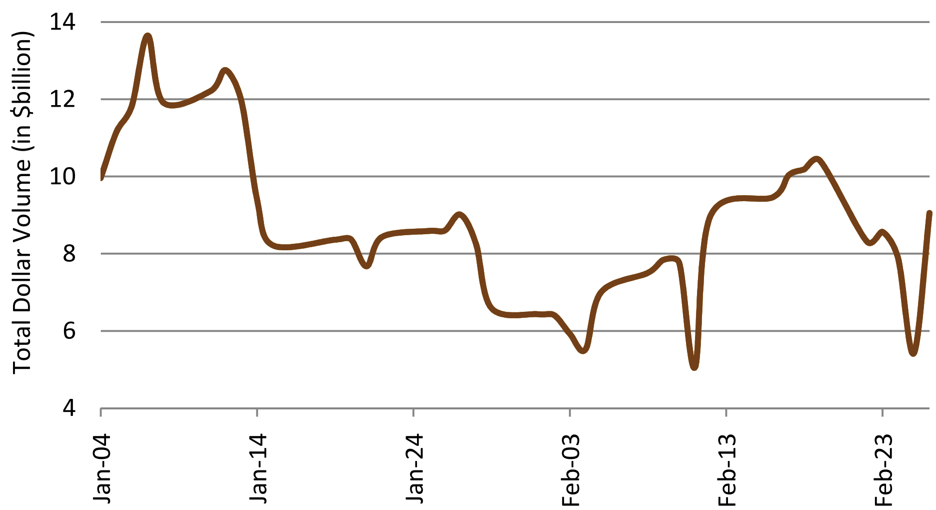
WASMER, SCHROEDER & COMPANY
INVESTMENT ADVISORS

BOND MARKET WEEKLY | WEEK OF MARCH 1, 2010

30-Day Municipal Visible Supply
1/4/2010-2/26/2010; Source: Bloomberg



MARKET OVERVIEW

- Selling momentum in the US Treasury market reversed course last week amid rising geopolitical concerns and the subsequent weakness in global equities. Benchmark 10-year UST yields fell by 17 bps to close 3.61%.
- Greece's unresolved budget deficit and lingering uncertainties about a potential EU-led bailout remain a source of concern for investors, which has in turn benefitted the US dollar and Treasury markets. Equities were lower across the board.
- Although still historically steep, the Treasury curve saw a flattening bias this week with the spread between 2- and 10-year maturities falling by 6 bps to +279 bps; the 2- to 30-year measure flattened by 5 bps to +374.
- Inflation expectations continued to moderate with 5-year TIPS yields falling by 5 bps and 5-year breakevens falling by 10 bps.
- Last week's economic data was generally viewed as disappointing and contributed to both the move lower in Treasury yields and inflation expectations. New home sales saw month-over-month declines of -11.2%, which was considerably worse than the expected 3.5% increase. Initial jobless claims and continuing jobless claims were also worse than expected.
- Last week's heavy round of US Treasury auctions ($118 Billion of new 2-, 5- and 7-year maturities) were very well received. The bid/cover ratio on the 7-year note was 2.98 which compared favorably to the 2.75 average over the last five auctions.
- This week should bring quite a bit of information for the markets to digest, including the ISM on Monday, the Fed Beige Book on Thursday, and February's non-farm payrolls number due out on Friday.

TAX EXEMPT MARKETS

- Municipal bonds followed Treasuries lower in yield this week with 10-year yields dropping 4 bps to 3.01%, while 30-year yields finished the week 3 bps lower at 4.47%.
- The market digested a full calendar last week with approximately $6.9 billion in new issuance. This week will see $5.4 billion in issuance with an estimated 58% coming as taxable. Build America Bonds (BABs) have been taking increasing percentages of municipal new issuance in 2010, possibly to take advantage of the current 35% interest rate subsidy before it is reduced to an estimated 28% beginning 2011. Light primary supply coupled with March 1 income and maturity reinvestment could push yields lower.
- Thirty day visible supply stood at a healthy $9.051 billion at the end of last week, according to the Bond Buyer. This represents an increase of $3.6 billion over the week prior. Note, this includes both taxable and tax-exempt municipal issuance. With BABs now comprising a meaningful share of the overall municipal market, this measure has become a less useful barometer for the tax-exempt market.
- New issues for the upcoming week are dominated by Georgia's Municipal Electric Authority's $2.5 billion issue. Georgia's Municipal Electric Authority, who supplies local public power systems in Georgia, is issuing bonds to fund the construction of new nuclear reactors. All but $55 million is expected to come as BABs.

- Moody's released a report last week titled "U.S. State and Local Governments Remain Inherently Resilient, Despite Growing Pressures". The report highlights Moody's belief that despite great fiscal pressure, the sector's credit strength will remain intact and that defaults are expected to be rare. While there will likely be an increase in ratings volatility, we believe the media has greatly exaggerated the risks to municipal bond holders and the threat of widespread defaults or bankruptcy.
- We were active in the primary market last week. We purchased new issues for the Alaska Municipal Bond Bank, Brandeis University (located in Massachusetts) and Springfield, Missouri among others.

TAXABLE MARKETS

- Perhaps it was the winter storm in the Northeast or the continued widening of Greek sovereign spreads. It could have been the disappointing economic news previously mentioned. Whatever the specific cause, investor apathy has been apparent in the corporate sector. Despite plenty of data to push the market weaker, spreads ended 1 bps tighter to Treasuries for the week as measured by the Barclays U.S. Corporate Investment Grade Index. For the month of February, spreads were little changed as well, widening 4 bps. Secondary trading volume though did pick up 46% from last week's holiday-shortened activity, according to TRACE data.
- Corporate new issue volume increased as well. With deals from Comcast (Baa1/BBB+) and United Technologies (A2/A) to partially fund recent acquisitions, total investment grade volume was $12.95 billion compared to $3.8 billion the prior week. Comcast sold $1.4 billion of a 10-year at +147 and $1 billion of a 30-year at +180 to help pay for its majority stake in NBC Universal. UTX sold a $1.25 billion 10-year maturity at +87 and $1 billion 30-year maturity at +109 to pay for an acquisition. Interestingly, both the Comcast and UTX unit acquisitions were purchased from General Electric.
- As the Fed repurchase program appears closer to ending, the MBS market continued its slow trend of spread widening. The Barclays U.S. MBS Index finished at +28 OAS (option-adjusted-spread), 4 bps wider for the week and 12 bps wider for the month of February. Most of the economic data released relating to the housing market last week disappointed (new and existing home sales, mortgage applications, and the Schiller-Case price indices).
- The Fed purchased another $978 million of agency debt and $11 billion of MBS debt as each of these programs neared their stated target limits.

About the Firm: Wasmer, Schroeder & Company, Inc. (WSC) is a privately owned Florida S-Corp incorporated in 1987 and registered in 1988 with the U.S. Securities and Exchange Commission as an investment advisor. WSC is independent and employee-owned with corporate headquarters and tax exempt portfolio management in Naples, Florida; our taxable portfolio management team in Cleveland, Ohio; and a client service office in Philadelphia, Pennsylvania. Specializing in fixed income separate account portfolio management for high net worth individuals, wealth management groups and institutions, including foundations, endowments and retirement plans, WSC has over $3.3 billion in assets under management, as of 12/31/09. The Firm works with clients and their advisors to construct taxable and tax exempt fixed income portfolios tailored to their preferences and constraints and typically include a mix of cash and fixed income securities.