

Current Rate Environment

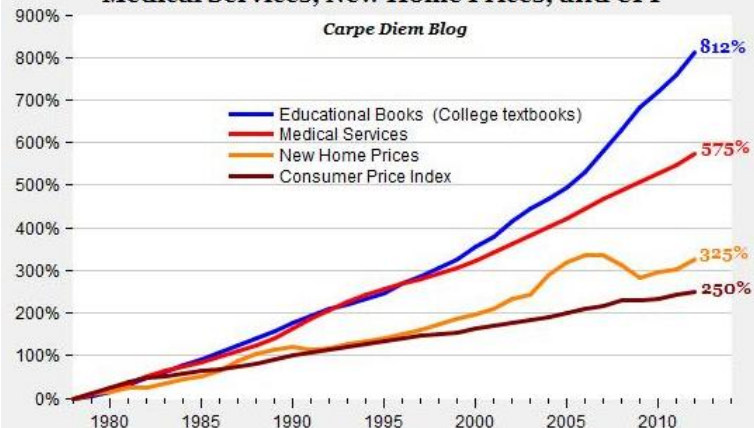
Short Term Rates	Today	Last Week	Change
1-Month LIBOR	0.21%	0.21%	0.00% ○
3-Month LIBOR	0.31%	0.31%	0.00% ○
Fed Funds	0.25%	0.25%	0.00% ○
Fed Discount	0.75%	0.75%	0.00% ○
Prime	3.25%	3.25%	0.00% ○
US Treasury Yields			
2-year Treasury	0.25%	0.27%	(0.02%) ↓
5-year Treasury	0.71%	0.76%	(0.05%) ↓
10-year Treasury	1.70%	1.76%	(0.06%) ↓
Swaps vs. 3M LIBOR			
2-year	0.49%	0.51%	(0.02%) ↓
5-year	0.93%	0.98%	(0.05%) ↓
10-year	1.86%	1.92%	(0.06%) ↓

Fed Speak & Economic News:

- The irony that is unfolding on Capitol Hill is palpable as Congress had to work over the holiday weekend into New Years after procrastinating for the entire year and failing to put forward any agreement to deal with the looming tax increases and mandatory spending cuts. While “con” is the opposite of “pro”, we remain hopeful that Congress will find a way to make progress today and reach a 12th hour “mini-deal” to hold us over for a few months. The latest whisper numbers surrounding the deal are calling for tax hikes above the \$400k income mark, sequester turn-off, and an extension to unemployment insurance. As such a deal would have only minimal long-term implications and would not deal with the debt ceiling dilemma, we will likely have to witness another high-profile negotiation in Washington early in 2013. As the interest on the nation’s debt compounds, the can-kicking will merely delay the inevitable and possibly worsen the situation even with the Fed aggressively pumping monetary stimulus into the anemic domestic economy.
- Barring any wild movements on this holiday-shortened trading day, we should see 10-year Treasuries close near the 1.75% level, about 20 basis points below where we were at the beginning of the year. The Dow, as of this writing, stands nearly 6% higher than in January with the S&P 500 having added 11.5%.
- While the New Years holiday will put a break into this week’s trading activity, we will kick 2013 off with a flurry of activity headlined by the December employment report. Having started the year with the unemployment rate at 8.5%, we are expected to finish 2012 at a rate of 7.7% with much of the reduction coming not from job creation but from individuals leaving the labor force. In the supporting role, we will see some inflation numbers as well as the FOMC minutes which should not offer too much new information that could alter policy expectations. The Fed has been loud and clear about its intentions to maintain an extremely accommodative stance for some time to come.

Weekly Chart

Percent Change Since 1978 for Educational Books, Medical Services, New Home Prices, and CPI



An interesting but rather alarming chart from the BLS & Census Bureau shows the staggering increase in the price of college textbooks since 1978. Combine this with increased college tuition bills, and we can see that we have done our best to make higher education unattainable for many. Slowly, a number of start-up companies such as boundless.com are focusing on bursting this “bubble” by making academic content available on the internet for free.

U.S. Economic Data

- Fiscal cliff issues are dragging down the US consumer’s evaluation of the US economy as evidenced by the 9% drop in consumer confidence. Consumers remain particularly worried about the post-cliff outlook.
- Chicago PMI rose slightly to 51.6 from 50.4 in December showing moderate growth in business activity.
- Pending home sales grew 1.7% in November, above expectations, showing continued strength in the housing market with fewer distressed properties and low interest rates seen as aiding the sector.

Date	Indicator	For	Forecast	Last
31-Dec	Dallas Fed Manf Activity	Dec	(0.5)	(2.8)
2-Jan	ISM Manufacturing	Dec	50.4	49.5
3-Jan	ADP Employment change	Dec	140K	118K
4-Jan	Change in Nonfarm Payrolls	Dec	150K	146K
4-Jan	Unemployment Rate	Dec	7.7%	7.7%

Source of Chart Data: BLS, Census Bureau Source of Financial Data: Bloomberg

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