FLORIDA PRIME

Weekly Commentary

APRIL 9, 2012

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Last week saw domestic and overseas developments that raised concerns over the long-term prospects of the current recovery, capped off by a disappointing and unexpectedly negative report on March jobs. Prices of long Treasuries rallied strongly on the report (the Treasury bond market was open until noon on Good Friday, while the equity markets were closed), causing yields to tumble on the long end of the yield curve. One-month, three-month and six-month Treasury yields were mixed. London interbank offered rates remained basically unchanged.

Early last week, minutes from the Federal Reserve's Federal Open Market Committee (FOMC) March 13 meeting revealed there was little, if any, discussion about additional quantitative easing. Only "a couple" FOMC members mentioned the need for another round of stimulus if conditions worsened, though members also indicated they remained comfortable with the current policy of retaining low rates through the end of 2014. On Wednesday, a disappointing auction of Spanish bonds raised concerns that the euro-zone's ongoing sovereign-debt drama would reassert itself, with yields on 10-year Spanish bonds spiking to three-month highs.

That was followed by the Labor Department's announcement Friday that the U.S. economy added only 120,000 nonfarm jobs in March, far short of consensus expectations in the 203,000 to 210,000 range. The unemployment rate actually fell to 8.2%, but the decline was due to a drop in the labor force participation rate as discouraged workers quit looking for work and dropped out of the labor force, reversing the trend of the previous month. Stock futures dropped sharply on the news and were down significantly Monday morning when trading opened after the three-day holiday weekend.

G40461-19 (4/12)

Views are as of April 9, 2012, and are subject to change based on market conditions and other factors.