



# PORTFOLIO MANAGER'S REPORT



Thursday September 02, 2010 8:44 AM

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## CURRENT OFFERING YIELDS - Thursday: 09/02/2010 8:44 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                 | 0.125%                | - 0.50 bp's          | 0.121%                     | 0.329%            |                   | 2-Sep     | Nonfarm Productivity<br>Prior: -0.9% Actual: -1.8% |
| 6 mo                 | 0.181%                | - 0.20 bp's          | 0.194%                     | 0.420%            |                   | 2-Sep     | Unit Labor Costs<br>Prior: 0.2% Actual: 1.1%       |
| 12 mo                | 0.232%                | UNCH                 | 0.335%                     | 0.571%            |                   | 2-Sep     | Initial Jobless Claims<br>Prior: 473K Actual: 472K |
| 2 yr                 | 0.493%                | + 0.5 32'ds          | 0.661%                     | 0.814%            | 1.293%            |           |  |
| 3 yr                 | 0.802%                |                      | 0.971%                     | 1.218%            | 1.602%            |           |  |
| 5 yr                 | 1.419%                | -1.0 32'ds           | 1.592%                     | 2.026%            | 2.269%            |           |  |
| 10 yr                | 2.607%                | -1.0 32'ds           | 2.802%                     | 4.162%            | 3.407%            |           |  |
| 30 yr                | 3.688%                | -9.5 32'ds           | 4.292%                     | 6.768%            |                   |           |  |
|                      |                       |                      |                            |                   |                   | DJIA      | 10,262.28 -7.19                                    |
|                      |                       |                      |                            |                   |                   | NASDAQ    | 2,174.75 -2.09                                     |
|                      |                       |                      |                            |                   |                   | S & P 500 | 1,080.69 0.40                                      |

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

### Moody's Said to Suspend Indemnification in Municipal Bond-Rating Lawsuits

Sept. 2 (Bloomberg) -- Moody's Corp. will discontinue its use of language seeking to have taxpayers indemnify it against lawsuits related to municipal-bond ratings after states including California and New Jersey complained. "As Moody's began introducing rating applications to the municipal market earlier this year, we heard from issuers, in isolated instances, that our standard indemnification language raised concerns unique to their market," Michael Adler, a spokesman for New York-based Moody's Investors Service, said yesterday. "We have decided to suspend our use of this indemnification language in this sector."

### Today's Topic- What is a "Bond Vigilante?"

Fixed income investors can be a righteous lot. Some even see themselves as the self-appointed saviors of responsible fiscal policy. Having no patience for lawmakers and central governments to do the right thing at the right time, this passionate sect of the bond crowd is referred to as "The Bond Vigilantes." They ply their craft upon deficit laden debt markets of fiscally irresponsible issuers. Greece got a taste of vigilante justice this past summer. With an unrelenting bear market sell program, vigilantes send bond prices cascading lower and yields mercilessly higher. Vigilante fiscal justice was regularly handed down in the US Treasury markets from the late 1970s through the 1990s whenever inflation fears popped up, and as a result disciplined U.S. policy makers. But since the dawn of this century, for the most part, vigilante justice has been a fallow field – swept away amid the former credit mania.

So where are they now? US Government spending (and borrowing) has ballooned over the past two years – yet hardly a peep from these "Dudley Do Rights." To the contrary, market reaction has been to flock to Treasuries – sending prices astonishingly higher and yields to all time lows. Where's the fear of inflation? Where's the indignation over runaway budgets? Apparently, those concerns are trumped by the safety and liquidity that Treasuries are thought to deliver. It's been a classic "Flight to Quality." Yes, it's deflation and austerity that direct the bond market's animal spirits to defer those concerns to the offing. And so long as the vigilantes stay away, the insanity of low yields continues.

But like the destructive cicada which incubates for 17 years before erupting from the Earth and devouring the farmer's fields who did not prepare for them – bond vigilantes will someday return. Will your portfolio be prepared? Call your CCB Capital Markets Representative to discuss this very important question.