



PORTFOLIO MANAGER'S REPORT



Tuesday June 22, 2010 8:40 AM

CURRENT OFFERING YIELDS - Tuesday: 06/22/2010 8:40 AM

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	Trsy (Last Price)	Change (From Yest)	Agcy NC (Bullets)	Muni - TEY (A1; GO; BQ)	CMO (Avg Life)	MBS (Avg Life)			
3 mo	0.106%	-0.30 bp's	0.121%	0.465%			22-Jun	Existing Home Sales	
6 mo	0.170%	UNCH	0.208%	0.541%			22-Jun	Existing Home Sales (MoM)	
12 mo	0.269%	+ 0.1 32'ds	0.431%	0.723%			22-Jun	Prior: 5.77M Actual: 6.12M	
2 yr	0.709%	UNCH	0.918%	1.238%				Prior: 7.6% Actual: 6.0%	
3 yr	1.143%		1.367%	1.844%	1.609%	1.559%		House Price Index (MoM)	
5 yr	2.011%	+ 1.0 32'ds	2.265%	3.056%	2.243%	2.113%		Prior: 0.3% Actual: 0.3%	
10 yr	3.227%	+ 1.0 32'ds	3.489%	5.102%	3.111%	3.201%	DJIA	10,468.59	26.18
30 yr	4.152%	+ 4.0 32'ds	4.747%	6.950%	4.127%	4.227%	NASDAQ	2,303.11	14.02
							S & P 500	1,115.45	2.25

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 Gain After Global Stock Drop Boosts Safety Demand as Fed Meets

June 22 (Bloomberg) -- Treasury 10-year notes rose for the first time in three days after a drop in global stocks as Federal Reserve policy makers convened, encouraging demand for the relative safety of government debt. The advance pushed two-year note yields earlier to almost the lowest level since May on speculation the central bank will cite tomorrow evidence of a sluggish economic recovery. The Treasury will sell \$40 billion of the securities today, \$2 billion less than the previous offering.

Today's Topic: Zero Sum Game?

Existing home sales (which are tallied when transactions close) climbed in May for a third month as buyers took advantage of the remaining weeks of a tax incentive.

Unfortunately, mortgage applications in May plunged 42 percent to levels last seen at the start of 1997. The decline reversed a 48 % surge in the two months leading up to an April 30 contract-signing deadline to qualify for the home-buyers' tax credit. Accordingly, home sales are expected to plunge in coming months.

Like the "Cash for Clunkers" program, the tax incentive offered to first-time home buyers has succeeded in "goosing" home sales in the near term, but arguably, at the expense of sales in the out months. It appears that future sales were accelerated with a taxpayer subsidy of questionable benefit, perhaps for political purposes.

Whether it is intervention to support a currency or tax incentive financing (TIF) to entice a private development, the manipulation of otherwise free markets is a zero sum game. Eventually, market forces will prevail.

Regarding inflation overall, the forces of supply and demand are resulting in a continuing decline in prices. The most recent data show producer prices, consumer prices and import prices are all weaker. The increase in core consumer prices is now less than 1% (YOY).

Accordingly, inflation is not currently posing a threat to bond buyers. As long as the pressure on prices is expected to remain weak, the higher yields from longer fixed-income commitments will outperform the paltry returns from cash equivalent securities. Of course, bond buyers should always be alert for a change in expectations and prepared with a plan of action.

Our EFTI (Eurodollar Futures Timing Indicator) can assist you with a change in market expectations. Please let us know if we can assist you in developing your response to an eventual shift in the fixed-income market.