

Update on Current Conditions in the Credit Markets (July 26, 2010)

General Market News

- U.S. new home sales rose in June more than forecasted, increasing 24 percent from May to an annual pace of 330,000. This was the second-lowest in data going back to 1963 after the unprecedented decline in May of a revised 267,000 pace.
- Bernanke's speech on July 21st avoided pledging specific action and viewed the economic outlook as 'uncertain' as stated below:
 - “Of course, even as the Federal Reserve continues prudent planning for the ultimate withdrawal of extraordinary monetary policy accommodation, we also recognize that the economic outlook remains unusually uncertain. We will continue to carefully assess ongoing financial and economic developments, and we remain prepared to take further policy actions as needed to foster a return to full utilization of our nation's productive potential in a context of price stability.”
- For the week ended July 17th, initial jobless claims rose by 37,000 to 464,000, exceeding the highest economists' estimate surveyed by Bloomberg News.
- On July 21st, Obama signed into law financial regulatory reform legislation that will make the following changes, among others, to the municipal market:
 - Require the MSRB to change the composition of its board so that a majority is made up of representatives of the public
 - Require non-dealer advisers, including swap advisers and GIC brokers, to register with the SEC and the MSRB
 - Advisers would have a fiduciary duty to put their clients interest over their own
 - MSRB would have the authorization to assist the SEC and FINRA in the enforcement of its rules and share in fees

Municipal Fixed Rate Market

- Ratios came down slightly across the curve with MMD outperforming Treasuries from the prior week.

Maturity	MMD (Close 7/23)	MMD – US Treasury Ratio						
		Since 7/1/2004			Rolling 1-year		Current (7/26)	Prior Week (7/19)
		Minimum	Maximum	Average	Average			
1-year	0.27	51.75	257.58	84.80	90.00	98.90	113.21	
5-year	1.30	58.80	229.46	84.92	71.36	75.13	82.84	
10-year	2.57	75.07	190.45	88.90	83.05	85.95	88.78	
15-year	3.21	80.99	215.36	96.63	91.25	98.74	101.59	
20-year	3.67	81.96	221.82	100.12	96.12	104.68	106.64	
30-year	3.97	82.74	212.27	99.72	95.21	99.00	100.51	

- The overall market theme continued with the 1-10 year range experiencing solid gain with 2014 through 2017 being the strongest.
- The intermediate range improved modestly and the long-end for the week remained stable with 30-year MMD unchanged from the week prior at a 3.97%.
- Market observation: 10- to 20-year MMD spread is currently 110 bps with the average over the last 10 years being 77 bps. Money managers may look to sell 10-year bonds and buy 20-year bonds with 10-year calls, especially in the higher quality credit sector.
- Portfolio managers are reporting large cash positions and with a modest new issue calendar, municipals may continue to outperform this week as they did last week.

Build America Bonds (“BABs”)

- BABs appeared steady; however, several trades in the secondary market would argue that this sector, after underperforming for quite some time, has become somewhat attractive once again.
- Next week, the House of Ways and Means Committee chairman Sander Levin plans to unveil new jobs legislation that would extend BABs and other municipal bond initiatives.
- The following are the Build America Bond secondary market spreads as of close Friday (7/23):

Transaction	State of California	University of Texas	City of Chicago
Sale Date	10/08/2009	6/10/2009	1/11/2010
Ratings	Baa1/A/BBB	Aaa/AAA/AAA	Aa3/AA-/AA
Selected Maturity	2039	2039	2036
Call Provisions	Non-Callable	Make-Whole + 20bps	Make-Whole +25bps
Initial Taxable Yield (%)	7.30	5.262	6.207
Initial Spread to Treasury (bps)	325	+100	150
Current Spread to Treasury (bps)	+295	+115	+230
Initial Tax-Exempt Equivalent Yield(%) ¹	3.88	3.42	4.03
Initial Spread to MMD (bps) ¹	87	(130)	(6)
Current Spread to MMD (bps) ¹	57	(60)	(17)

¹Tax-Exempt Equivalent Yield takes into account the 35% interest-cost rebate from the U.S. Treasury

Visible Supply (as reported by TM3)

- The 30-day tax-exempt visible supply is approximately \$11.0 billion.
- The maximum visible supply over the last 60 days was \$13.0 billion, while the minimum was \$5.5 billion and the average was \$9.3 billion.

Recent Developments with the Monoline Insurers

	Moody's		S&P		Fitch		
AMBAC	Caa2	positive watch	3/26/2010	regulatory supervision	3/25/2010	rating withdrawn	6/26/2008
ASSURED	Aa3	negative outlook	12/18/2009	AAA negative outlook	7/1/2009	rating withdrawn	2/24/2010
BHAC	Aa1	stable outlook	4/8/2009	AA+ stable outlook	2/4/2010	not rated	
CIFG	rating withdrawn		11/11/2009	rating withdrawn	2/16/2010	rating withdrawn	10/21/2008
FGIC	rating withdrawn		4/14/2009	rating withdrawn	4/22/2009	rating withdrawn	11/24/2008
AGM*	Aa3	negative outlook	11/12/2009	AAA negative outlook	4/21/2009	rating withdrawn	2/24/2010
NATIONAL**	Baa1	developing outlook	6/25/2009	A developing outlook	6/5/2009	rating withdrawn	6/26/2008
RADIAN	Ba1	stable outlook	3/12/2009	BB- negative outlook	12/22/2009	rating withdrawn	5/2/2008
SYNCORA***	Ca	developing outlook	3/9/2009	regulatory supervision	4/27/2009	rating withdrawn	9/5/2008

*Formerly FSA

**Formerly MBIA

***Formerly XL Capital

Municipal Variable Rate Market

- SIFMA reset at a 0.29%, approximately 87.613% on a day count adjusted basis of 1-month LIBOR (0.331%) and 57.312% on a day count adjusted basis of 3-month LIBOR (0.506%).

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