Weekly Market Insight

September 27, 2010

- September continued to be a strong month for most asset classes last week as equities, Treasuries, and commodities all rallied on fairly positive US housing data, the FOMC statement, and an unexpectedly strong core Durable Goods report, which showed favorable business spending excluding transportation. The Federal Reserve Open Market Committee met and deliberated, coming to the conclusion that a softening recovery and inflation levels "somewhat below those the Committee judges most consistent" could necessitate more policy intervention in the form of asset purchases. The slant of the policy language moved largely from plausible to probable phrasing, with the Committee "prepared to provide additional accommodation if needed." The target overnight rate remained in the 0-0.25% bottom range, despite KC Fed President Thomas Hoenig tying the modern era's consecutive meeting dissention record at six. Housing starts were surprisingly strong in August, up 11%, as were existing home sales, up 8%. Leading Indicators also rallied 0.3% with improvement in consumer spending from July, even though jobless claims ticked up to 465,000 for the week. The strong correlation of the markets (S&P up 2%, Treasuries up, gold at a record high) remains somewhat concerning to many, particularly with inflationary interventions failing to produce noticeable inflation.

- The data calendar this week highlights the consumer's activity, with metrics on confidence, sentiment, income, spending, and home prices all set to be released. The final revision for second quarter gross domestic product (GDP) will be published by the Commerce Department on Thursday, with no expected change to the already-lowered 1.6% growth rate. The Treasury has a busy docket of short-end auctions, with $100B in issuance of 2-, 5-, and 7-year Treasury paper at the beginning of the week. The Treasury may also indicate this week that the process of extricating the government from its AIG investment will begin shortly, with potential share sales in early 2011. The current $49B stake in AIG (80% of the firm) could be divested with conversions and share sales similar to those programmatically completed for Citigroup. The current estimated loss for the $700B TARP program is $66B, which has been revised down for the past twelve months after markets have stabilized. ISM's Manufacturing Index is expected to decline to a level of 54.5 when released on Friday, which still implies growth in the sector.

Index Rates	Last	Week Ago	Month Ago	Year Ago
1-mo LIBOR	0.26%	0.26%	0.26%	0.25%
3-mo LIBOR	0.29%	0.29%	0.31%	0.28%
6-mo LIBOR	0.46%	0.47%	0.52%	0.64%
12-mo LIBOR	0.78%	0.79%	0.88%	1.24%
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	0.30%	0.29%	0.30%	0.40%

Treasury Rates	Last	Week Ago	Month Ago	Year Ago
2-yr Treasury	0.44%	0.47%	0.47%	0.99%
3-yr Treasury	0.69%	0.74%	0.70%	1.47%
5-yr Treasury	1.35%	1.44%	1.32%	2.37%
7-yr Treasury	1.99%	2.12%	1.92%	2.98%
10-yr Treasury	2.61%	2.74%	2.49%	3.32%
30-yr Treasury	3.80%	3.90%	3.56%	4.09%

Taxable Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr LIBOR	0.54%	0.58%	0.57%	1.22%
3-yr LIBOR	0.83%	0.90%	0.86%	1.80%
5-yr LIBOR	1.48%	1.56%	1.45%	2.58%
7-yr LIBOR	2.03%	2.13%	1.96%	3.02%
10-yr LIBOR	2.54%	2.65%	2.43%	3.37%

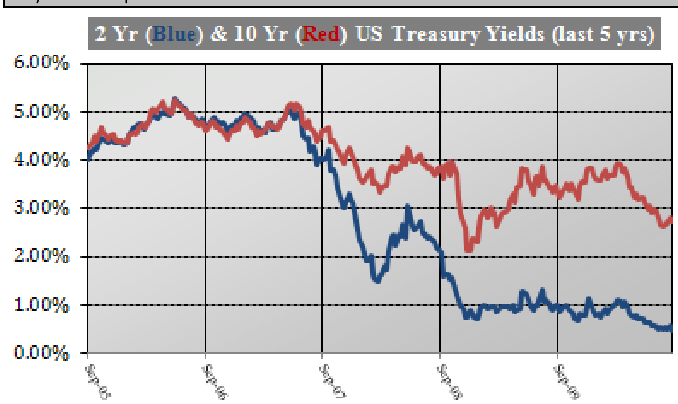
Tax-Exempt Swap Rates	Last	Week Ago	Month Ago	Year Ago
2-yr SIFMA	0.59%	0.62%	0.61%	1.14%
3-yr SIFMA	0.83%	0.88%	0.85%	1.59%
5-yr SIFMA	1.38%	1.45%	1.37%	2.19%
7-yr SIFMA	1.86%	1.93%	1.79%	2.56%
10-yr SIFMA	2.31%	2.39%	2.21%	2.86%

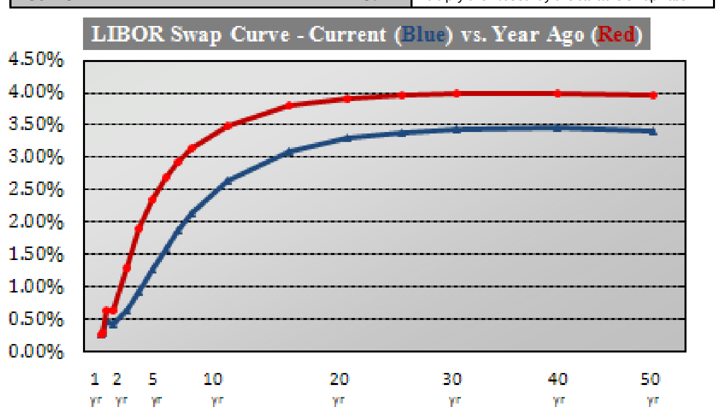
Rate Caps (cost in bps)	Strike = 4.00%	Strike = 5.00%
3-yr LIBOR Cap	29	21
5-yr LIBOR Cap	107	76
7-yr LIBOR Cap	260	180
10-yr LIBOR Cap	542	377

Fwd Implied 3mL Rate	Last
Dec. 10	0.38%
Dec. 11	0.73%
Dec. 12	1.42%
Dec. 13	2.18%

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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