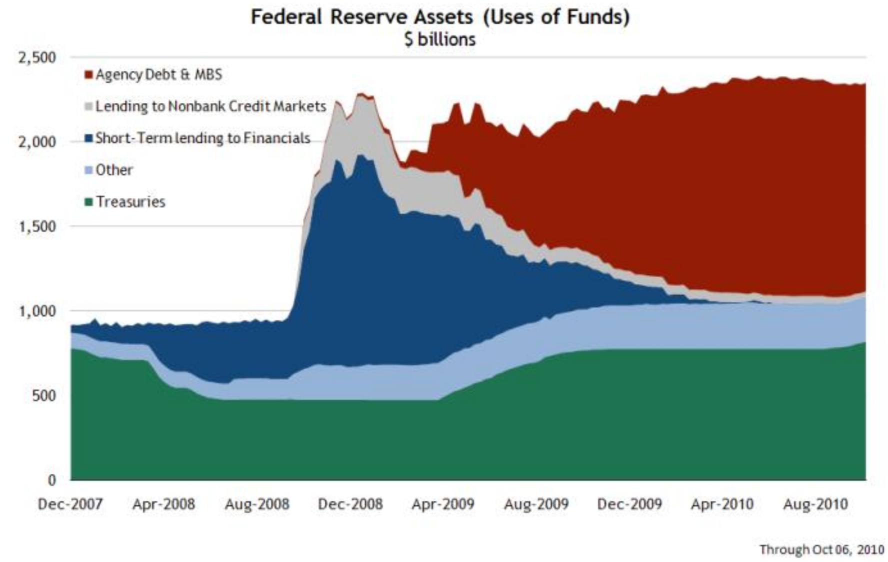
October 13, 2010

Financial Highlights

Federal Reserve

Summary

The balance sheet remained little changed, increasing $9 billion for the week ended October 6.

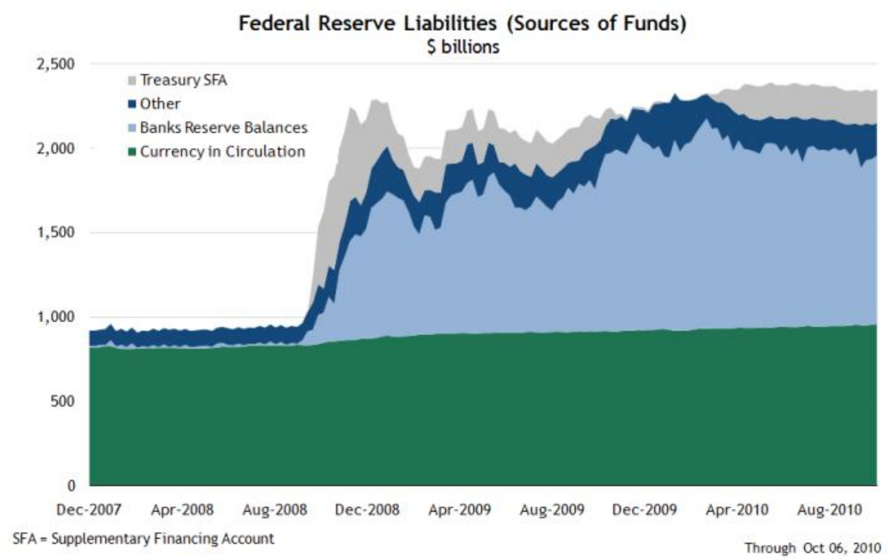


Source: Federal Reserve Board

- Treasuries continued to increase, growing by $7.4 billion while agency debt and MBS remained unchanged from the week prior.

On the liabilities side of the balance sheet, bank reserve balances and currency in circulation both grew, increasing $15.9 billion and $4.9 billion, respectively.

The increase was partially offset by other liabilities, which decreased $11.8 billion, mostly as a result of declines in Treasury deposits with Federal Reserve banks and reverse repurchase agreements.



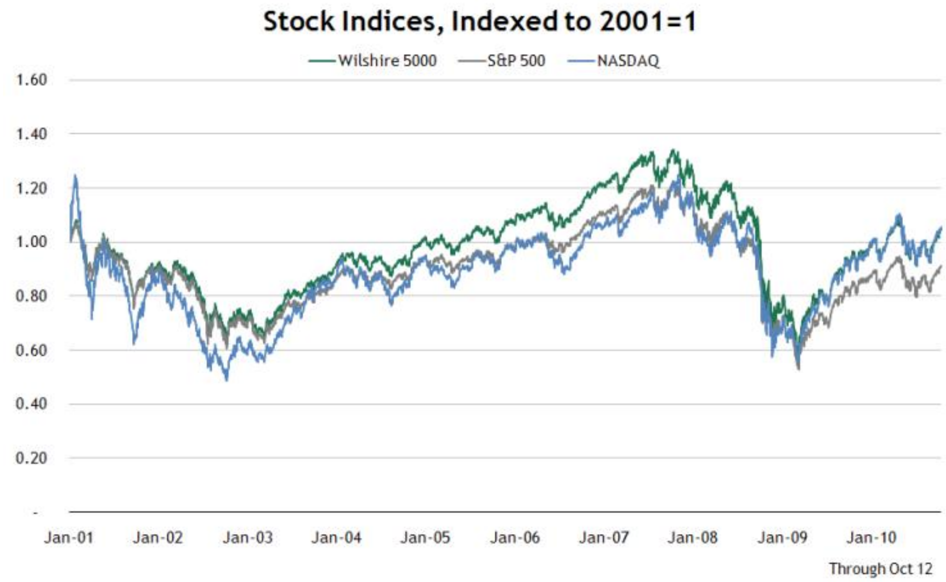
Source: Federal Reserve Board

Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal Reserve Banks other than reserve balances and excluding the Supplementary Financing Program.

Bond and Equity Markets

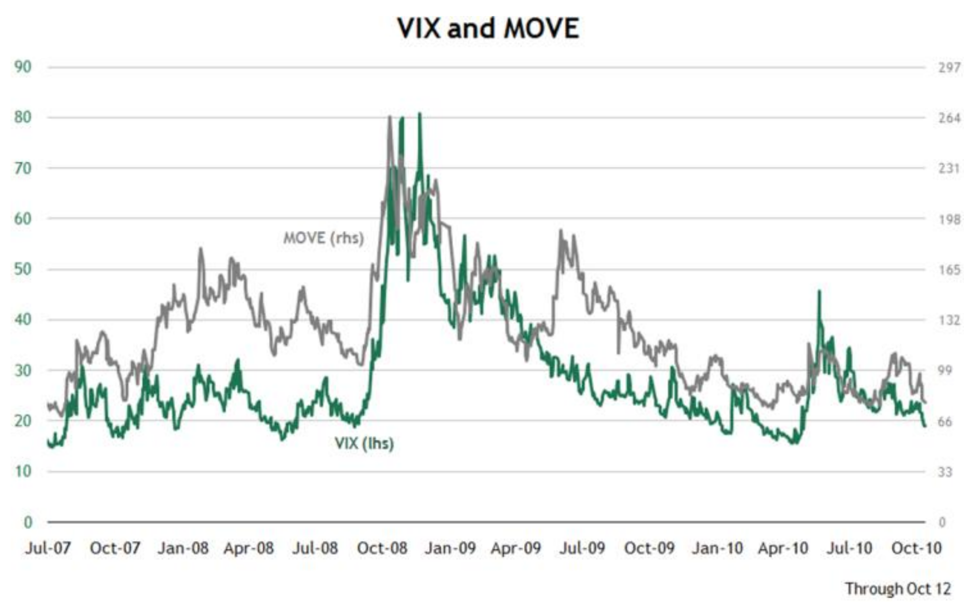
Summary

Equity markets levels have risen about 3% since the September FOMC meeting.



Source: Dow Jones, NY Times, WSJ

The Merrill Lynch MOVE index shows bond market volatility decreased 15% since the September FOMC meeting, while the VIX "fear index" from the Chicago Board Option Exchange indicates equity market volatility has decreased more than 18%.



Source: Merrill Lynch, Wall Street Journal

Bond and Equity Markets

Summary

The CDX ended the day at 91.3 basis points on October 12, hovering near levels last seen in late April and early May.

Investors use the CDX to hedge against losses on corporate debt or to speculate on creditworthiness. An increase in the CDX generally signals a deterioration in the perception of credit quality.

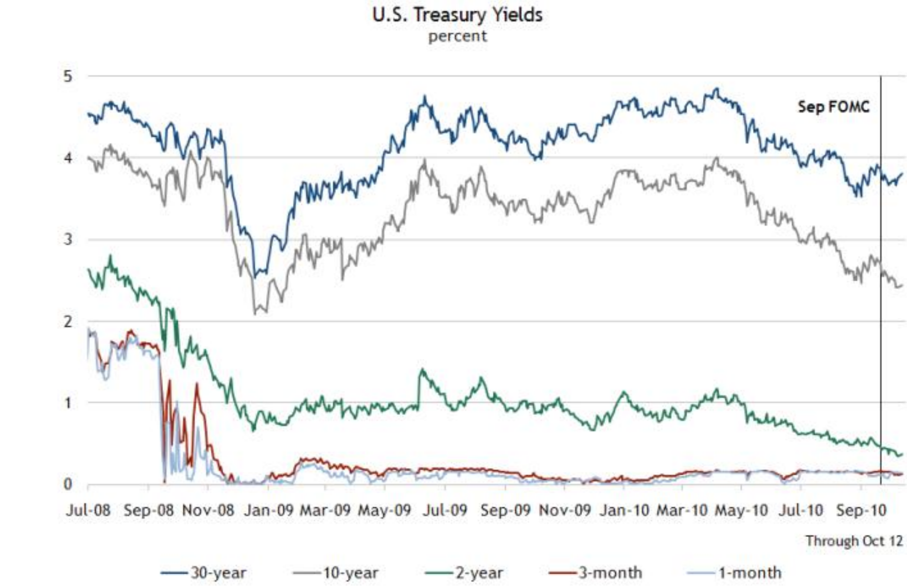
One basis point equates to $1,000 annually on a contract protecting $10 million in debt.

Source: Markit Group Limited/Haver Analytics

Broad Financial Market Indicators

Summary

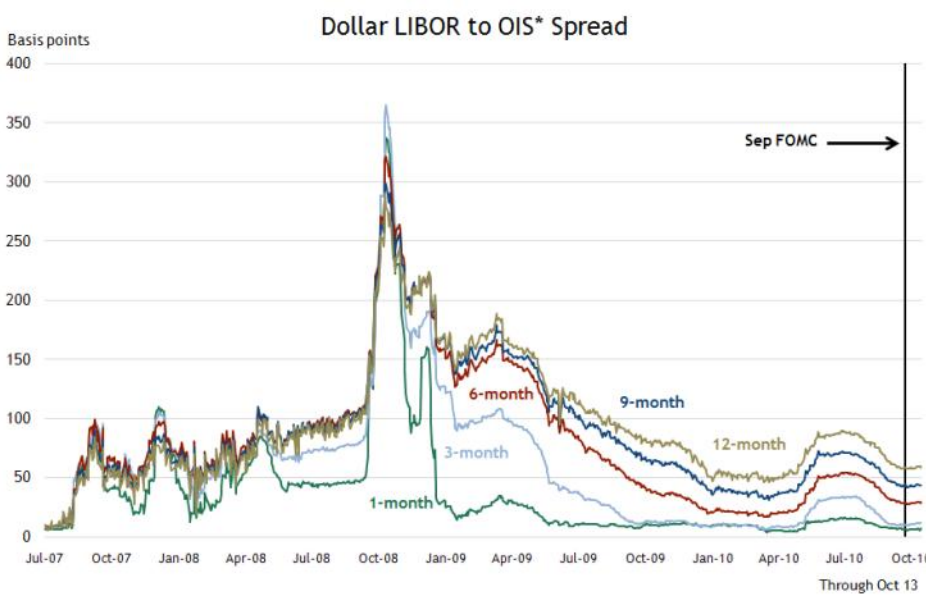
The yield curve has steepened further since the September FOMC meeting.



Source: Federal Reserve Board/Haver Analytics

- 30-year Treasury bonds have risen 1 basis point to 3.80% since the September FOMC meeting, while the 10-year notes have declined by 17 basis points (bps) to 2.44%.

LIBOR to OIS spreads, after a period of normalization this summer, are relatively unchanged since the September FOMC meeting.



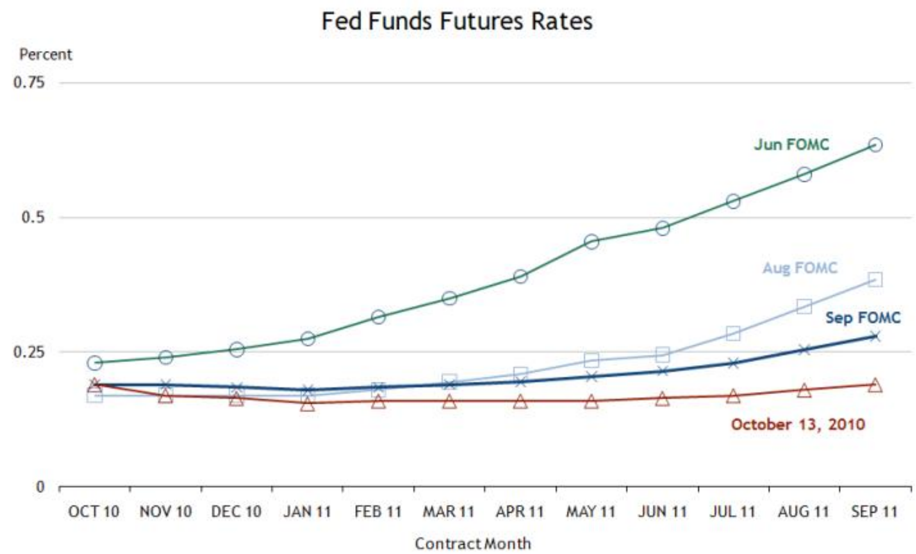
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

Summary

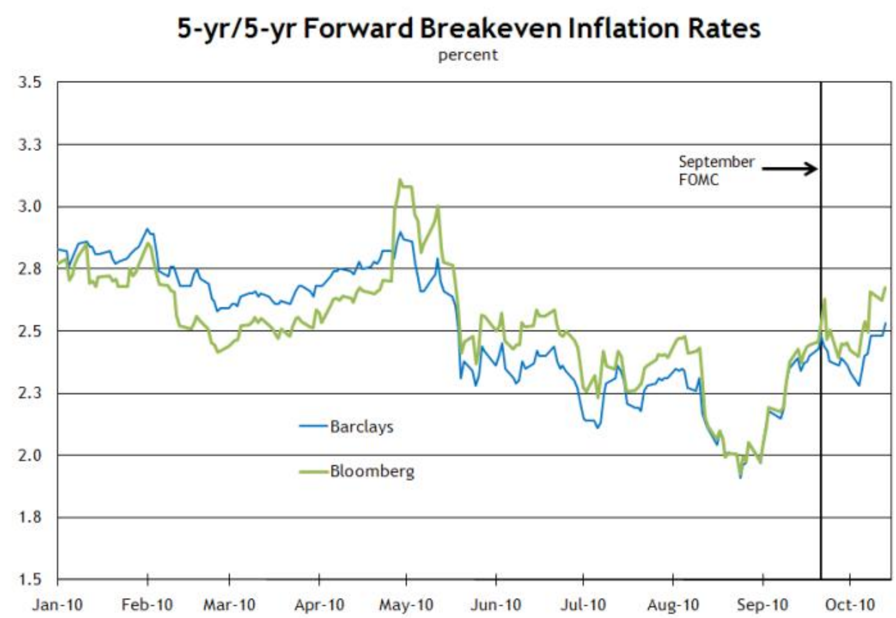
The curve of expected rates from the fed funds futures market has moved even lower since the September 21 FOMC meeting.



Source: Bloomberg

- The fed funds futures markets currently do not expect a rate increase in 2011.
- As of October 13, the futures market for fed funds indicates an implied rate of about 19 bps for the September 2011 contract, about 115 bps lower than what followed the June FOMC meeting.

Breakeven inflation rates have risen slightly since the last FOMC meeting.



Source: Bloomberg/Barclays

- Breakeven inflation rates have risen slightly since the September FOMC meeting.
- Looking at one measure calculated by Barclays suggests investors see consumer price index inflation five to 10 years out as averaging about 2.5%, which is up by nearly 20 bps from two weeks ago but is down from about 2.75% in the spring.