PORTFOLIO MANAGER's REPORT

Thursday June 24, 2010 8:49 AM

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CURRENT OFFERING YIELDS - Thursday: 06/24/2010 8:49 AM

	Trsy (Last Price)	Change (From Yest)	Agcy NC (Bullets)	Muni - TEY (A1; GO; BQ)	CMO (Avg Life)	MBS (Avg Life)
3 mo	0.120%	UNCH	0.119%	0.435%		
6 mo	0.176%	- -0.50 bp's	0.209%	0.495%		
12 mo	0.264%	-0.1 32'ds	0.419%	0.692%		
2 yr	0.648%	+ 1.5 32'ds	0.836%	1.192%	1.548%	1.598%
3 yr	1.068%		1.273%	1.814%	2.068%	2.168%
5 yr	1.908%	+ 3.0 32'ds	2.149%	3.056%	2.758%	3.058%
10 yr	3.079%	+ 3.0 32'ds	3.356%	5.132%	4.029%	4.079%
30 yr	4.036%	+ 11.0 32'ds	4.634%	6.950%		

TODAY'S ECONOMIC DATA

24-Jun	Durable Goods Orders Prior: 2.9% Actual: -1.1%	
24-Jun	Durables Ex Transportation Prior: -1.0% Actual: 0.9%	
24-Jun	Initial Jobless Claims Prior: 472K Actual: 457K	
DJIA	10,243.64	-54.80
NASDAQ	2,240.18	-14.05
S & P 500	1,085.44	-6.60

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

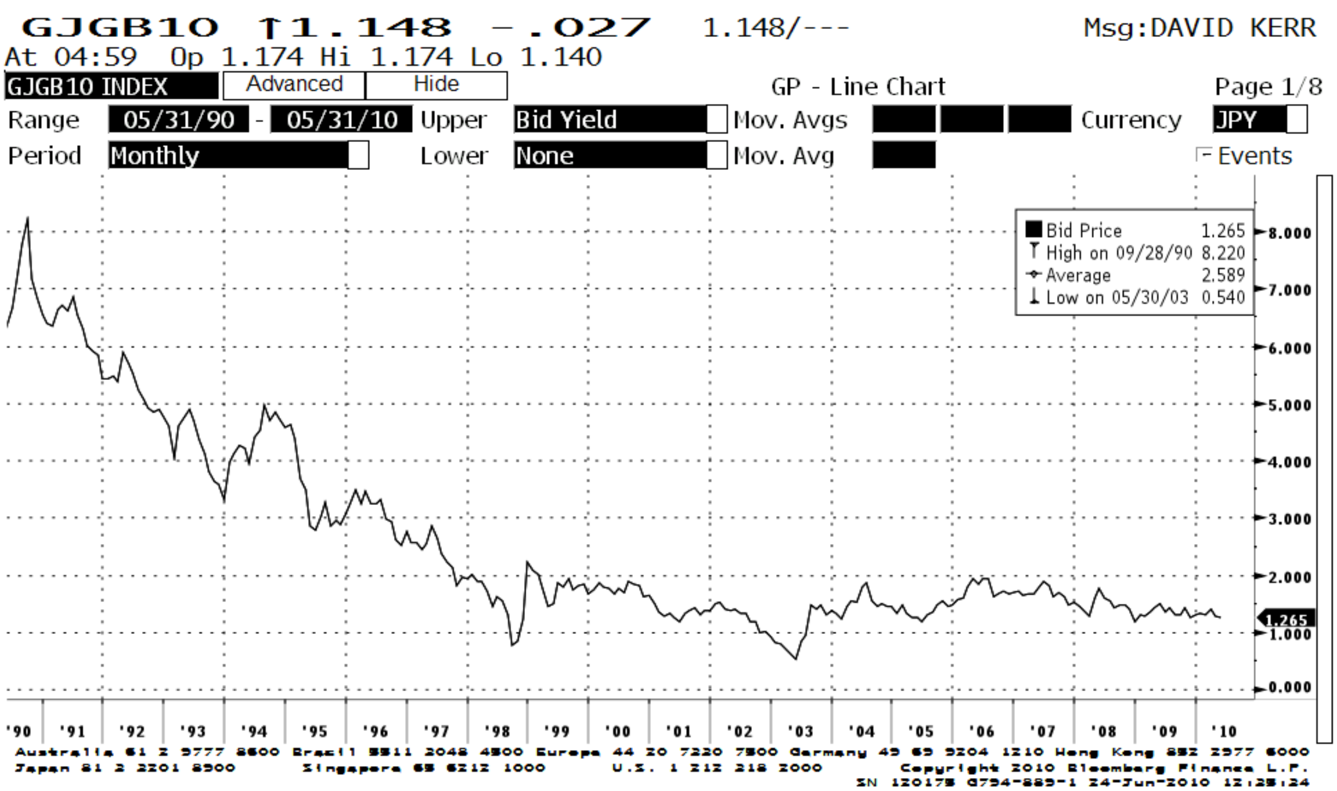
Treasury Two-Year Note Yield Falls to Lowest Since November on Fed's View

June 24 (Bloomberg) -- Treasuries rose, pushing the two- year note yield to the lowest since November, on bets interest rates will remain low after the Federal Reserve said yesterday the recovery pace is "likely to be moderate for a time." The yield was within six basis points of a record low set in December 2008 after the central bank reiterated its commitment to an "extended period" of low interest rates. The government will sell $30 billion in seven-year securities in the last of three note auctions totaling $108 billion.

Today's Topic: The Japanese Experience

The graph below shows the yield from 10-year Japanese bonds has declined from some 8% (20 years ago) to slightly over 1% (today). Please note in the last 12 years, the yield has been trading in a relatively narrow range between 1% and 2%.

Importantly, it should also be noted that Japan has one of the highest debt to GDP ratios of all the developed economies (over 110%).



The corresponding yield from 10-year U.S. Treasury Notes is also provided below. Over the same 20 year period, yields have declined from some 9% to slightly over 3% (today). Unlike Japanese yields, Treasury yields have not leveled-out, but have continued the longer term trend of declining. After plunging to nearly 2% (in the 4th quarter in 2008) Treasury yields rebounded to almost 4% (in the 1st quarter of this year) but have since declined to about 3% (today).

Given the escalating amount of U.S. debt to GDP (almost 90%) there is a legitimate concern that inflation and rising interest rates will eventually result.

Nonetheless, some have suggested that the U.S. is "going the way of Japan" and that a long cycle of deleveraging and disinflation will result in historically low Treasury rates for an extended period of time. One difference between the Japanese experience and the U.S situation is that Japanese own their own debt, while some 40% of U.S debt is borrowed from foreigners.