FLORIDA PRIME

Weekly Commentary

FEBRUARY 4, 2013

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

As expected, the Federal Reserve's (the Fed) Federal Open Market Committee (FOMC) met last week with no change to rates or the Fed's buying program. The FOMC, in its statement at the end of the two-day meeting, did note a pause in recent activity. But it blamed weather-related disruptions and other transitory factors, not fundamentals. Still, the FOMC remained full bore on quantitative easing, continuing with $85 billion in monthly purchases of agency mortgage-backed securities and longer-term Treasuries, and sticking with its four-year-old policy of maintaining the target federal funds rate at a range of 0% to 0.25%. It also left in place its targets for unemployment and inflation. There continued to be one dissenter in the FOMC's voting process.

From an economic perspective, the week started off with not-so-great news, the announcement that fourth quarter 2012 GDP came in at -0.1%, the first contraction in three years. In drilling into the numbers, however, the data was not as bad as the headline might indicate. Cuts in defense spending in the fourth quarter, coming after front-loaded defense spending temporarily inflated that category in the third quarter, skewed the numbers down, balancing out the upward skew in the third quarter. Some other key sectors, from the industrials to consumers, did pretty well in the fourth quarter—in essence, a mixed report. Although last week's headline number of a 157,000 increase in payrolls seems a bit on the low side, and the fact that unemployment ticked up a point, from 7.8% to 7.9%, isn't welcome news, in looking at the upward revisions to November and December 2012, there's some light coming through the clouds. January's Institute for Supply Management Manufacturing Index also surprised, jumping to 53.1 in January, up from 50.7 in December 2012, and its highest level since last April, on big increases in new orders and employment. Credit markets continued to look good from an earnings season perspective, for U.S. firms, both financial and non-financial. The data just beginning to come in on European earnings also looks positive.

London interbank offered rates (Libor) were virtually unchanged for the week, with three-month steady at 0.30%, six-month steady at 0.48%, and one-year down two basis points to 0.78%. Short-term Treasuries were down, with one-month down four basis points to 0.02%, three-month down two basis points to 0.06%, six-month steady at 0.11%, and one-year steady at 0.15%. Overnight repo rates were up for the week.

G40461-19 (02/13)

Views are as of February 4, 2013, and are subject to change based on market conditions and other factors.