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Portfolio Commentary

By Amy Walkington Haney, Portfolio Manager

We begin the year with renewed hope that 2010 will bring about a recovery lead by growth, job creation, and housing. Although hurdles to the recovery remain, considering 10% unemployment and little signs of life in the housing market, we are starting off 2010 in a much better position than we were in a year ago. The January ISM Manufacturing reading, which measures the level of manufacturing production, was the highest since 2004, consumer confidence hit the highest level over the past 12 months, and Q4 GDP surged to 5.7% suggesting the recovery is gaining traction.

If a recovery is underway, the million dollar question remains “When will the Fed begin exiting their quantitative easing and raising interest rates?” While the answer is not as clear cut as it was last year when the Fed held rates at 0-0.25% all year, it is likely that if we see a move this year it won’t be until well into second half of the year. In their January meeting, the Federal Reserve continued down the path of the past several statements, maintaining the current target range of 0-0.25% and repeating the “extended period” language in regards to exceptionally low fed funds rate. Although there was one dissent on keeping the “extended period” language in the statement, there was no hint or indication the Fed is preparing to raise rates.

The combination of the Fed on hold and low Treasury bill supply is anchoring the front end of the curve with the 3 month Treasury bill yielding 0.08% and 1 year Treasuries yielding 0.30%. Adding to the scarcity of assets and yield in the short end of the maturity spectrum, the US Securities and Exchange Commission revealed new rules “designed to significantly strengthen the regulatory requirements governing money market funds.” One new rule restricts the maximum weighted average maturity of money funds to 60 days resulting in more money chasing a shrinking supply of paper at what are already exceptionally low levels.

We remain diligent in our search for value and yield in the market consistent with a focus on liquidity management and a conservative investment approach. Recently we have seen more opportunities in the short corporate market as investors are selling shorter dated maturities to extend out the curve to pick up yield.