



# PORTFOLIO MANAGER'S REPORT



Thursday May 13, 2010 8:48 AM

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## CURRENT OFFERING YIELDS - Thursday: 05/13/2010 8:48 AM

## TODAY'S ECONOMIC DATA

	Trsy (Last Price)	Change (From Yest)	Agcy NC (Bullets)	Muni - TEY (A1; GO; BQ)	CMO (Avg Life)	MBS (Avg Life)		13-May	Import Price Index (MoM)	
3 mo	0.155%	+ 0.50 bp's	0.201%	0.420%				13-May	Prior: 0.7% Actual: 0.9%	
6 mo	0.218%	+ 0.20 bp's	0.265%	0.526%				13-May	Import Price Index (YoY)	
12 mo	0.366%	-0.3 32'ds	0.551%	0.738%				13-May	Prior: 11.4% Actual: 11.1%	
2 yr	0.847%	+ 1.0 32'ds	1.083%	1.298%	1.747%	1.797%			Initial Jobless Claims	
3 yr	1.319%		1.546%	1.925%	2.319%	2.419%			Prior: 444K Actual: 444K	
5 yr	2.262%	+ 1.5 32'ds	2.473%	3.177%	3.112%	3.412%		DJIA	10,885.65	-11.26
10 yr	3.537%	+ 1.5 32'ds	3.809%	5.117%	4.487%	4.537%		NASDAQ	2,423.20	-1.82
30 yr	4.438%	+ 9.0 32'ds	5.041%	6.965%				S & P 500	1,169.65	-2.02

Source: Bloomberg Fair Value Curve or Last Price (Treasury only); ALL yields and spreads are "representative", not actual. Spreads change as the market changes, actual offerings may be higher or lower than

## TODAY'S NEWS

### Treasury 30-Year Bonds Advance Before \$16 Billion Sale of the Securities

May 13 (Bloomberg) -- Treasury 30-year debt rose, pushing down yields from the highest level in more than a week, before a \$16 billion auction of the securities, the final of three note and bond sales this week totaling \$78 billion. Government securities maturing in five years and less remained little changed after a report showed the number of Americans filing claims for jobless benefits dropped for a fourth straight week. Treasuries gained earlier as the euro weakened for a third day. Futures on the Standard & Poor's 500 Index fell 0.3 percent.

### Today's Topic: Don't Fall Asleep at the Switch!

The volatility of the problems in Euroland remind us of the volatility and uncertainty of financial markets. Maybe this time it is different. As the graph below of the 5yr Treasury Note since 1999 illustrates, rates hover near historical lows. Every day, we are that much closer to the point where "the move up" begins, yet there are persuasive reasons as to why it will be some time before any meaningful ascent in yields occurs. As we have reminded before in this space, it is extremely important to be mindful of the duration of your bond portfolio. Why? Two major reasons: 1) Yields have much further to go up than down and the "up" means bond prices (and your asset values) will fall commensurately – unrealized losses are coming. 2) Higher rates means "duration shift" as optional/prepayable securities extend cashflows. This results in larger losses than some managers may expect (ie: longer duration portfolios produce greater price moves – as the contemplated movement in prices is down, this means greater losses). Therefore, **importantly**, examine your portfolio analysis reports to understand the forecasted duration shift for a given change in market yields (CCB's suite of brightly colored reports illustrates the resulting depreciation in dollars and cents). If you are uncomfortable with these numbers or they surpass the limits you have established in your policy, get busy and decide the best course of action to reduce your portfolio duration and bring potential losses back to tolerable levels. And...be mindful of future purchases in light of current portfolio holdings. **If you are implementing a "barbell" approach, don't forget the short end.**

