



# PORTFOLIO MANAGER'S REPORT



Thursday May 27, 2010 8:54 AM

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## CURRENT OFFERING YIELDS - Thursday: 05/27/2010 8:54 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)	27-May	GDP QoQ (Annualized)
3 mo	0.155%	-0.50 bp's	0.198%	0.435%			27-May	Prior: 3.2% Actual: 3.0%
6 mo	0.223%	+0.20 bp's	0.287%	0.511%			27-May	Personal Consumption
12 mo	0.339%	+0.3 32'ds	0.540%	0.708%			27-May	Prior: 3.6% Actual: 3.5%
2 yr	0.852%	-2.5 32'ds	1.031%	1.223%	1.752%	1.802%		GDP Price Index
3 yr	1.284%		1.433%	1.819%	2.284%	2.384%		Prior: 0.9% Actual: 1.0%
5 yr	2.148%	-5.5 32'ds	2.236%	3.011%	2.998%	3.298%	DJIA	10,127.18
10 yr	3.307%	-5.5 32'ds	3.424%	4.980%	4.257%	4.307%	NASDAQ	2,243.23
30 yr	4.190%	-32.5 32'ds	4.649%	6.920%			S & P 500	1,087.15
								152.73
								47.35
								19.20

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

### Treasuries Drop, Eroding Monthly Gain, Before \$31 Billion Seven-Year Sale

May 27 (Bloomberg) -- Treasuries fell, eroding the biggest monthly gain in more than a year, on concern yields near the lowest levels in 2010 will curb demand when the U.S. sells \$31 billion of seven-year notes today. Ten-year notes slid for a second day as reports showed more Americans than forecast filed jobless-benefit claims last week and the economy grew more slowly than first estimated. Stocks rallied. Dan Fuss, whose Loomis Sayles Bond Fund beat 95 percent of competitors in the past year, said he sold all of his Treasury holdings because of prospects interest rates will rise as the U.S. borrows unprecedented amounts.

### Today's Topic: More Good News (Tongue Firmly in Cheek)...

As if we need more evidence as to why we have consistently advised financial institutions against significant exposure to the corporate bond market over the years, comes this article today on Bloomberg™...

" The percentage of corporate bonds considered in distress surged this week to the highest since 2009 as investors dumped debt of the neediest borrowers on concern Europe's fiscal crisis will make it harder for them to refinance. More than 17 percent of junk bonds yield at least 10.00% over Treasuries... "

Not that we see a lot of financial portfolio managers buying "junk bonds", but the event risk in the corporate world is often significantly higher than the spreads that are available. There are certainly firms that would argue that our clients are missing out on a way to enhance yields (true), but we would counter that they are also eliminating significant credit and event risk from their already stressed balance sheets.

As we discussed yesterday in this space, many portfolio managers are looking for ways to enhance earnings, this sector is one where one bad decision could cripple the earnings for the entire portfolio for a significant period of time. Downgrading quality to enhance yields ALWAYS results in more risk. Yields on traditional financial institution's investment alternatives may not "light us up", but will help us as we look to make it through to fight another day.

Here is a good alternative for today available funds:

#### 2.00% Yield

2.00% FFCB 3Y/NC3M Due 9/1/2013 CALL 9/3/2010 (Cont) @ 100.00 (Diversify Agency Names)

DES

Msg:C.RAPLINGER

## SECURITY DESCRIPTION

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FED FARM CREDIT FFCB 2 09/03/13

ISSUER INFORMATION	IDENTIFIERS	
Name FEDERAL FARM CREDIT BANK	CUSIP 31331JQQ9	1) Additional Sec Info
Type Sovereign Agency	ISIN US31331JQQ93	2) Call Schedule
Market of Issue US Domestic	BB Number EI2655468	3) ALLQ
SECURITY INFORMATION		4) TRACE Trade Recap
Country US	Moody's NA	5) TRACE Trade History
Currency USD	S&P AAe	6) Corporate Actions
Collateral Type Bonds	Composite NR	7) Ratings
Calc Typ( 1)STREET CONVENTION		8) Custom Notes
Maturity 9/ 3/2013 Series		9) Identifiers
CALLABLE CALL 9/ 3/10@ 100.00		10) Sec. Specific News
Coupon 2 Fixed		11) Involved Parties
S/A 30/360		12) Pricing Sources
Announcement Dt 5/26/10		13) Related Securities
Int. Accrual Dt 6/ 3/10		14) Issuer Web Page
1st Settle Date 6/ 3/10		
1st Coupon Date 9/ 3/10		
Iss Pr 100		
NO PROSPECTUS		
BOOK-ENTRY.		66) Send as Attachment

Australia 61 2 9777 8800 Brazil 55 11 2048 4800 Europe 44 20 7220 7800 Germany 49 89 3204 1210 Hong Kong 852 2977 6000 Japan 81 3 3201 4900 Singapore 65 6212 1000 U.S. 1 212 218 2000 Cupertino 2010 Bloomberg Finance L.P. SN 120178 27-May-2010 05:25:27