

## Financial Highlights

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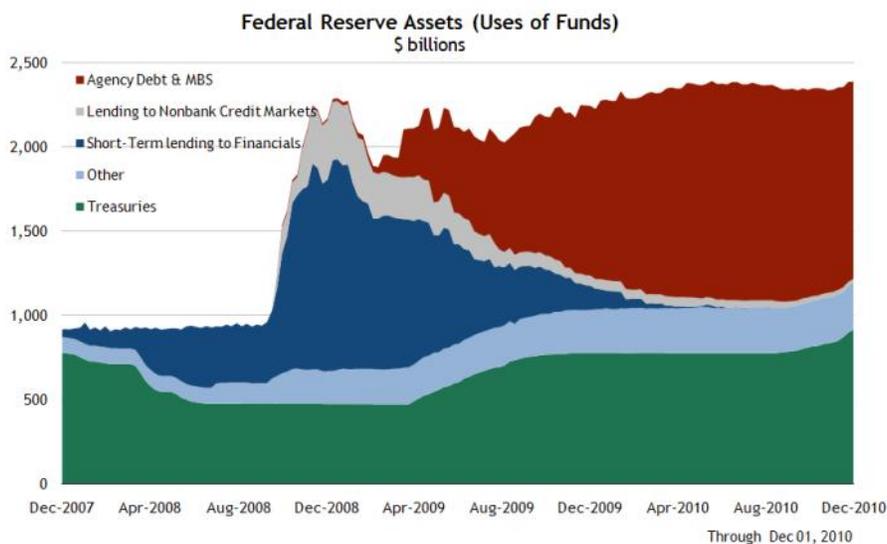
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# Federal Reserve

## Summary

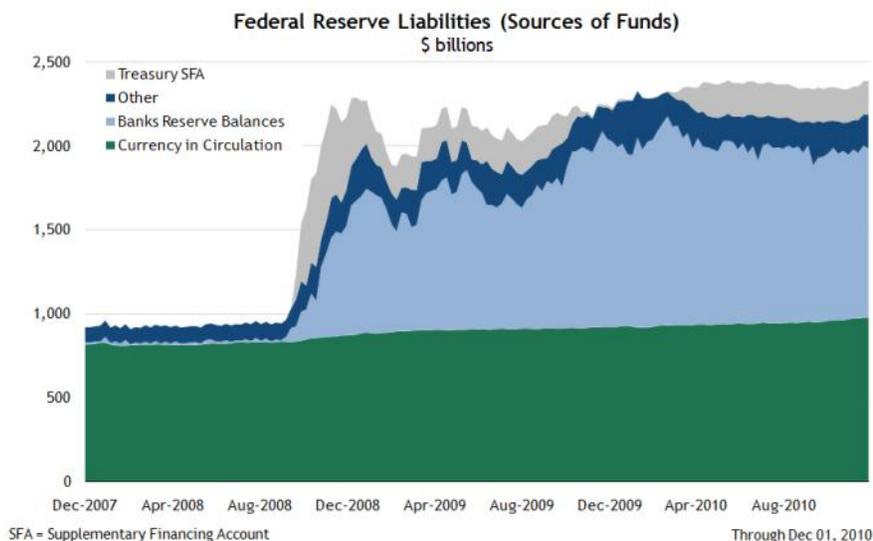
The balance sheet grew by less than \$1 billion for the week ended December 1.



Source: Federal Reserve Board

- Consistent with the [Treasury purchase schedule released by the New York Fed on November 10](#), Treasury securities grew by \$64.4 billion from November 10 to December 1.
- Growth in the balance sheet will fluctuate from week to week due to volatility of MBS prepayments.

Bank reserve balances with the Federal Reserve declined \$17 billion while Treasury deposits with Federal Reserve banks (part of “Other”) increased by \$21.4 billion.



Source: Federal Reserve Board

**Assets:** Lending to nonbanks—TALF, CPFF, AMLF, and MMLFF; 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.

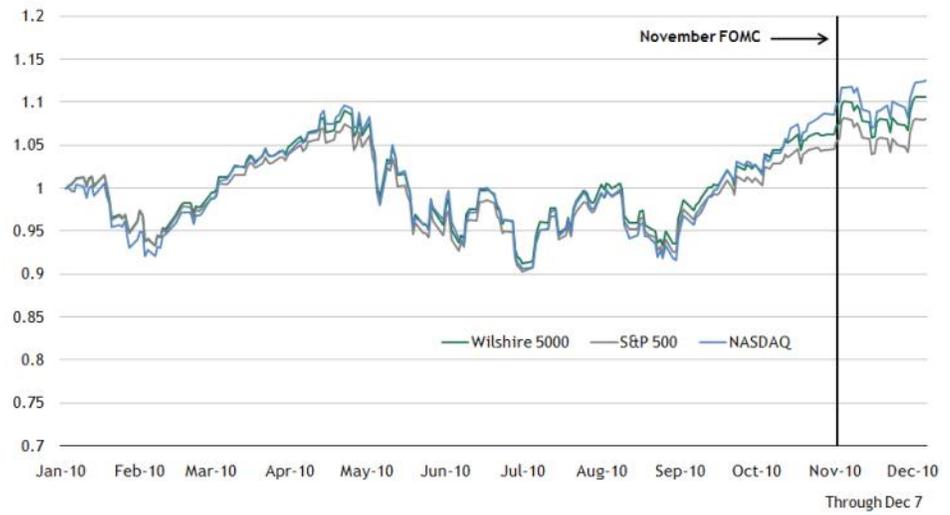
# Bond and Equity Markets

## Summary

Equity markets levels have risen about 2% to 3% since the November FOMC meeting.

## Stock Indices

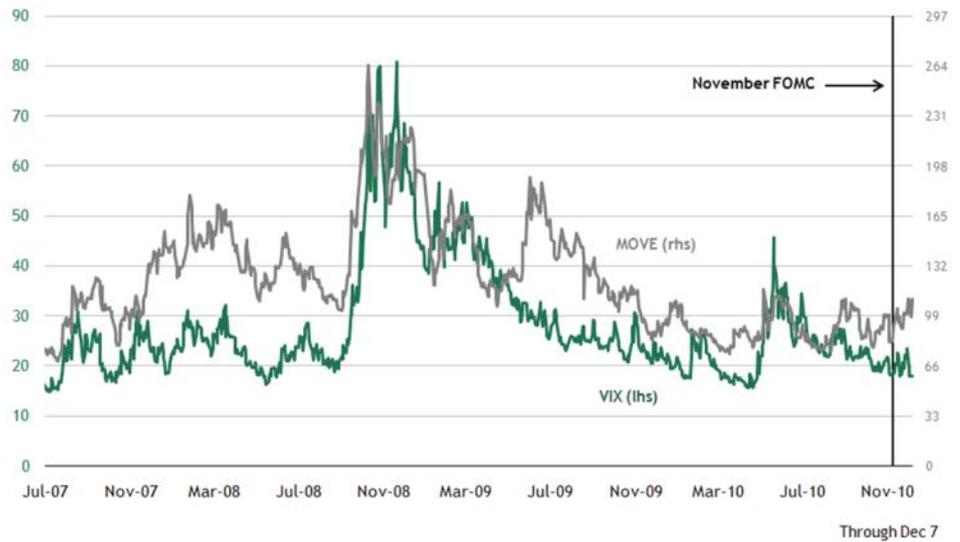
Indexed to 1/4/2010=1



Source: Dow Jones, NY Times, WSJ

The Merrill Lynch MOVE index shows bond market volatility increased around 11% since the November FOMC meeting, while the VIX “fear index” from the Chicago Board Option Exchange indicates equity market volatility has decreased over 8%.

## VIX and MOVE



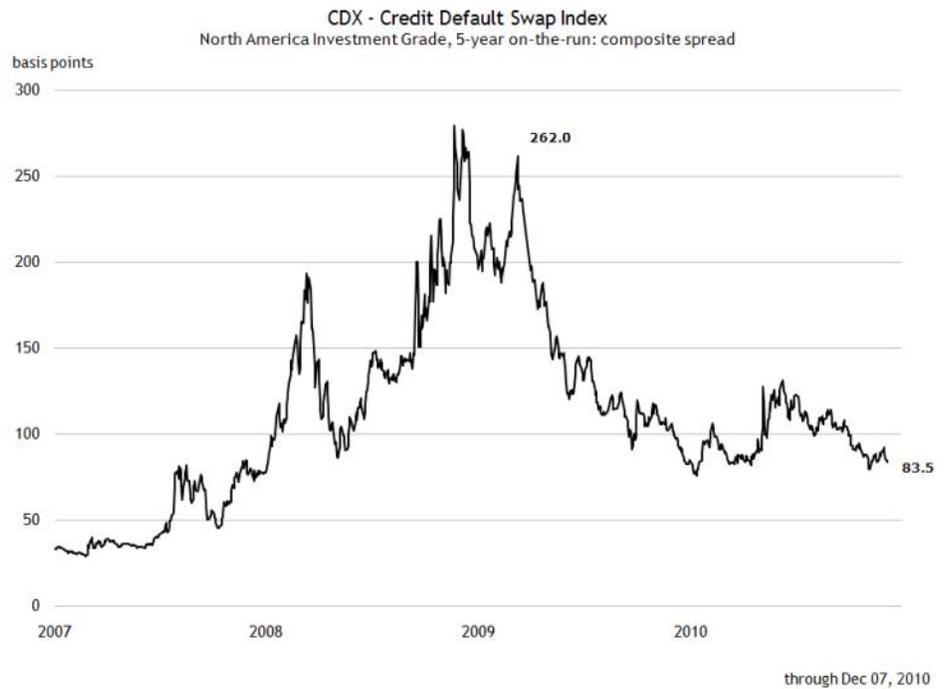
Source: Merrill Lynch, Wall Street Journal

## Summary

The index ended Tuesday at 83.5 basis points, falling to its lowest level since November 19.

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.

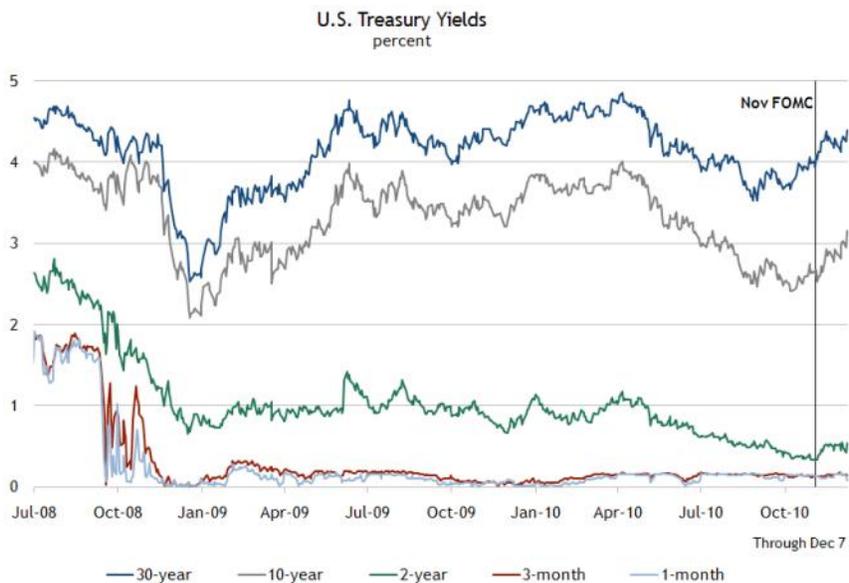


Source: Markit Group Limited/Haver Analytics

# Broad Financial Market Indicators

## Summary

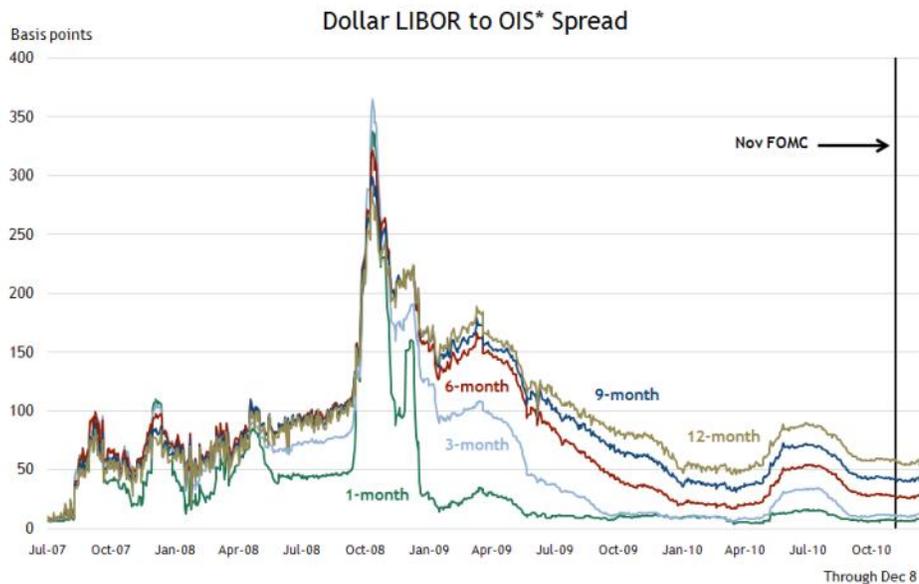
Treasury yields have risen sharply since the November FOMC meeting.



Source: Federal Reserve Board/Haver Analytics

- Thirty-year Treasury bonds have risen 30 basis points (bps) to 4.39% since November 3, while the 10-year notes have risen 48 bps to 3.15% and the 2-year ones by 20 bps to 0.54%.

LIBOR to OIS spreads continue to be stable.



Source: British Bankers Association/Bloomberg

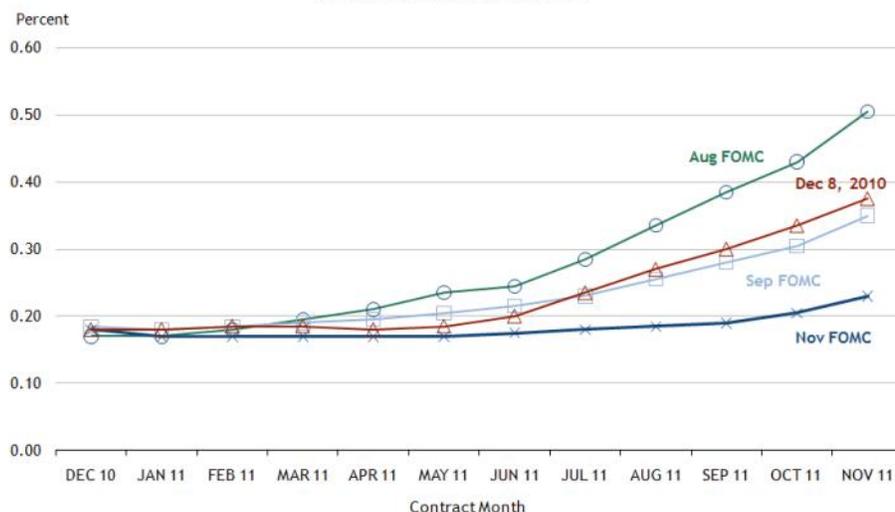
\*Overnight Index Swap rate

# Broad Financial Market Indicators

## Summary

Since the November FOMC meeting, the curve of expected rates beginning in mid-2011 has moved noticeably higher, according to the fed funds futures market.

Fed Funds Futures Rates

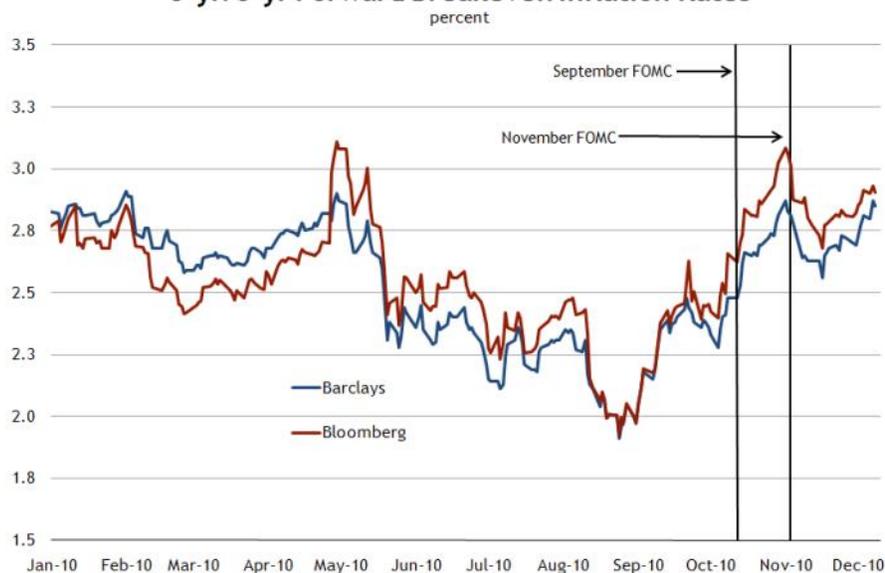


Source: Bloomberg

- As of December 8, the futures market for fed funds indicates an implied rate of about 38 bps for the November 2011 contract, nearly 14 bps higher than what followed the November FOMC meeting.

Breakeven inflation rates rose strongly between the September and November FOMC meetings but have been stable since.

5-yr/5-yr Forward Breakeven Inflation Rates



Source: Bloomberg/Barclays

- Breakeven inflation rates rose strongly between the September and November FOMC meetings but have since stayed within the range of 2.65% to 2.85%.
- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.85%.