FLORIDA PRIME

Weekly Commentary

DECEMBER 5, 2011

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Short credit rates in the United States continued to inch up even as their euro-denominated counterparts pulled a tad amid signs that European leaders were closing in on a deal to ease their sovereign-debt crisis and on a move by major Western central banks to provide a dollar-centric liquidity backstop to the European credit markets. One-month and three-month London interbank offered rates (Libor) last week rose a basis point each to a respective 0.27% and 0.53%, percent, while six-month and one-year Libor rose two basis points each to 0.75% and 1.07%, respectively. By comparison, one-month, three-month and six-month euro Libor—Libor denominated in euros—fell fractionally, while one-year euro Libor slipped a full basis point to 2.03% as the euro firmed relative to the dollar.

The movement came as the Fed, the European Central Bank, and central banks in the U.K., Japan, Switzerland and Canada intervened in the global credit markets by agreeing to both lower the cost and extend the size of so-called dollar-liquidity swap lines. This had the effect of making it cheaper and easier for European banks and other borrowers to have access to dollars to repay loans. This move comes amid worries that Europe's sovereign-debt crisis could potentially freeze European credit markets if lenders sought to avoid euros unless a believable resolution of the crisis was at hand. On that front, European Union leaders were to meet this week to address a plan to tighten the euro-zone's fiscal oversight in exchange for providing sufficient funding to its most troubled debtor countries. Italy's new government helped kick-start the meeting by agreeing over the weekend to new austerity measures.

Back in the U.S., it was another week of generally better-than-expected economic news. The Labor Department reported that November's unemployment rate fell to 8.6%, its lowest level since 2009, while the ADP's separate survey showed that private payrolls jumped in November by the largest amount this year, significantly above consensus, putting the 12-month average at its highest level since August 2006. Significantly, small businesses (fewer than 50 workers) contributed the most in five years.

Also, the ISM Manufacturing Index rose above forecasts in November to its highest level since June, marking its 28th straight month in expansion territory. Gains in production and new orders components underpinned the increase, suggesting that inventory accumulation is more likely to add to fourth quarter GDP growth. On the consumer front, the Conference Board's confidence gauge rebounded in November by the largest amount since April 2003—the sixth-biggest increase on record, bringing it in line with the recent improvement in other measures of consumer attitudes. This should support a

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solid holiday shopping season that, based on Black Friday and Cyber Monday reports as well as chain-store and vehicle sales for November (which at an above-consensus 13.6 million annual rate was its highest since cash-for-clunkers), got off to a strong start.

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