



# PORTFOLIO MANAGER'S REPORT



Wednesday July 07, 2010 8:58 AM

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## CURRENT OFFERING YIELDS - Wednesday: 07/07/2010 8:58 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)	7-Jul	MBA Mortgage Applications	
3 mo	0.150%	-1.00 bp's	0.149%	0.420%			Prior: 8.8% Actual: 6.7%	
6 mo	0.189%	-1.40 bp's	0.221%	0.495%				
12 mo	0.290%	-0.3 32'ds	0.413%	0.692%				
2 yr	0.601%	+ 0.5 32'ds	0.764%	1.192%	1.501%	1.551%	Prior: 3.7% Actual: ---	
3 yr	0.984%		1.156%	1.778%	1.984%	2.084%		
5 yr	1.750%	+ 1.0 32'ds	1.941%	2.950%	2.600%	2.900%		
10 yr	2.939%	+ 1.0 32'ds	3.179%	4.965%	3.889%	3.939%		
30 yr	3.906%	-2.5 32'ds	4.471%	6.950%				
						DJIA	9,784.79	41.17
						NASDAQ	2,109.76	15.88
						S & P 500	1,034.65	6.59

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

### Stocks in U.S. Gain on Signs Retail Sales Weathering Decline in Confidence

July 7 (Bloomberg) -- U.S. stocks rallied for the second day as the fastest American retail sales growth in four years bolstered optimism that consumer spending is weathering a drop in confidence. State Street Corp., the third-largest U.S. custody bank, rallied 8.7 percent after saying it swung to a second-quarter profit. Citigroup Inc. and Wells Fargo & Co. also climbed. J.C. Penney Co. and Abercrombie & Fitch Co. rose at least 1.1 percent as a trade group said retailer sales are growing the most in four years. Pfizer Inc., the biggest drugmaker, dropped 0.6 percent.

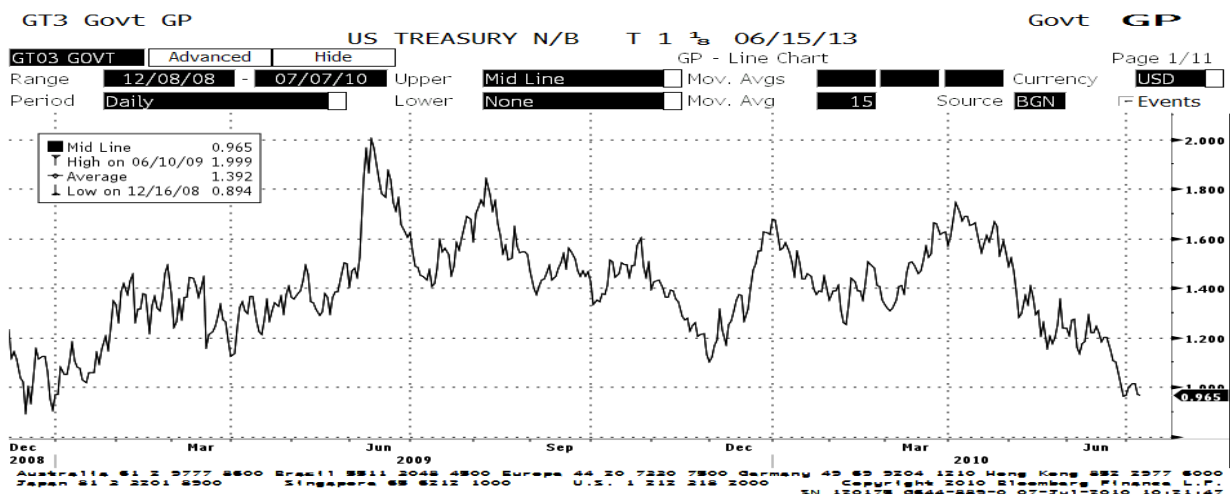
### Today's Topic: Treasuries Drop to Lowest Level in Nineteen Months

Next week the Treasury will auction the 3, 10 and 30-year notes and bonds. The three-year Treasury notes are trading at a yield of 0.96% this morning. That is the lowest since 12/16/08 when the notes closed at 0.894% (see chart below). Coincidentally, that was the day the F.O.M.C. lowered the Fed Funds Target Rate to 0.00% to 0.25%, where it has remained. The forecast for continuation of the zero yield environment is being pushed out into the future, with more seers calling for no change until sometime in 2012.

### Three-Year Treasury Notes

12/7/08 through 7/7/10

Source: Bloomberg



As you can see since the high anxiety days of December of 2008, rates on the three-year have closed between 1% and 2% about 98% of the time, averaging 1.394%, according to the Bloomberg data shown above. Why is this happening now? Most economic commentary on the reasoning focuses on a "double dip" recession, despite all of the monetary and fiscal stimulus that has been generated. One might dispute that, in some doubt regarding the data, there has not been any real emergence from the economic malaise that began to really make itself clear earlier in 2008. We know that real estate and unemployment have made little improvement in the suspect "recovery". The market is still waiting for proof that we are headed in the right direction. Treasury rates, since the recent peak in April, are saying that we are not recovering.

The Fed appears to be "pushing on a string" more than anytime in recent history. It is another difficult time for all participants in the fixed-income markets. Of course, all of us must call on evaluating the trade-offs of every decision with maximum circumspection.