



# PORTFOLIO MANAGER'S REPORT



Wednesday June 23, 2010 8:47 AM

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## CURRENT OFFERING YIELDS - Wednesday: 06/23/2010 8:47 AM

## TODAY'S ECONOMIC DATA

| Trsy<br>(Last Price) | Change<br>(From Yest) | Agcy NC<br>(Bullets) | Muni - TEY<br>(A1; GO; BQ) | CMO<br>(Avg Life) | MBS<br>(Avg Life) |        |                           |                            |
|----------------------|-----------------------|----------------------|----------------------------|-------------------|-------------------|--------|---------------------------|----------------------------|
| 3 mo                 | 0.120%                | + 0.70 bp's          | 0.114%                     | 0.435%            |                   | 23-Jun | MBA Mortgage Applications | Prior: 17.7% Actual: -5.9% |
| 6 mo                 | 0.176%                | - 0.30 bp's          | 0.203%                     | 0.511%            |                   | 23-Jun | New Home Sales            | Prior: 504K Actual: ---    |
| 12 mo                | 0.263%                | -0.2 32'ds           | 0.417%                     | 0.692%            |                   | 23-Jun | New Home Sales MoM        | Prior: 14.8% Actual: ---   |
| 2 yr                 | 0.680%                | + 1.9 32'ds          | 0.871%                     | 1.192%            | 1.580%            |        |                           |                            |
| 3 yr                 | 1.098%                |                      | 1.311%                     | 1.809%            | 2.098%            |        |                           |                            |
| 5 yr                 | 1.935%                | + 2.5 32'ds          | 2.191%                     | 3.041%            | 2.785%            |        |                           |                            |
| 10 yr                | 3.134%                | + 2.5 32'ds          | 3.400%                     | 5.117%            | 4.084%            |        |                           |                            |
| 30 yr                | 4.075%                | + 9.0 32'ds          | 4.670%                     | 6.950%            | 4.134%            |        |                           |                            |
|                      |                       |                      |                            |                   |                   |        | DJIA                      | 10,294.13 0.61             |
|                      |                       |                      |                            |                   |                   |        | NASDAQ                    | 2,254.57 -7.23             |
|                      |                       |                      |                            |                   |                   |        | S & P 500                 | 1,093.70 -1.61             |

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

### **Bond Defaults Stalk Wealthiest Michigan Communities as Development Crashes**

June 23 (Bloomberg) -- Michigan's auto-industry collapse, which led to the worst home-price drop among U.S. states, has forced some of its wealthiest and fastest-growing communities to seek state aid to prevent municipal bond defaults. Detroit, slammed by the state's 74 percent housing-price decline, warned of bankruptcy when it borrowed in March to cover part of a \$280 million deficit. Now, nearby communities in Livingston County such as Hartland Township and Howell Township may need legislation to help make bond payments.

### **Today's Topic: More Stimulus?**

The recent rally in stock prices seems to be fizzling as investors sense the outlook for the global economy has been overestimated.

Meanwhile, the U.S. Treasury continues to sell record amounts of debt at or near historically low rates as investors seek a safe haven from stocks and from Europe's sovereign debt crisis. Additionally, bonds are benefiting from the deleveraging and disinflation that continues.

Predictably, Nobel Prize-winning economist Paul Krugman is promoting the need for more federal stimulus (deficit spending). "To short-change stimulus now for the sake of the long-run budget just doesn't add up," Krugman said yesterday at an economic conference in Tel Aviv. "Now is the time when we really need the government support. Unfortunately, pulling back is what seems to be happening," he said.

With all due respect to a Nobel Prize-winning economist, the enormous amount of government stimulus (here and abroad) doesn't seem to be working very well. While Krugman suggests there is little similarity between the European debt crisis and the surge in U.S. deficits, it's worth noting that governments across the 16-nation euro region are cutting spending after Greece's near default sparked investor concern that the budget deficits are spiraling out of control.

According to William O'Donnell with the Royal Bank of Scotland, "The ability of the (U.S.) administration is limited from hereon to further stimulate consumption". As such, the U.S. will have to "suffer through fiscal constraint that will lead to lower consumption, therefore slowing inflation".

Fixed income investors should expect no effort from central banks to raise short rates anytime soon.