

Financial Highlights

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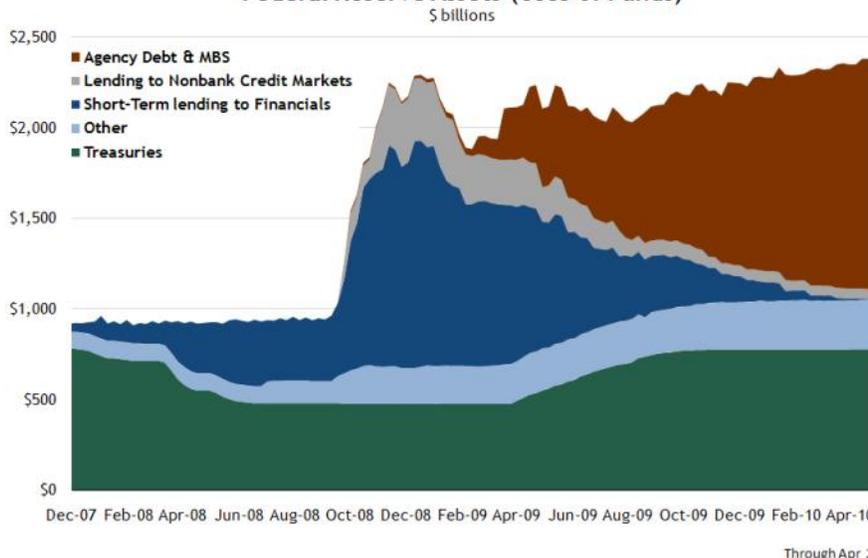
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Federal Reserve

Summary

The balance sheet contracted \$7 billion for the week ended April 28.

Federal Reserve Assets (Uses of Funds)

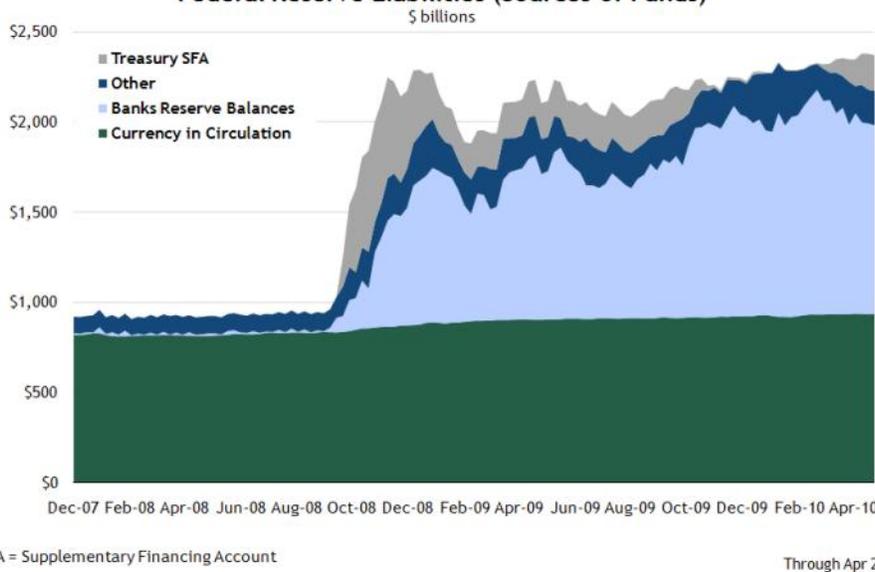


Source: Federal Reserve Board

- The short-term lending to financials piece continues to contract, falling \$600 million to \$6 billion. At its peak in December 2008 it was \$1.25 trillion. Rescue operations—including credit extended to AIG and Maiden lane I—III increased \$5.2 billion as a result of a positive quarterly revaluation of these assets.
- The amount of MBS on the balance sheet contracted slightly, falling by \$5.5 billion. The MBS purchases program ended in March, but the agency debt and MBS portion of the balance sheet is expected to continue to grow as the MBS purchases continue to settle on the balance sheet. Currently there are \$1.1 trillion in MBS and \$168 billion of agency debt on the balance sheet. For more information about settlement time of MBS see the [New York Fed's Web site](#).

Bank reserve balances declined \$10 billion, continuing the recent downward trend. Since February 24, 2010, reserve balances have declined 19%.

Federal Reserve Liabilities (Sources of Funds)



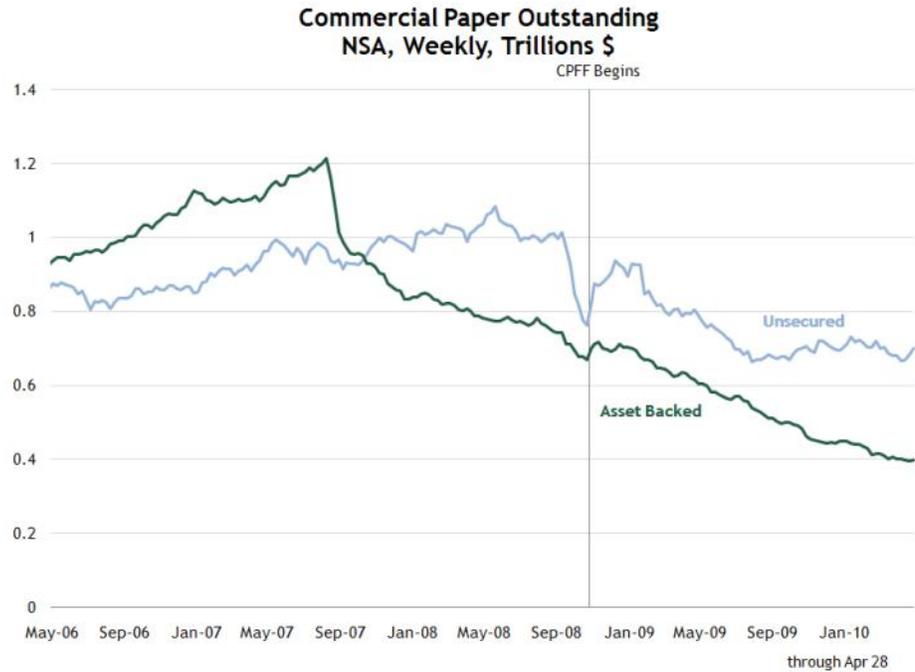
Source: Federal Reserve Board

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.

Commercial Paper

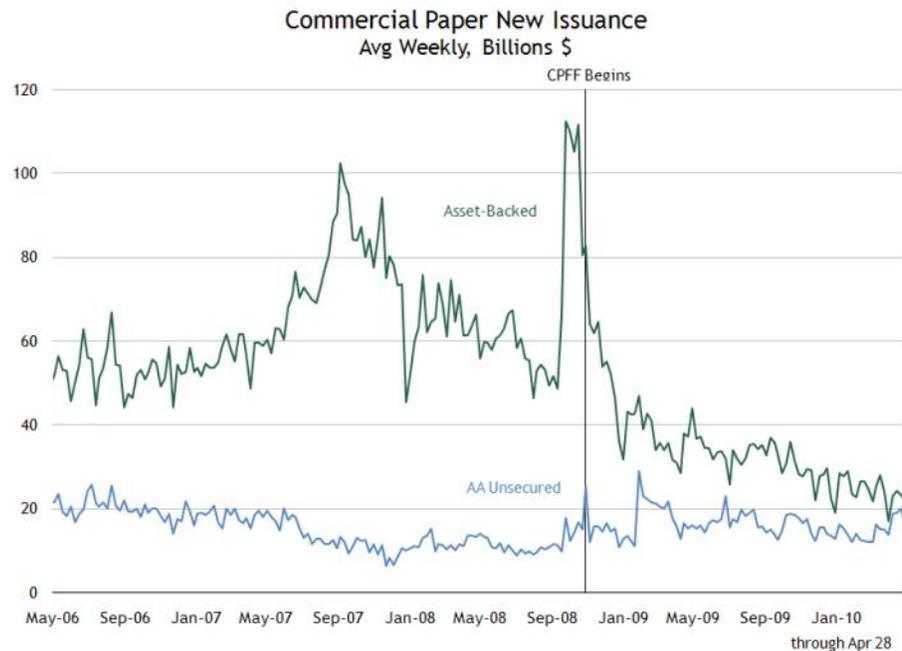
Summary

Issuance of asset-backed commercial paper continues to decline while unsecured issuance has remained relatively stable since July 2009.



Source: Federal Reserve Board

As a result of issuance trends, unsecured commercial paper outstanding has remained stable while asset-backed paper continues to contract.

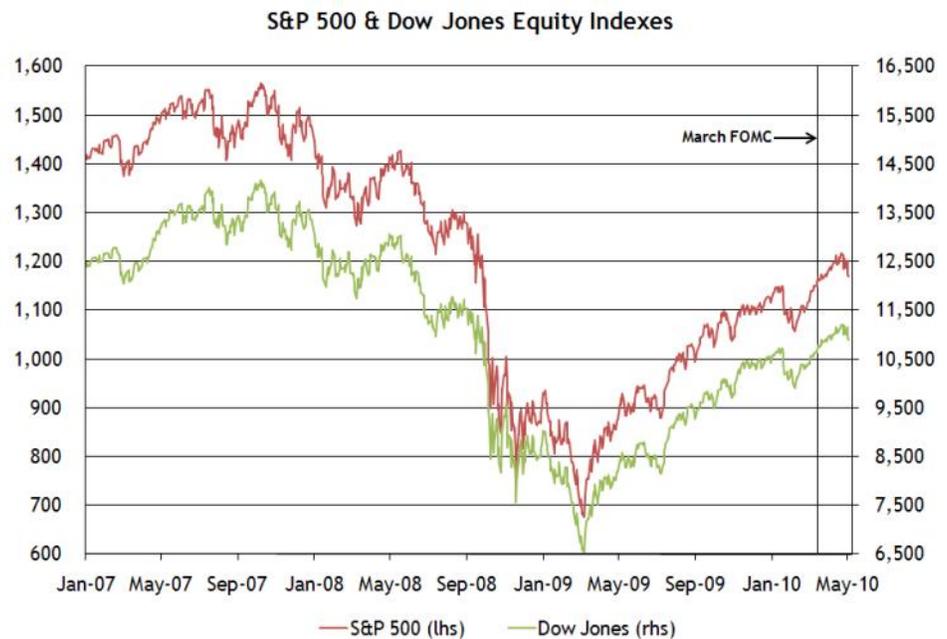


Source: Federal Reserve Board

Stocks and Bonds

Summary

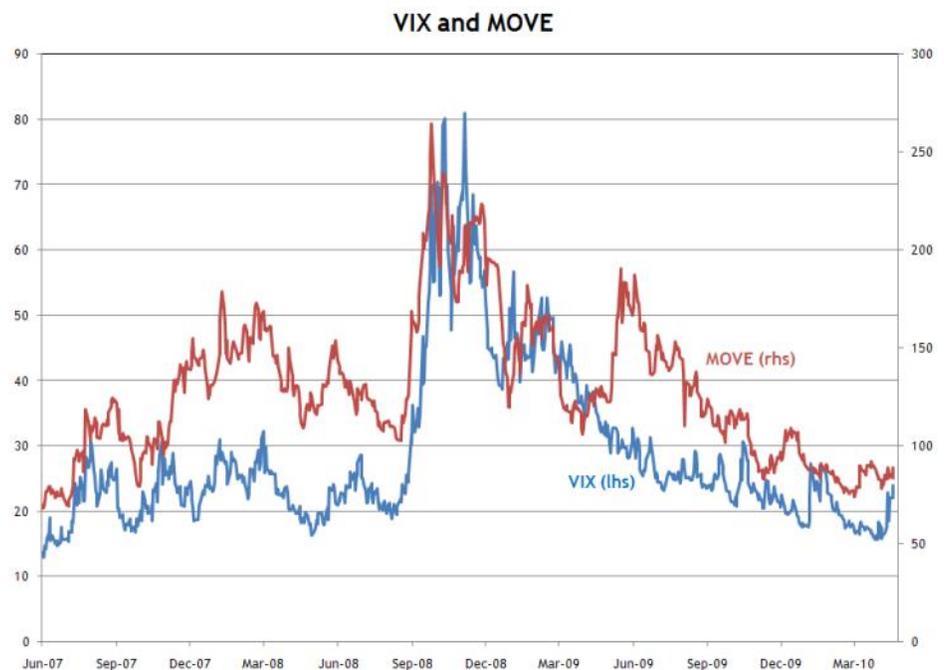
Equity markets are lower during the past two weeks as risk sentiment has declined in light of heightened European financial turmoil.



Source: Bloomberg

- During the past two weeks, from April 22 and through May 5, equity markets have slid: The S&P 500 is down 3.2%, with its financials subindex 4.4% lower (not pictured); the Dow Jones Industrial Average has declined 2.1%.

The VIX, a measure of equity market volatility, has risen 45% in the past two weeks.



Source: CBOE, Merrill Lynch

- During the past two weeks, bond market and—especially—equity market volatility has increased. The VIX is up 45% since April 22 while the MOVE index is up 11%.

European Debt

Summary

European bond spreads (over German bonds) have soared higher Portugal, Ireland, and (in particular) Greece.

European Bond Spreads

Basis points, 10-year bond spread to German bonds



Source: Bloomberg

- Over the past two weeks through May 4, the 10-year Greece-to-German bond spread has risen an astonishing 274 bps (peaking on April 28 at 7.4%). As fears of contagion to euro zone periphery countries have risen, spreads on Portuguese bonds are up 101 bps, 74 bps for Irish bonds, and 30 bps for Spanish bonds.

Similarly, the Greece five-year CDS spread has widened 280 basis points (bps) during the past two weeks, with Portugal's rising 118 bps.

European CDS Spreads

5-year, basis points



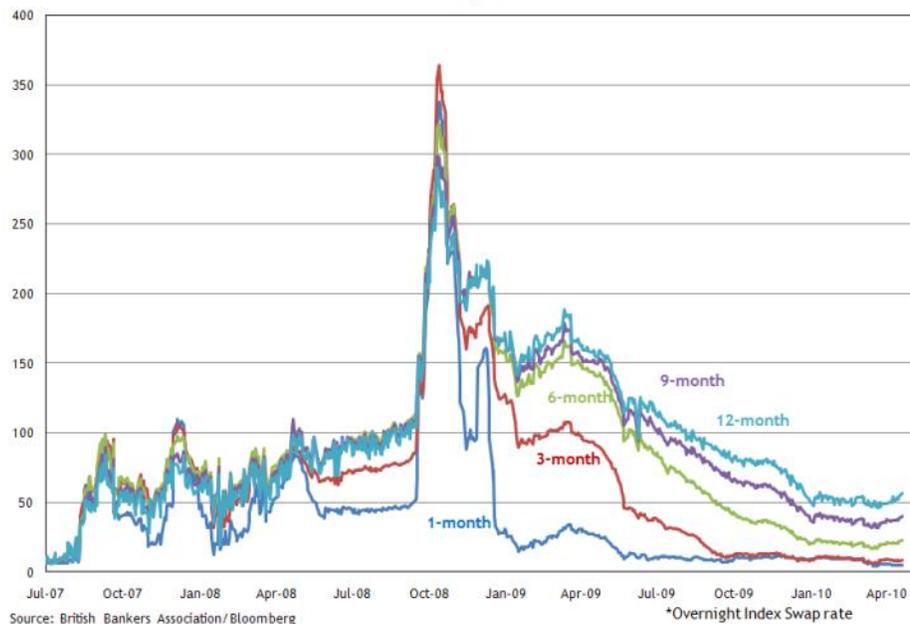
Source: Bloomberg

Broad Financial Market Indicators

Summary

Longer-dated LIBOR to OIS spreads have risen slightly over the last few weeks. Decomposing the two measures shows the rise is attributable to an increased LIBOR (see next page).

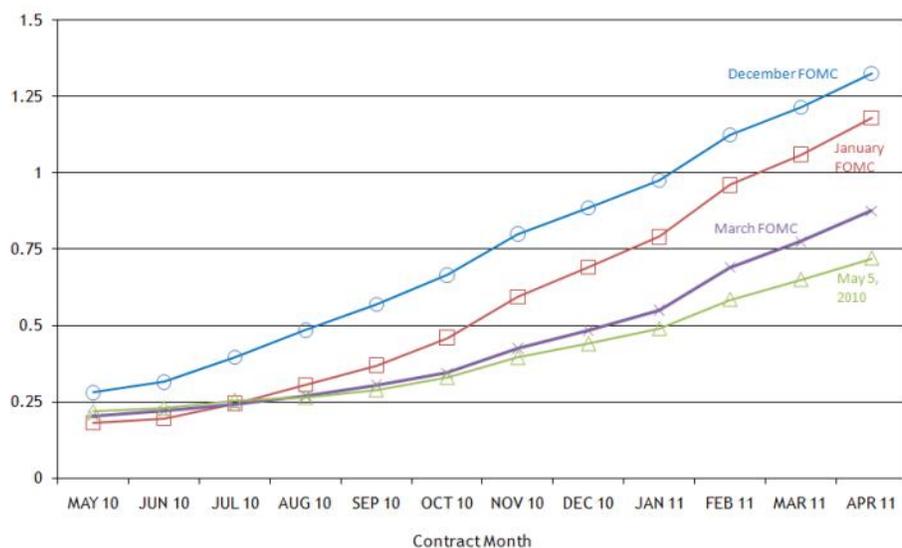
Dollar LIBOR to OIS* Spread
basis points



- Since the March 16 FOMC meeting, dollar LIBOR to OIS spreads have risen slightly. The one-month spread is higher by 1.8 bps and the three-month by 5.7 bps. The six-, nine-, and 12-month spreads have risen by 9.5, 9.5, and 11.6 bps, respectively.

The fed funds futures market has priced the likelihood of a rate hike for late 2010 or early 2011. The expected path of policy rates has flattened since April's FOMC meeting.

Fed Funds Futures Rates
percent



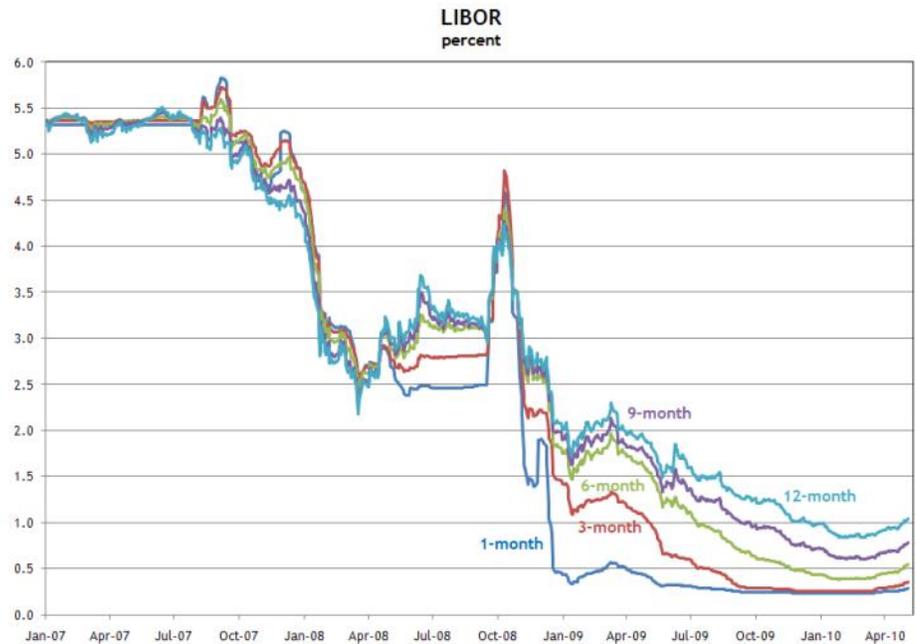
Source: Bloomberg

- Since the April FOMC meeting last week, the fed funds futures markets doesn't reflect an expectation of a rate increase until late 2010, if not early 2011. As of May 5, the futures market for fed funds indicates an implied rate of about 49 bps for the January 2011 contract.
- As shown above, the expected path of monetary policy has flattened after each successive FOMC meeting.

Broad Financial Market Indicators

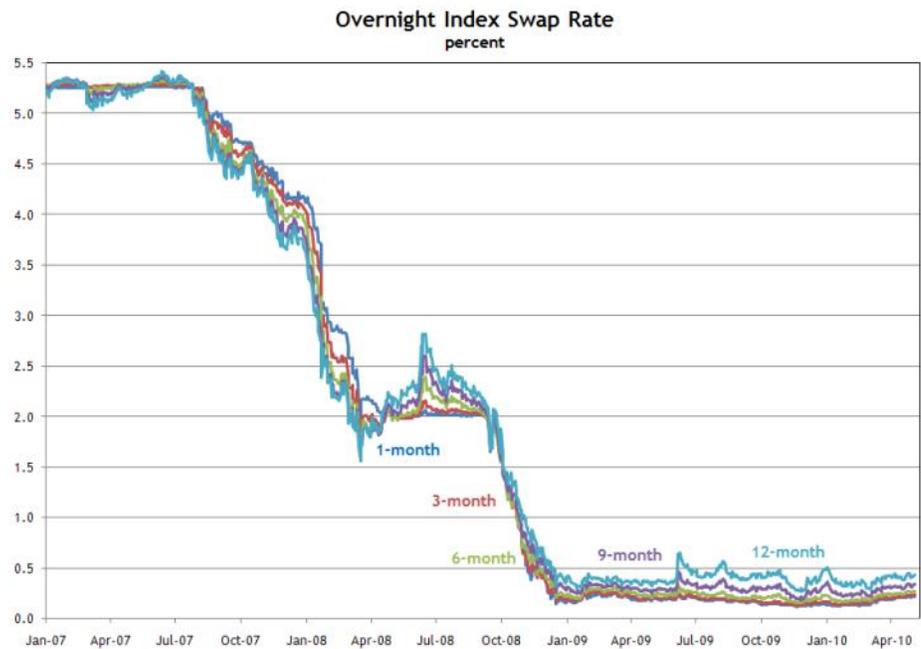
Summary

Decomposing the LIBOR to OIS spread into its respective components shows a rise in LIBOR as the driving factor behind the widened spread (see previous page).



Source: Bloomberg and British Bankers' Association

Overnight index swap rates, while volatile, have moved rangebound in recent weeks.

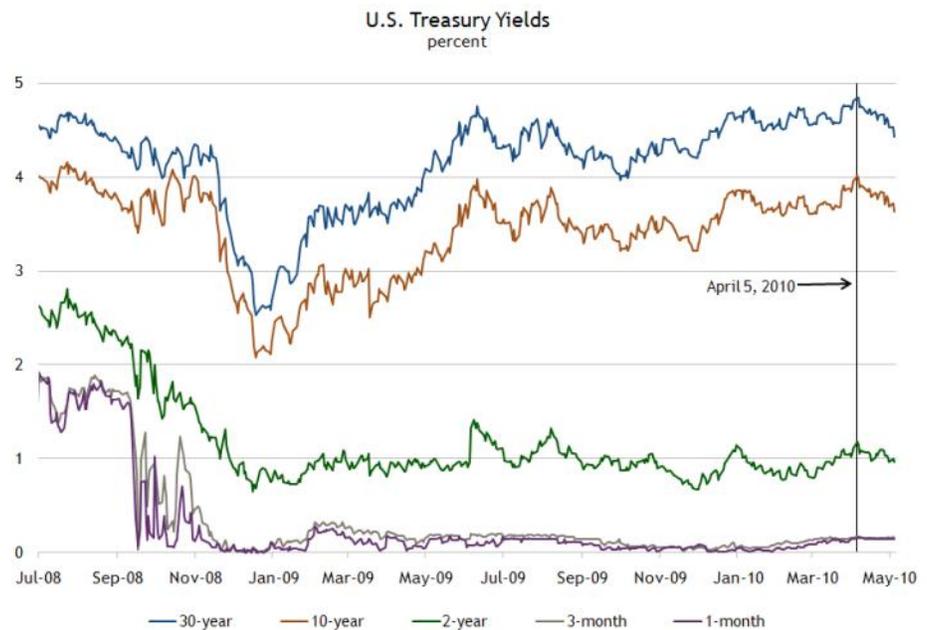


Source: Bloomberg and British Bankers' Association

Broad Financial Market Indicators

Summary

During the past month, since peaking on April 5, longer-dated Treasury yields have moved sharply lower.



Source: Federal Reserve Board

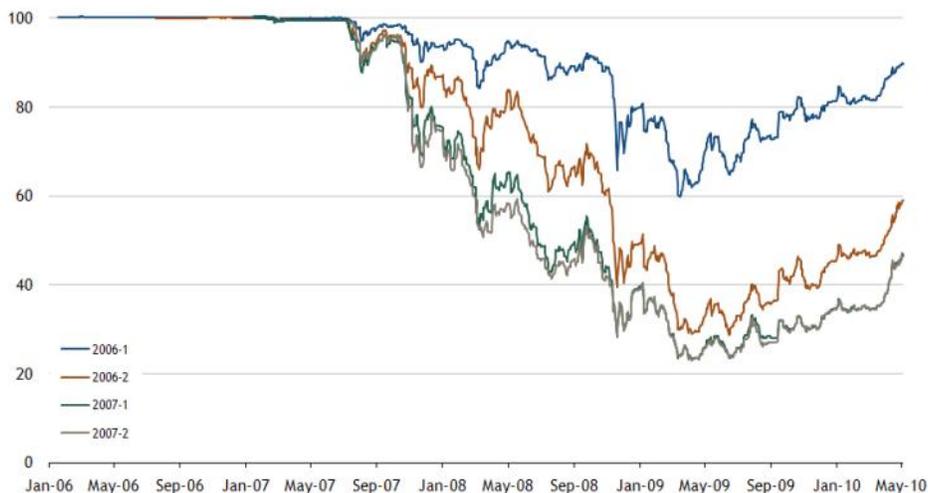
- Since April 5, longer-dated Treasury yields have moved lower across the two-to-30 year curve: Through May 4, the 30-year bond is down 42 bps to 4.43%, the 10-year is 38 bps lower at 3.63%, and the two-year note declined 22 bps to 0.96%.
- The three- and one-month T-bill rates are essentially unchanged at 0.16% and 0.15%, respectively.

Broad Financial Market Indicators

Summary

The ABX continues to rise across all vintages, indicating a decline in the cost to insure against default on the underlying home equity loans.

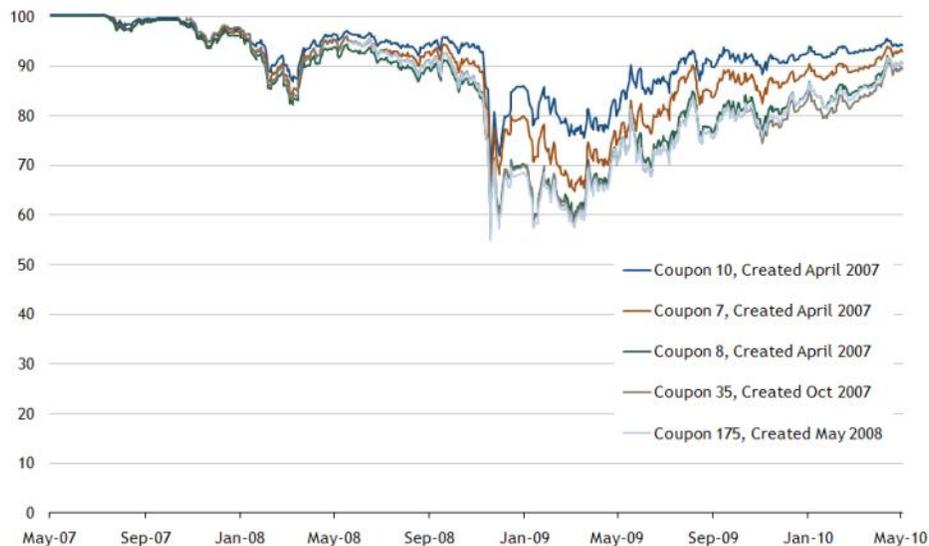
ABX.HE Indices, AAA rated by Vintage
price, points of 100%



Source: Markit Group Limited/Haver Analytics

The same is true for the index value of commercial MBS credit default swaps. All vintages of the CMBX.NA.AAA continue to rise, indicating a lower cost of insuring against default of commercial MBS.

CMBX.NA.AAA Indices
Composite Price, points of 100%



Source: Markit Group Limited/Haver Analytics