Weekly Commentary

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Overnight repo rates remained firm this week, averaging 18 basis points for Treasuries and 20 basis points for mortgages, up slightly from last week's averages of 15 and 17 basis points, respectively. The London interbank offered rate (Libor) curve was also largely unchanged, with one- and three-month remaining steady at 0.24% and 0.47% respectively, while six-month Libor was up one basis point to 0.74% and one-year Libor up one basis point to 1.07%. Similarly, levels on domestic and European bank paper have also remained unchanged from a week earlier. This was partly due to the fact that European banks continue to be flush with liquidity from the European Central Bank's (ECB's) long-term refinancing operations, and most, if not all, of the Greek sovereign debt is now sitting at the International Monetary Fund and the ECB, or has been significantly written down by the banks.

On the domestic economic front, industrial production rose in April by the most since December 2010 and well above consensus—the biggest underestimation by economists since October 2008. Industrial production continues to track faster than average at this stage of the business cycle and remains one of the strong points of the ongoing economic recovery. May's Housing Market Index rose by the most in over three years to a five-year high, while the six-month average of housing starts and housing permits hit their highest levels since December 2008, reflecting a sustained upward trend in building activity. Retail sales had their smallest gain this year in April, but they still slightly exceeded expectations. The Conference Board's April reading fell 0.1%, however, its first decline in seven months.

As has been the case for some time, markets continued to keep a wary eye on Europe, especially Greece's inability to reach a political consensus that would allow them to implement austerity measures agreed to in its bailout plan and Moody's decision to downgrade Italian and Spanish banks. That said, Greece's problems seem to have been priced in at this point, and as always, the Florida PRIME portfolio does not have exposure to any of the PIIGS (Portugal, Italy, Ireland, Greece and Spain).

Views are as of May 21, 2012, and are subject to change based on market conditions and other factors.