Weekly Commentary

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London interbank offered rates (Libor) were down, very slightly, for the week, with three-month steady at 0.31%, six-month down less than a basis point to 0.52%, and one-year down a basis point to 0.85%. Short-term Treasuries were mixed, with one-month down five basis points to 0.06%, three-month up one basis point to 0.09%, six-month up one basis point to 0.14%, and one-year steady at 0.18%. Overnight repo rates were up very slightly for the week, as well.

Last week's jobs report was better than expected, but downward revisions the prior two months put November's nonfarm payrolls gains of 146,000 in line with the three-month average of 139,000—still very subpar at this stage of a recovery. The Wells Fargo/Gallup Small Business Index tumbled back into pessimistic territory this quarter to a two-year low. One out of five owners expects to reduce headcount over the next 12 months—the most ever. Wells Fargo said the percentage of owners expecting to be in a poor financial condition and to have poor cash flow increased to 30%—both record highs. Of course, all this is against the backdrop of the impending fiscal cliff, which still has the potential to throw a major damper on the recovery if nothing is done.

The encouraging jobs report is also not likely to change the likelihood that Federal Reserve policymakers will push ahead with more monetary stimulus. Expectations are that Operation Twist—the purchase of longer-term Treasury securities using proceeds from the sale of short-term securities—will end as planned, mainly because the Fed is running out of its supply of shorter-term securities. But in its place, the policy-setting Federal Open Market Committee is likely to commit to buying more long-term Treasury securities, probably in an amount similar to the current $45 billion in monthly purchases. If they follow this path, this expansion of the Fed's balance sheet would represent a fourth round of quantitative easing, or QE4.

Views are as of December 10, 2012, and are subject to change based on market conditions and other factors.