



PORTFOLIO MANAGER'S REPORT



Wednesday August 25, 2010 8:35 AM

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CURRENT OFFERING YIELDS - Wednesday: 08/25/2010 8:35 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)			
3 mo	0.155%	+ 1.00 bp's	0.140%	0.450%		25-Aug	MBA Mortgage Applications	Prior: 13.0% Actual: 4.9%
6 mo	0.186%	UNCH	0.188%	0.495%		25-Aug	Durable Goods Orders	Prior: -1.0% Actual: 0.3%
12 mo	0.249%	-0.2 32'ds	0.343%	0.617%		25-Aug	New Home Sales	Prior: 330K Actual: ---
2 yr	0.476%	+ 0.1 32'ds	0.616%	0.935%	1.276%			
3 yr	0.749%		0.910%	1.379%	1.549%			
5 yr	1.294%	+ 0.5 32'ds	1.498%	2.268%	2.144%		DJIA	10,004.73 -35.72
10 yr	2.442%	+ 0.5 32'ds	2.681%	4.329%	3.242%		NASDAQ	2,113.48 -10.28
30 yr	3.496%	+ 13.0 32'ds	4.153%	6.859%			S & P 500	1,046.82 -5.05

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 Rise, Pushing 10-Year Yield to 19-Month Low on Slowing Economy

Aug. 25 (Bloomberg) -- Treasuries gained, pushing the yield on the 10-year note to the lowest level in 19 months, as a government report showed orders for durable goods increased in July less than economists forecast. Yields on five-year notes dropped to the lowest level since December 2008 before the government's \$36 billion auction of the securities. The two-year note yield was within 2 basis points of the record low after Standard & Poor's cut Ireland's credit rating yesterday, sustaining demand for the safest assets.

Today's Topic- "Why US Treasuries Will Eventually Yield Nothing"

Such was the headline in a recent article posted on one of my favorite websites, Financial Sense (www.financialsense.com), written by Barry Ferguson. He gave 10 reasons why this could be, I will do my best to paraphrase a couple of these here, but trust me, the article is better.

Reason # 1:

In 2008 the US had \$12 Trillion in debt, and in 2009, \$13 Trillion (that's \$13,000,000,000,000!). In 2008 the average coupon paid on this debt was 3.40%; in 2009 it was 3.10%. The interest owed on the debt in 2008 was roughly \$408 Billion, and in 2009 it was \$403 Billion. Even though the debt increased by more than \$1 Trillion, the cost went DOWN by \$5 billion. As long as interest rates continue to fall, the additional debt being piled up by the US Government will have minimal impact on the overall economy.

Reason # 9:

The Federal Reserve is a "for profit private bank". It currently holds more than \$5 Trillion in Treasuries (as of Q1, 2010). China and Japan each have more than \$1 Trillion each. The author asks, "How does the Fed Raise the Fed Funds Rate? They sell Treasuries. How do they lower the Fed Funds Rate? They buy Treasuries. The author then poses the question: "If the Fed wanted to ensure that it, its shill banks (I'm sure he isn't talking about you and me), and it's 'always keep interest rates low' co-conspirators, China and Japan, make lots of money on their Treasury purchases, what should they do?" The fed has recently announced a plan to reinvest cashflow from their MBS and Agency holdings by buying treasuries out on the curve. Could this be the reason for the recent dramatic shift lower in yields on the 10 year treasury notes (down 75 basis points in just 45 days)?

We obviously read a lot of market analysis around here, not all of it calls for lower rates (there are still a few hyper-inflationists out there), but the second half of this year could certainly clear up that picture. Don't be caught flat-footed waiting for the "sure-sign". It likely will have long been passed before we see it.