BOND MARKET WATCH
APRIL 30,2010

This is not an effort to trivialize the market moving events of April but this month was a "three-ring circus." The Deepwater Horizon oil drilling platform, operated for BP (British Petroleum) by Transocean Ltd., burned and sank this month, leaving eleven dead and an open well on the ocean floor. The government and the oil industry are struggling to contain the resulting oil slick. This environmental disaster could be the biggest coastal crisis this country has ever seen. The second market moving event in April was the Securities and Exchange Commission (SEC) filing a civil lawsuit against Goldman Sachs alleging fraud tied to collateralized debt obligations (CDO) that contributed to the worst financial crisis since the Great Depression. At the end of April there was a congressional hearing, Goldman Sachs executives were questioned by U.S. lawmakers who compared the bank's mortgage bankers to bookies (misleading investors). The third ring at the circus contains the Greek debt disaster. As of the close of business on the last day of April, Greece's leaders stated that the beleaguered country was close to reaching terms of a bailout with fellow euro-zone nations and the International Monetary Fund (IMF). Everyone involved in this full fledged crisis is pushing for a bailout deal that will conclude a turbulent month in the markets (FX, Rates and Commodities) that included a downgrade of Greece's debt rating. While the sovereign debt crisis is a huge problem for the European banks and markets, the Greeks need so much money that the only thing standing between the country and default is open ended funding from the IMF and the European Union (EU). The term "contagion" is back in the minds of investors around the world. While a potential bailout by the EU and the IMF reduces the risk Greece will default, investors remain skittish after S&P downgraded the credit ratings of Portugal and Spain. In light of this Greek circus act, China raised bank reserve ratios for the third time this year to cool speculative real estate purchases, while the Australian government imposed a 40% tax on resource companies' profits.

Quite a show at the circus in just the month of April. Perhaps the turmoil in Europe was just one more reason for the FOMC to keep its policy statement virtually unchanged this month. The Fed cited "tight credit" among the current reasons for its decision to keep rates at zero to 0.25 percent for an "extended period." The first quarter GDP report came in at +3.2%, following the 4^{th} quarters +5.6% reading. This mark's the best two-quarter performance for the economy since 2003 and the third straight quarter of growth for the U.S. Consumption spending has added significantly to growth for the past three quarters and nonresidential fixed investments have been positive for two quarters. The Institute for Supply Management's factory index rose to 60.4, the highest level since June 2004 and exceeding the median forecast in a survey (Bloomberg) of 76 economists. Readings greater than 50 signal expansion and the April manufacturing report marks a ninth consecutive month of growth. The U.S. is sharing in a global manufacturing expansion that the current economic numbers are indicating. The Commerce Department reported that personal spending rose 0.6 percent in March, the most in five months, after a 0.5% gain. Incomes increased 0.3 percent in April, the first gain in 2010. These economic figures show that American consumers, whose spending accounts for 70% of the economy, are gaining confidence in the recovery.

The exceptional performance by the fixed income credit markets remains the big story in the bond markets in 2010. Once again in April, investment grade corporates provided substantial excess returns, pushing the year-to-date returns to more than 200 basis points (bp).

The "BBB" rated credits continued to perform better than the higher grades, with a return of 2.0% in April versus 1.5% for the "AA" rated segment. Corporate bonds in general have had solid returns for three months as optimism for profit growth outweighs the risk of contagion from worsening government finances. The U.S. core fixed income returned 1.13% in April, in aggregate, with components breaking out accordingly. While equity returned more than fixed income at 1.58% (S&P 500), it failed to repeat the outperformance noted in March, and trailed corporate debt (high grade as well as high yield). Companies in the S&P 500 are posting first-quarter profits that exceed analyst estimates by a record 82%, according to data generated by Bloomberg. Within the investment grade universe, CMBS was once again the best asset class, on both a total return (2.8%) as well as excess return (2.08%) basis. High grade corporate's, on the other hand, returned an attractive 1.76% total return, but only had an excess return of only 0.39%. This performance for fixed income assets is the opposite noted in March, when rising Treasury yields penalized total returns even as the general risk appetite expanded and spreads tightened. Don't forget that banks are increasing their purchases of U.S. government securities to pump up profits while lending to businesses languished near the lowest levels since the markets started to freeze almost three years ago. The Treasury market has retained its high level of volatility for all of 2010. The steepness of the interest rate yield curve provides a substantial return advantage in a "circus" like climate. Mortgages underperformed Treasuries in April, but not as much as some investors have been expecting after the Fed stopped buying mortgage backed securities (MBS). The president of the Minneapolis Fed stated he is concerned that the excess reserves the Fed created during the crisis could fuel inflation in the near future. He is now suggesting the Fed sell a certain amount of MBS per month, which would pare down the Fed's holdings in five years instead of the thirty years if they just let them mature.

The sovereign debt crisis is a huge problem (Europe's version of Bear Stearns/Lehman?) for the ECB and the Eurobond markets, and the U.S. markets are not disinterested observers. The three ring circus the markets are faced with has the potential for disruptions throughout the world. Greece's problems are no longer contained. Kind of like a hole in the bottom of the ocean spewing oil, we are going to need three really big band-aids while everyone lawyers up.

Yield and Total Returns

Ryan Labs Indexes	YTW	QTD	YTD	12M[1]	Ryan Labs Indexes	YTW	QTD	YTD	12M[1]
RL 2 Year Indexes					**RL 10 Year Indexes**				
TIPS	-0.53	0.84	2.12	7.82	TIPS	1.41	3.87	4.14	12.23
Treasury	0.97	0.27	1.12	1.98	Treasury	3.66	1.73	3.12	-0.82
FHLMC	1.10	0.09	0.36	2.18	FHLMC	3.73	3.09	3.43	4.07
FNMA	1.30	0.14	0.92	0.85	FNMA	3.55	0.77	2.21	4.04
AAA Corporate	1.43	0.57	1.99	4.94	AAA Corporate	4.46	1.90	4.19	8.65
AA Corporate	1.84	0.55	2.26	9.55	AA Corporate	4.57	2.10	5.10	21.02
A Corporate	2.20	0.51	2.30	12.15	A Corporate	4.98	1.81	4.51	21.67
BBB Corporate	2.62	0.78	3.19	15.75	BBB Corporate	5.32	2.10	5.74	28.52
RL 5 Year Indexes					**RL 30 Year Indexes**				
TIPS	0.44	1.67	2.93	9.98	TIPS	1.80	5.59	5.31	16.11
Treasury	2.42	1.01	3.04	2.14	Treasury	4.53	3.45	3.65	-3.05
FHLMC	2.71	0.23	-3.93	-3.85	FHLMC	4.88	3.40	3.19	3.09
FNMA	2.52	0.20	0.84	1.10	FNMA	4.91	2.94	2.90	2.70
AAA Corporate	2.83	0.75	3.26	8.43	AAA Corporate	5.07	3.66	5.28	12.15
AA Corporate	3.09	1.36	3.48	13.80	AA Corporate	5.67	3.46	5.43	27.60
A Corporate	3.80	1.10	3.63	17.78	A Corporate	5.89	3.01	4.93	28.41
BBB Corporate	4.17	1.74	5.09	24.58	BBB Corporate	6.19	3.24	5.49	36.58
Barclays Indexes					**Barclays Indexes**				
BC Aggregate	3.35	1.04	2.84	8.34	BC ABS	2.39	0.55	2.79	17.63
BC CMBS	5.19	7.11	16.87	41.90	BC MBS	3.99	0.59	2.21	5.73

1) *Last 12 Months Return*

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Ryan Labs TIPS				
	Yield To Worst (%)	MDuration (Years)	Year To Date Returns (%)	Last 12 Month Returns (%)
2 Year TIPS	-0.53	2.44	2.12	7.82
5 Year TIPS	0.44	4.94	2.93	9.98
10 Year TIPS	1.41	10.59	4.14	12.23
30 Year TIPS	1.80	15.14	5.31	16.11
RL TIPS Index	0.80	8.06	3.51	11.19

Market Implied Breakeven Inflation Expectation				
	Yield To Worst (%)		Inflation (%)	
	Nominals [1]	TIPS	BEI [2]	Current [3]
CPI (1 Month Lag)				2.3
2 Year	0.97	-0.53	1.50	
5 Year	2.42	0.44	1.98	
10 Year	3.66	1.41	2.25	
30 Year	4.53	1.80	2.73	

1) Nominals represent conventional U.S. Treasury Bonds and Notes.

2) BEI = Breakeven Inflation Rate (Nominal yields minus TIPS yields). Widening BEI indicates that TIPS are outperforming nominal bonds. When realized inflation is greater than implied inflation, TIPS also outperform.

3) Current Inflation = Bureau of Labor Statistics, Year over Year Consumer Price Index (non-seasonally adjusted, all items, 1 month lag)

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