• The implications of last week's massive events are unlikely to be known or realized for quite some time, but initial returns were positive in the face of the vote, the announcement, and the data. Equities rallied nearly 4% for the week to a post- Lehman collapse high, and bond yields slumped in the middle of the curve, while oil, copper, and other commodities surged higher. In the Tuesday evening election, the Republicans reclaimed the House of Representatives by a strong margin but failed to take the Senate, much in line with the median forecasts from polling. The Federal Reserve's FOMC statement did in fact bring a second round of quantitative easing, the details of which include the purchase of up to $75 billion in Treasuries each month until the end of the second quarter ($600 billion over 10 months vs. rough consensus of $500 billion over five months). The Fed also kept the short term target rate at 0 - 0.25% of course, and mentioned that coupons on their MBS portfolios would continue to go towards asset purchases to support the capital markets in the recovery period. The portfolio duration of purchases is expected to be in the 6-year range, so short term (2-3yr) notes and the 30-year bond sold off on the announcement. Read Fed Board of Directors member and member of the President's capital markets working group Kevin Warsh's WSJ editorial for a cautionary spin on potential future results of the stimulus. On the data front, income and spending were modestly below expectations as consumers take a breather before the holiday season, ISM's manufacturing and services surveys both beat with strength in new orders, and construction spending grew MoM. The jobs report on Friday showed growth of 151,000 nonfarm payrolls, with 159k in the private sector and the unemployment rate staying at 9.6%, along with slight upticks in the average workweek and also hourly earnings. Late Friday, after most people had checked out for the week, the consumer credit report showed growth of $2.1 billion, only the second monthly gain in the last twenty.

• With so much build-up to last week's events and little in the way of data this week, expect some choppy action as more interpretations of the new political arena and what the Fed purchases mean for other asset prices surface in the media. Both the current and former Fed presidents have said recently that a strong stock market would be invaluable for the economic recovery for business and consumer confidence, so we will watch to see if the market continues to feed on the positive moves we have seen in the last two months. Thinking about the gains from a currency-neutral is more troubling, but less typical. The Treasury will be auctioning T-bills and $72 billion of 3-, 10- and 30-year debt and releases their budget on Wednesday, and we will see reports on consumer sentiment, the Fed's balance sheet, and money supply on Friday.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-mo LIBOR	0.25%	0.25%	0.26%	0.24%
3-mo LIBOR	0.29%	0.29%	0.29%	0.27%
6-mo LIBOR	0.44%	0.45%	0.46%	0.55%
12-mo LIBOR	0.76%	0.76%	0.78%	1.16%
Fed Funds Target	0.25%	0.25%	0.25%	0.25%
Prime Rate	3.25%	3.25%	3.25%	3.25%
SIFMA Muni Swap Index	Call	0.28%	0.25%	0.23%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.37%	0.34%	0.40%	0.84%
3-yr Treasury	0.51%	0.50%	0.59%	1.36%
5-yr Treasury	1.09%	1.17%	1.19%	2.30%
7-yr Treasury	1.76%	1.89%	1.82%	3.01%
10-yr Treasury	2.53%	2.60%	2.47%	3.50%
30-yr Treasury	4.12%	3.98%	3.75%	4.40%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR	0.45%	0.43%	0.49%	1.11%
3-yr LIBOR	0.65%	0.65%	0.75%	1.70%
5-yr LIBOR	1.27%	1.33%	1.37%	2.54%
7-yr LIBOR	1.91%	1.97%	1.93%	3.08%
10-yr LIBOR	2.56%	2.58%	2.47%	3.54%

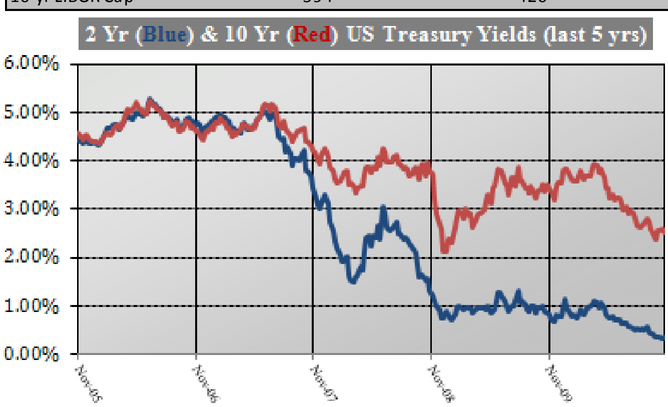
Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA	0.50%	0.47%	0.54%	1.01%
3-yr SIFMA	0.66%	0.65%	0.75%	1.50%
5-yr SIFMA	1.17%	1.22%	1.29%	2.13%
7-yr SIFMA	1.69%	1.74%	1.76%	2.55%
10-yr SIFMA	2.25%	2.28%	2.21%	2.93%

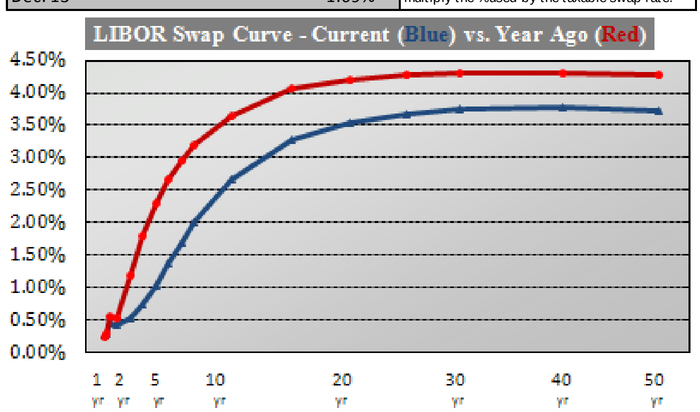
Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	27	20
5-yr LIBOR Cap	91	66
7-yr LIBOR Cap	254	178
10-yr LIBOR Cap	594	420

Fwd Implied 3mL Rate	Last
Dec. 10	0.33%
Dec. 11	0.56%
Dec. 12	0.96%
Dec. 13	1.69%

Conventions

LIBOR swaps use 1-month LIBOR, monthly payments, act/360 day count. SIFMA swaps reset weekly and pay monthly, act/act day count. All else equal, amortizing swaps will have lower rates. For %of LIBOR swaps, multiply the %used by the taxable swap rate.





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Warm regards,

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