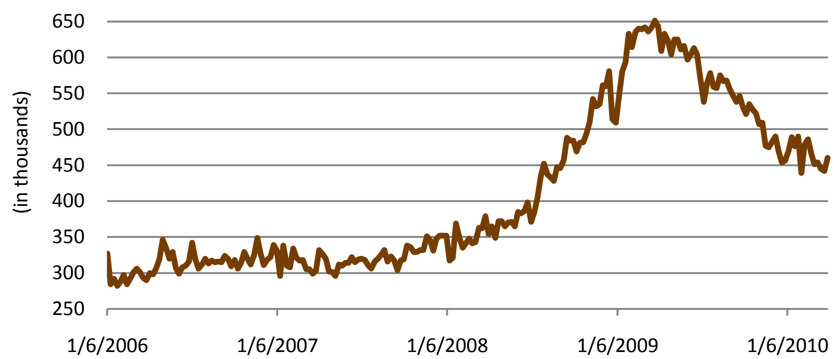
WASMER, SCHROEDER & COMPANY
INVESTMENT ADVISORS

BOND MARKET WEEKLY | WEEK OF APRIL 12, 2010

MARKET OVERVIEW

US Initial Jobless Claims
1/1/2006-4/12/2010; Source: Bloomberg



- Lower Treasury prices early in the week were reversed on Wednesday and Thursday as strong 10- and 30-year auctions resulted in higher prices. Bid-to-cover and indirect bidding ratios were stronger than average on both sales.
- The curve was slightly flatter on the week with the 2-year to 30-year curve ending at +367 bps. This slight flattening was mirrored all along the curve.
- While it was a relatively light week for economic data releases, initial jobless claims were significantly higher than expected, however mostly unchanged from the previous week. Holiday issues may have played a part in the estimate miss.
- Consumer credit reported for the month of February was down significantly with prior periods also revised down.
- The Treasury market going forward remains a struggle between market participants expecting higher inflation, and growth and those that see too many structural headwinds to increase measures from current levels.

TAX EXEMPT MARKETS

- Municipal bonds continued their sell-off last week although at a much slower pace, and by the end of the week actually posted slight gains. 10-year yields rose 7 bps to 3.30% and 30-year bonds rose 3 bps to 4.62%.
- With income tax payments coming up this week, we expect some increased selling. Also, the new issue calendar has gotten slightly larger with the Bond Buyer 30-Day Visible Supply Index at $9.53 billion.
- This week will see a number of notable new deals including Chicago O'Hare Airport which is $1.16 billion in both tax exempt and taxable bonds and a number of "A" rated and lower hospital deals as well.
- Municipal bond fund inflows were at their lowest this year with the Investment Company Institute reporting a paltry $6 million of inflows for the week ending March 31st. If demand does not pick up after this week's tax payments we could possibly see a further sell-off due to a lack of demand from individual investors.
- In ratings news the city of Los Angeles was downgraded by Moody's to "Aa3" with a continued negative outlook. The city has many budget issues and is looking to possibly furlough city employees and have money transferred from their electric utility which is battling to have rates increased. The city has already approved cutting 4,000 jobs but more draconian measures may be necessary going forward.
- We were relatively light on cash last week and sold bonds for client tax needs. We did purchase a new issue for Sampson, NC as well as continued to buy secondary offerings from the new Citizens Property deal at yields slightly higher than at original issuance.

TAXABLE MARKETS

- Corporate spreads outperformed Treasuries after a slow start from the Easter weekend. Stronger than expected March same-store sales helped boost the corporate market. Most of the chain stores reporting recorded double-digit sales increases (YoY) and beat consensus estimates. The Barclays U.S. Corporate Investment Grade Index finished at +145 OAS (option-adjusted spread), 3 bps tighter for the week.

- The pace of new issuance has not picked up from the robust activity seen in March, but it did increase from last week's holiday-shortened session. $10.7 billion was priced last week, up 59% from the prior week. The issuance was dominated by Yankee bank issuers such as Credit Agricole and Royal Bank of Canada but there were a few domestic names as well. Met Life issued $1 billion of a GIC-backed floating rate note (Aa3/AA-) maturing in April 2012 as a 144a private placement. Boston Properties (Baa2/A-) priced a $700 million 10.5-year note at +175 to the 10-year Treasury.

- The MBS market stabilized last week after falling the prior week. Spreads in the Barclays U.S. MBS Index rallied 4 bps to end the week at +20 OAS. Pending homes sales for February were released last week that showed sales increased 8.2% (MoM), much better than expectations and perhaps indicating a strong start to the spring selling season. The MBA Mortgage Application Index fell 11% mostly from a 16.9% drop in refinancing activity (purchase applications were up 0.2%). Rising mortgage rates caused the Refi drop. The FHLMC survey reported 30-year mortgage rates increased 13 bps to 5.21%, the highest of the year.

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.