-year Libor all closing at new 52-week highs of 0.43%, 0.62% and 0.93%, respectively. On the government end, Treasury bill yields fell slightly to a respective 0.005%, 0.02% and 0.06% for 4-week, 6-week and 26-week issues.

G40461-18 (11/11)

Views are as of October 31, 2011, and are subject to change based on market conditions and other factors.