

Market Commentary

"The question isn't who is going to let me; it's who is going to stop me." - Ayn Rand

A Look Back:

European sovereign debt concerns outweighed strong US economic data again last week. Despite European Central Bank intervention in the euro bond markets yields on French and Spanish government bonds hit highs. Italian ten year bond yields improved slightly due to promises of austerity by the new Prime Minister but remained close to the symbolically important 7% level. The ECB is caught in a titanic power struggle between French led efforts to have the ECB take a more active role by backstopping eurozone debt and German arguments to limit the ECB's role. In particular Germany's past experiences with hyperinflation has imprinted on their collective DNA a strong aversion to having the ECB print money as a way to deal with high debt loads. It's hard to blame them -- why should they pay for others mistakes?

Economic data continues to point toward a strong 4th quarter with some experts predicting GDP growth as high as 3.5%. Retail Sales for October increased by 0.5% vs. expectations of 0.3%, Industrial Production rose by 0.7% (0.4% expected), and Leading Indicators rose by 0.9% (0.6% expected). Inflation remained well contained.

Equities took it on the chin despite the strong data. Euro debt concerns led to a 2.9% drop in the Dow and a 3.4% drop in the S&P. The 10 yr Treasury yield fell 5 bps on the week to close at 2.01%

Credit spreads also widened (Europe again...) with the 5 year swap spread hitting a high of 45 bps on Nov. 17 after trading as low as 28 bps on October 27.

Warren Buffett took time off from his campaign to raise tax rates for wealthy Americans to buy \$10.7bn of IBM stock. It was noteworthy in that he has long turned up his nose toward tech stocks. Bill Miller, the longtime head of the Legg Mason Capital Management Value Fund, retired after several years of sub par returns. He earlier made a name for himself after a 15 year run of outperforming the S&P.

The deficit reduction supercommittee spent the week pointing fingers at each other as it became apparent that no deal was in the offing by the deadline. If no deal is reached automatic spending triggers totaling \$1.2 trillion over ten years will (supposedly) go into effect with 50% targeting defense spending and 50% targeting non-defense spending.

A Look Forward:

Wednesday's deadline for the deficit supercommittee looms and in a particularly ironic twist Treasury yields are falling in response. So, investors are buying Treasuries in a flight to quality trade in response to the fact that the US Government cannot agree on ways to reduce the deficit. Hmmmm.....

Existing Home Sales are expected to show a 2.2% decline in October, Personal Income and Spending are both expected to show a 0.3% increase and Durable Goods is expected to show a 1.2% decrease.

US financial markets are closed for Thanksgiving on Thursday and the equity market closes at 1:00 on Friday. Analysts will be closely watching holiday shopping volume beginning on Black Friday.

Upcoming Economic Releases				
Date Time	Event	Period	Survey	Prior
11/21/2011 08:30	Chicago Fed Nat Activity Index	OCT	0.19	-0.22
11/21/2011 10:00	Existing Home Sales	OCT	4.80M	4.91M
11/21/2011 10:00	Existing Home Sales MoM	OCT	-2.20%	-3.00%
11/22/2011 08:30	GDP QoQ (Annualized)	3Q S	2.50%	2.50%
11/22/2011 08:30	Personal Consumption	3Q S	2.40%	2.40%
11/22/2011 08:30	GDP Price Index	3Q S	2.50%	2.50%
11/22/2011 08:30	Core PCE QoQ	3Q S	2.10%	2.10%
11/22/2011 10:00	Richmond Fed Manuf. Index	NOV	-2	-6
11/22/2011 14:00	Minutes of FOMC Meeting			
11/23/2011 07:00	MBA Mortgage Applications	18-Nov	--	-10.00%
11/23/2011 08:30	Durable Goods Orders	OCT	-1.20%	-0.80%
11/23/2011 08:30	Durables Ex Transportation	OCT	0.00%	1.70%
11/23/2011 08:30	Cap Goods Orders Nondef Ex Air	OCT	-1.00%	2.40%
11/23/2011 08:30	Cap Goods Ship Nondef Ex Air	OCT	--	-0.90%
11/23/2011 08:30	Personal Income	OCT	0.30%	0.10%
11/23/2011 08:30	Personal Spending	OCT	0.30%	0.60%
11/23/2011 08:30	PCE Deflator (YoY)	OCT	2.70%	2.90%
11/23/2011 08:30	PCE Core (MoM)	OCT	0.10%	0.00%
11/23/2011 08:30	PCE Core (YoY)	OCT	1.70%	1.60%
11/23/2011 08:30	Initial Jobless Claims	19-Nov	390K	388K
11/23/2011 08:30	Continuing Claims	12-Nov	3620K	3608K
11/23/2011 09:45	Bloomberg Consumer Comfort	20-Nov	--	-50
11/23/2011 09:55	U. of Michigan Confidence	NOV F	64.5	64.2
11/23/2011 11:00	Kansas City Fed Manf. Activity	NOV	9	8

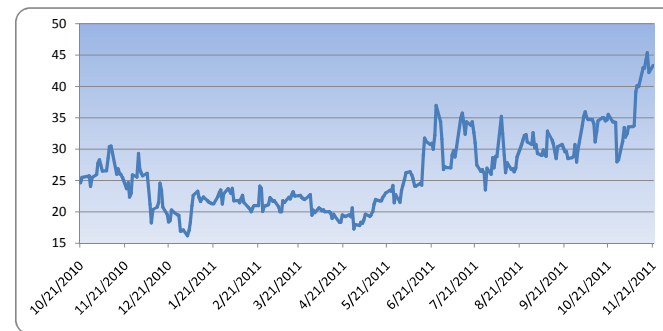
Next Fed Meeting **Tuesday, December 13, 2011**

Interest Rate Caps and Floors (BPs Premium)				
3M LIBOR Caps	2 year	3 year	5 year	
2.00%	16	46	206	
3.00%	9	27	129	
4.00%	6	17	84	
3M LIBOR Floors	2 year	3 year	5 year	
1.00%	72	118	182	
2.00%	226	348	511	
3.00%	395	603	902	

Spot Indices	Current	Change Since Prev Week
1M LIBOR	0.257%	0.008%
3M LIBOR	0.495%	0.038%
6M LIBOR	0.706%	0.048%
SIFMA	0.130%	0.000%
SIFMA / LIBOR	50.65%	-1.56%
Fed Funds	0.080%	0.000%
Prime	3.25%	0.00%
DJIA	11,796	-358
S&P500	1,216	-48
Crude Oil	\$97.41	-\$1.58
USD / EUR	\$1.35	-\$0.03
USD / GBP	\$1.57	-\$0.04
CAD / USD	CAD 1.04	CAD 0.03

Interest Rate Swaps (Mid-Market)					
LIBOR Swaps	Treasury	Spread	Rate	Wk Change	
2 Year	0.276%	0.509%	0.785%	0.074%	
5 Year	0.889%	0.430%	1.319%	0.024%	
10 Year	1.952%	0.186%	2.138%	-0.075%	
Tax-Exempt Swaps	SIFMA	Wk Change	67% of 1ML	Wk Change	SIFMA/67%L Basis
5 Year	1.138%	0.018%	0.884%	0.049%	0.254%
10 Year	1.937%	-0.067%	1.432%	0.016%	0.505%
15 Year	2.291%	-0.114%	1.650%	-0.095%	0.641%
30 Year	2.582%	-0.180%	1.778%	-0.138%	0.803%

Five Year US Swap Spreads



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