



BOND MARKET WEEKLY

WEEK OF JUNE 21, 2010

MARKET OVERVIEW

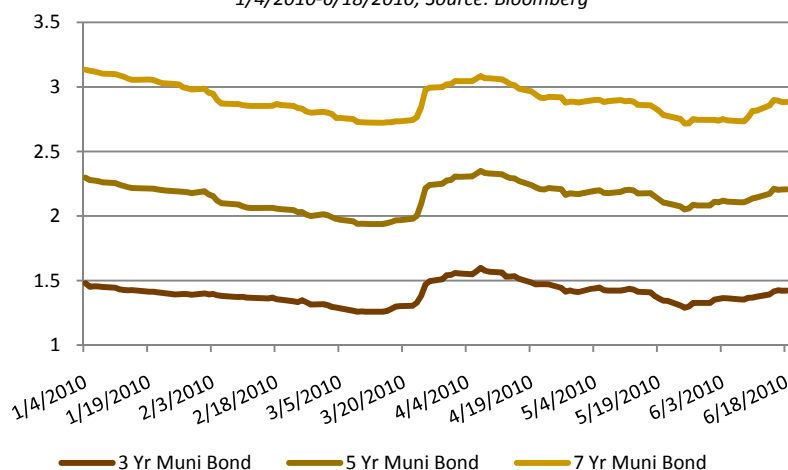
- US Treasury yields were marginally lower across the curve last week with the yield on the benchmark 10-year decreasing by 1bp from 3.23% to 3.22%. The Treasury curve was unchanged as the spread between the 2yr and the 10yr remained at +250 bps and the spread between the 2yr and 30yr Treasury was 1 bp steeper on the week at +343 Bps.
- The stock market was higher for the second consecutive week. The Dow Jones Industrial Avg. was up 260 points, finishing at 10,450. The biggest day of the week was Tuesday where the DJIA climbed 214 points.
- Nominal yields on TIPS were lower on the week and outperformed Treasuries as the breakeven yield rose by 1bp.
- The economic data from last week continued to come in weaker than numbers seen earlier in the year, continuing the pattern of late. Housing starts and building permits came in particularly weak, adding to the fear that real estate may see a double dip as government incentives for home purchasers expire. While the Producer Price numbers came in slightly higher than expectations, consumer prices came in as expected, but were still very low and below fed targets as the year over year number was up +2.0%. Initial jobless claims were dismal again last week, increasing to 472,000, which was higher than both expectations and the levels posted during the previous week.
- Companies involved with the oil spill continued to remain in focus with the CEO of BP being questioned in front of Congress. The trading was volatile and prices lower, which is likely to remain the case until we get more clarity on the situation.

TAX EXEMPT MARKETS

- The municipal market continued to sell off last week, even as Treasuries remained essentially unchanged. The yield on 10-year 'AAA' rated municipals ended last week at 3.19%, 4 bps higher in yield than the week prior, while 30-year 'AAA' rated municipals closed at 4.57%, 5 bps higher for the week.
- Forward supply rose last week with The Bond Buyer's 30-day Visible Supply Index rising \$923.6 million to \$8.027 billion. Issuers continue to bring debt to market despite relatively higher yields.
- The Bureau of Labor and Statistics released data last week revealing payrolls increased in 41 out of 50 states. The jobless rate in New York State fell to 8.3%, the lowest rate since April 2009. However, when you strip out public sector employment spurred by massive Census hiring, the picture wasn't as rosy.

Municipal Yield to Worst

1/4/2010-6/18/2010; Source: Bloomberg





TAX EXEMPT MARKETS (CONT.)

- Data released by the Federal Reserve last week revealed that household ownership of municipal bonds eclipsed the \$1 trillion mark. Direct, individual ownership of municipal bonds now accounts for 35% of outstanding municipal debt. Foreign ownership of municipal bonds has also increased; the advent of Build America Bonds has created a more efficient way for foreign buyers to participate in sub-sovereign US debt.
- We participated in a Massachusetts State Development Finance Agency new issue that came to market last week with roughly \$130 million in bonds issued on behalf of Emerson College. The bonds carried underlying ratings of 'A-' from S&P. The bonds were issued to refund outstanding debt and reimburse the College for recent land acquisitions and capital improvements.

TAXABLE MARKETS

- The tone in the corporate market improved last week. The big news was that BP, at least for now, has stopped its downward spiral. Broadly, BP has agreed to temporarily suspend their dividend, begin paying into a \$20 billion claims fund through 2013, and pay \$100 million toward claims for rig workers laid off from the federally imposed deepwater drilling moratorium.
- News reports circulated that some of the controversial amendments within the financial regulatory bill may be softening during the deliberation process, such as a less stringent two year phase-in period for banks that own swaps desks. The financial sector finished the week 12 bps tighter.
- Europe also set a positive tone for the corporate market as EU banks announced they will make public the results of stress tests for their banks in order to build confidence in their system, much like U.S. banks did in early 2009. Overall, the corporate market had a modest improvement with a 6 bps improvement to finish the week at +191 OAS (option-adjusted-spread) as measured by the Barclays U.S. Corporate Investment Grade Index.
- Investment grade new issuance had a nice pickup in activity, especially in bank names. Bank of America ('A2'/'A') priced a \$3 billion 10-year issue at +248 to the 10-year Treasury and JP Morgan Chase ('Aa3'/'A+') issued a \$1.25 billion 5-year at +145 to Treasuries. Total investment grade issuance for the week was \$16.8 billion, a 115% increase from the prior week.
- The MBS market continues to grind along with solid performance. The Barclays U.S. MBS Index ended the week at a striking +6 OAS, 7 bps tighter for the week (its YTW stands at 3.38%). Agency MBS have been a big beneficiary of this year's credit fears.

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