sifma®

Invested in America

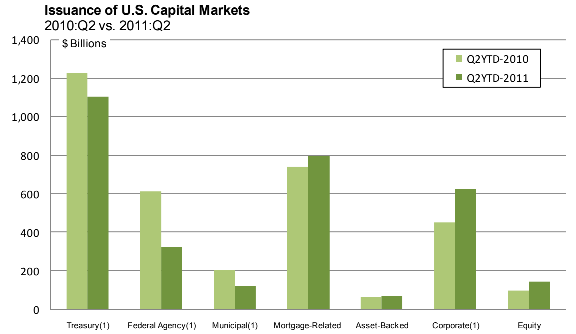
RESEARCH QUARTERLY
2Q 2011

RESEARCH REPORT

TABLE OF CONTENTS

SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

CAPITAL MARKETS OVERVIEW



(1)Includes long-term issuance only
Source: Thomson Reuters, U.S. Treasury, U.S. Federal Agencies

$ Billions	2011:Q2	2010:Q2	Y-o-Y % Change*	2011 YTD
Treasury (1)	555.2	623.1	-10.9%	1,105.4
Federal Agency (1)	147.6	266.2	-44.5%	324.6
Municipal (1)	69.3	100.5	-31.1%	116.9
Mortgage-Related	330.2	354.1	-6.7%	795.8
Asset-Backed	35.5	28.3	25.2%	67.1
Global CDO	1.8	1.7	6.9%	3.3
Corporate (1)	266.1	158.5	67.9%	625.6
Equity	68.2	41.2	65.7%	144.1

* Percent change between 2011:Q2 and 2010:Q2

Quarter-Over-Quarter

$ Billions	2011:Q2	2011:Q1	Q-o-Q % Change*
Treasury (1)	555.2	550.2	0.9%
Federal Agency (1)	147.6	177.0	-16.6%
Municipal (1)	69.3	47.6	45.5%
Mortgage-Related	330.2	384.3	-14.1%
Asset-Backed	35.5	31.6	12.2%
Global CDO	1.8	1.5	17.9%
Corporate (1)	266.1	359.5	-26.0%
Equity	68.2	75.9	-10.1%

* Percent change between 2011:Q2 and 2011:Q1
(1) Includes long-term issuance only

Total Capital Markets Issuance Decreased to $1.47 Trillion in Second Quarter 2011

In the second quarter of 2011, $1.47 trillion in securities were issued, a 9.4 percent decrease quarter-over-quarter (q-o-q) from $1.63 trillion and a 6.3 percent decrease year-over-year (y-o-y) from $1.57 trillion. While issuance of municipal and asset-backed debt increased quarter-over-quarter, it was not enough to outweigh the decreases in other categories.

The economy continued to struggle during 2Q'11 as unemployment levels rose slightly, consumer sentiment fell in July to 63.8(the lowest reading since March 2009), inflation expectations eased slightly, falling to 44.8 from 64.8 percent due to lower gasoline prices, and the housing market continued to disappoint as existing home sales fell 0.8 percent in June and the supply of houses reached 9.5 months (the highest since November 2010). On June 22, 2011 the Federal Reserve substantially downgraded its outlook for U.S. economic recovery, expecting a 2.7-2.9 percent GDP growth in 2011 (down from previous 3.1-3.3 percent estimate).

Total second quarter gross issuance of U.S. Treasury securities, including cash management bills (CMBs) increased to $555.2 billion, a 0.9 percent increase from 1Q'11's $550.2 billion. On net, issuance decreased by 28.5 percent to $189.7 billion from 1Q'11's $265.2 billion. On May 16, Secretary Geithner suspended certain Treasury debt issuance until the debt ceiling was raised,[1] which happened on August 1, 2011.

Federal agency long-term debt issuance was $147.6 billion in the second quarter, a decrease of 16.6 percent and 44.5 percent respectively from 1Q'11 ($177.0 billion) and 2Q'10 ($266.2 billion).

Long-term municipal issuance volume totaled $69.3 billion in the second quarter of 2011, an increase of 45.5 percent from 1Q'11 ($47.6 billion) and a decrease of 31.1 percent from 2Q'10 ($100.5 billion). The jump in issuance came after the end of tax season and the closure of most state budgets.

Issuance of mortgage-related securities totaled $330.2 billion in the second quarter of 2011, a decrease of 14.1 percent and 6.7 percent from 1Q'11 ($384.3 billion) and 2Q'10 ($354.1 billion), respectively. The large decrease came primarily from agency issuance.

Asset-backed securities (ABS) issuance totaled $35.5 billion in the second quarter of 2011, an increase of 12.2 percent from 1Q'11 and 67.1 percent from 2Q'10, with increases in student loans and auto. Global funded collateralized debt obligations (CDO) issuance totaled $1.8 billion in 2Q'11, an increase of 17.9 and 6.9 percent from 1Q'11 ($1.5 billion) and 2Q'10 ($1.7 billion), respectively. All were backed by leveraged loans.

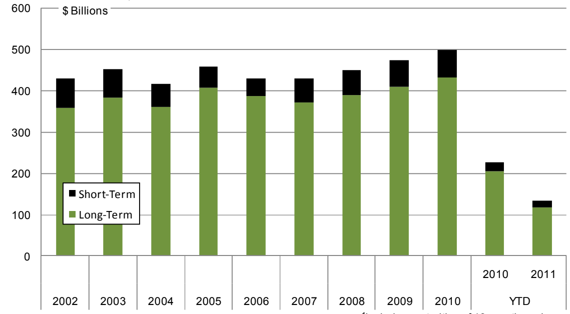
Total corporate bond issuance totaled $266.1 billion in 2Q'11, a 26.0 percent decrease from $359.5 billion in 1Q'11 and a 67.9 percent increase y-o-y. Investment grade bond issuance decreased in 2Q'11 to $185.8 billion, down 33.2 percent q-o-q.

Equity issuance decreased to $68.2 billion in 2Q'11, a decline of 10.1 percent from $75.9 billion last quarter, but a 65.7 percent increase from the $41.2 billion issued in 2Q'11. True IPO underwriting declined to $14.1 billion on 54 deals from $16.4 billion on 45 deals in 2Q'11. There were several notable IPOs in the social media sector.

[1] See U.S. Treasury Secretary Tim Geithner's Letter to Congress

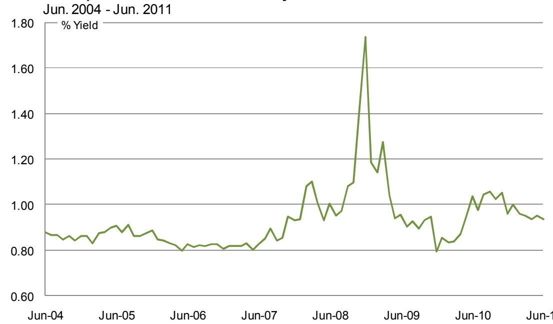
MUNICIPAL BOND MARKET

Short-[1] and Long-Term Municipal Issuance
2001 - 2011:Q2



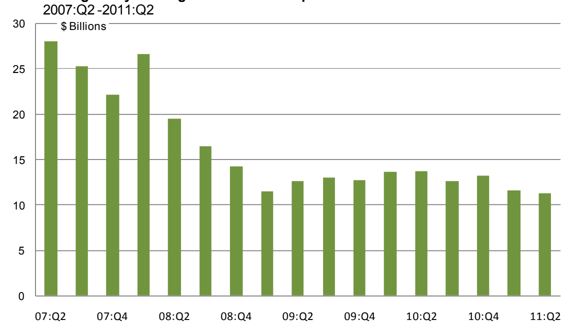
[1]Includes maturities of 13 months or less
Source: Thomson Reuters

Municipal GO AAA and 10-Yr Treasury Ratio
Jun. 2004 - Jun. 2011



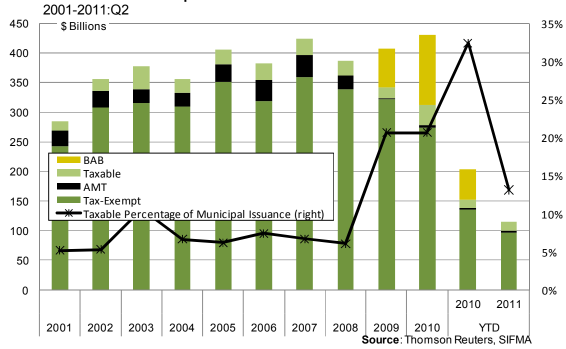
Source: Bloomberg, MMA

Average Daily Trading Volume of Municipal Securities[1]
2007:Q2 -2011:Q2



[1]Includes both dealer-to-dealer and customer-to-dealer transactions.
Source: Municipal Securities Rulemaking Board

Taxable vs. Tax-Exempt Issuance
2001-2011:Q2



Source: Thomson Reuters, SIFMA

Long-term municipal issuance volume, including taxable and tax-exempt issuance, totaled $69.3 billion in the second quarter of 2011, a 45.5 percent increase from the prior quarter ($47.6 billion), but a decline of 31.1 percent from the second quarter of 2010. Although light, second quarter issuance began picking up in mid-May after the tax season, with nearly half of issuance in the quarter sold in June ($32.8 billion). Year to date, issuance totaled $116.6 billion, levels last seen in 2000 ($92.3 billion).

Second quarter flow in long-term municipal funds turned positive in June for the first time since October 2010; according to Investment Company Institute (ICI), about $965 million inflow was recorded for June. Outflow for the second quarter was about $2.8 billion, compared to outflows of $19.4 billion in 1Q'11 and inflows of $5.5 billion in 2Q'10.

Although insured bonds are now a relative minority in primary issuance, both market share in dollar amount of municipal bonds increased slightly for insured bonds in 2Q'11, with 6.0 percent of all issuance insured ($4.1 billion), up from the 4.9 percent share in 1Q'11 ($2.3 billion), but already well below the dollar amounts insured in 2010 ($6.7 billion quarterly average). Assured Guaranty (both AGM and AGC) remains the only viable insurer in 2011.

Tax-exempt issuance totaled $58.3 billion in 2Q'11, an increase of 51.4 percent from 1Q'11 ($38.5 billion) but a decline of 33.2 percent from 2Q'10 ($87.2 billion). Ratios of 10-, 20-, and 30-year tax-exempt AAA GO and similar-maturity Treasuries declined modestly throughout the second quarter; on the short-end the ratios experienced a brief but temporary spike as concerns over Greece and the threat of contagion drove down short-term Treasury yields.

Taxable issuance continued to remain above historical norms as remaining Congress-authorized programs (e.g., New CREBs, CREBs, QECBs, QSCBs, and QZABS[2]) continue to run their course. In 2Q'11, $7.6 billion was issued, remaining essentially flat from 1Q'11 (a 2 percent increase from $7.5 billion) but a decline of 66.9 percent from 2Q'10 ($23 billion, inclusive of Build America Bonds), but when excluding BABs, otherwise also flat ($7.4 billion).

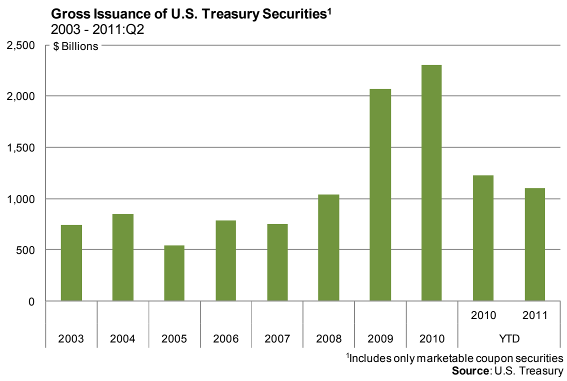
After dropping for most of the second quarter, BAB yields ended the quarter at 5.75 percent, 27 basis points above the low reached on June 16 and 41 basis points below 6.16 percent on March 31.

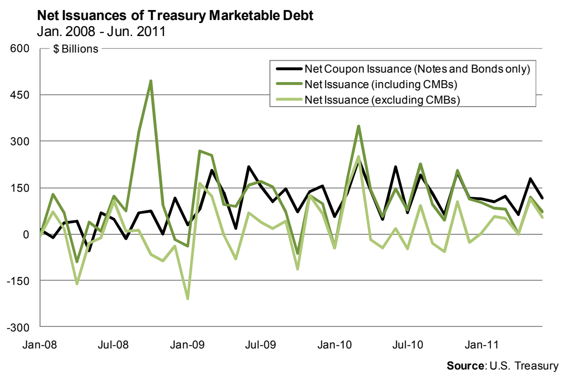
Trading Activity

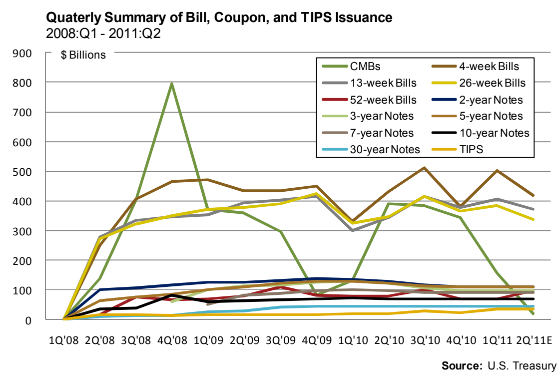
While primary issuance has picked up from the second quarter, trading activity for the quarter experienced a small decline, with $11.3 billion traded daily on average in 2Q'11, a 2.2 and 17.7 percent decline respectively from 1Q'11 ($11.6 billion average daily trading volume) and 2Q'10 ($13.8 billion average daily trading volume) by dollar amount. By number of trades, declines were by 12 percent and 1.6 percent, respectively, from 1Q'11 and 2Q'11.

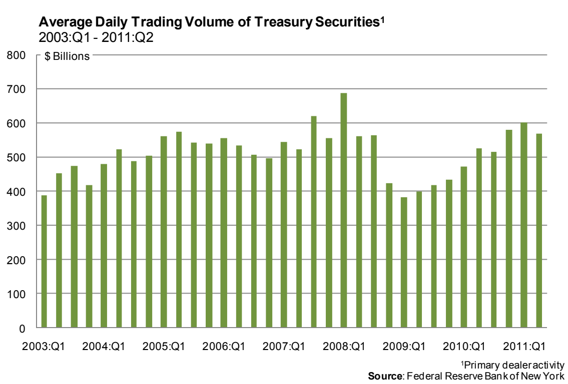
[2] CREB – Clean Renewable Energy Bonds; QECB – Qualified Energy Conservation Bonds; QSCB – Qualified School Construction Bonds; QZABs – Qualified Zone Academy Bonds.

TREASURY MARKET









Net Issuance of U.S. Treasuries Falls

U.S. Treasury securities gross issuance was $555.2 billion in 2Q'11, slightly higher than the $550.2 billion issued in 1Q'11, but 7.7 percent below 2Q'10's $601.6 billion. On net, second quarter issuance of Treasury securities, including all cash management balances, was $189.7 billion, almost 30 percent lower than $265.2 billion in 1Q'11 and 44.8 percent below that in 2Q'10. However, the net issuance was 34 percent higher than Treasury's May borrowing estimate[3] of $142 billion for the second quarter of 2011.

Excluding cash management bills (CMBs), total net issuance stood at $169.7 billion in 2Q'11, 54 percent above $110.2 billion in the prior quarter. After a significant drop in CMBs issuance in 1Q'11, the use of short-term CMBs dropped further to $20.0 billion in 2Q'11. The monthly issuance of $0, $5, and $15 billion of short-term CMBs in April, May, and June 2011, respectively, marked the lowest monthly issuance since January 2010, partially as a result of the roll off of the SPF program.

Approximately $569.1 billion in Treasury coupons plus TIPS were issued in the second quarter, 2.6 percent above the $554.5 billion issued in the prior quarter but 5.9 percent below year-ago issuance of $605.1 billion. Going forward, the Treasury expects to issue $125 billion in TIPS for the calendar year 2011. TIPS stabilized at approximately 7 percent of the Treasury's portfolio.

Net coupon issuance for the second quarter of 2011 was $356.7 billion, 5.2 percent above 1Q'11's $339.2 billion. As the Treasury has transitioned from bill to coupon financing, the percentage of nominal coupons in the Treasury's portfolio has risen to 74 percent (from long-term average of 69 percent) and is expected to rise further as the Treasury continues to make progress on extending the average maturity of outstanding debt and therefore reducing the portfolio's rollover risk.

Gross issuance of bills, including CMBs, was $1.3 trillion in 2Q'11, 15.3 percent below last quarter's $1.5 trillion and 18.8 percent lower than $1.6 trillion issued during the same year-ago period

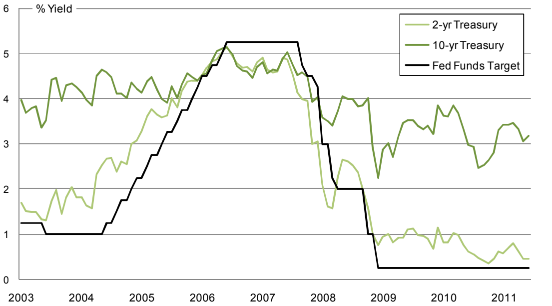
Treasury bills have fallen as a percentage of the portfolio to below 20 percent since November 2010. This trend is expected to continue especially as the Treasury continues to extend the average maturity of its portfolio. As of now, the U.S. has the largest share of bills as the percentage of its debt portfoliocompared with other sovereign issuers. The Treasury also reduced the size of the Supplementary Financing Program (SFP) from $200 billion to $5 billion. This action was taken to provide flexibility to debt managers, as the U.S. reached the $14.3 debt ceiling. The Treasury announced that it could increase the issuance under the SFP since the debt ceiling has been raised.

U.S. Treasury Trading Volume Falls Slightly

Daily trading volume of Treasury securities by the primary dealers averaged $569.5 billion in the second quarter, 5.6 percent lower than $603.3 billion in the prior quarter but 8.0 percent above $527.5 billion traded in 1Q'11. Despite the decline, the average trading volume in 2Q'11 remained one of the highest trading volumes since the financial crisis.

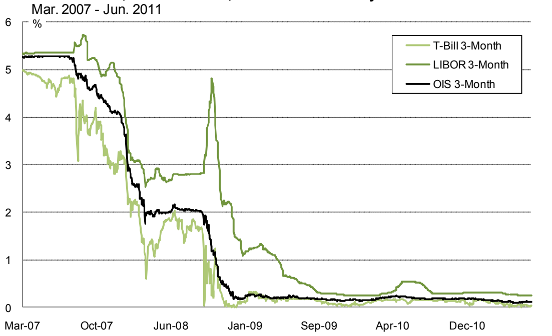
[3] See U.S. Treasury's second quarter 2011 marketable borrowing estimates.

Treasury Yields and Target Fed Fund Rate
Jan. 2003 - Jun. 2011



Note: Since December 2008, the rate has been 0 - 0.25%
Source: Federal Reserve

T-Bill 3-Month, LIBOR 3-Month, and OIS 3-Month Daily Rates
Mar. 2007 - Jun. 2011



Sources: Federal Reserve, Bloomberg

Yields Fall

After rising for two consecutive quarters, rates declined in 2Q'11 due to the disappointingly slow economic recovery, lowered expectations of economic growth, and continued concern over Europe's sovereign debt crisis. Two-year rates fell to 0.45 percent at the end of 2Q'11 from 0.79 percent in 1Q'11, while 10-year rates decreased slightly to 3.18 percent from 3.47 percent. Looking ahead, primary dealers polled by SIFMA in the July Government Forecast survey expect yield rates to slightly increase going forward through the end of 2011[4].

3-Month T-Bill, LIBOR, and OIS Fall

Rates decreased throughout 2Q'11. Two-year rates decreased to 0.45 percent in 2Q'11 from 0.8 percent in 1Q'11 and 10-year rates decreased to 3.18 percent from 3.47 percent during the same period.

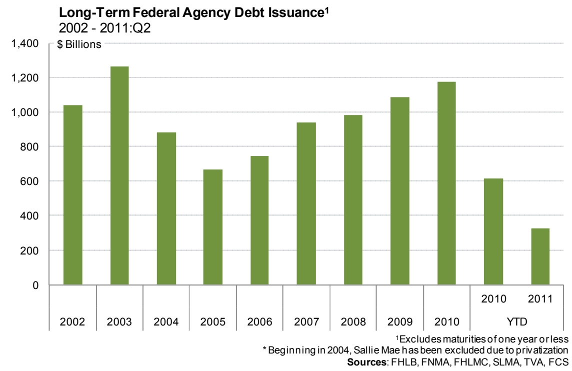
The short-term Treasury rates also decreased. After recovering slightly in 1Q'11, the 3-month Treasury bill yield dropped significantly to 0.03 percent from 0.09 percent during the 2Q'11.

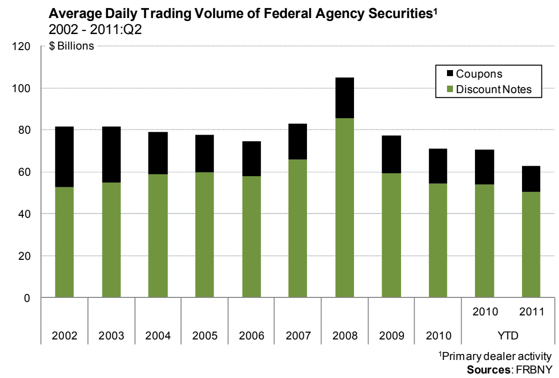
3-month LIBOR decreased to 25.5 from 30.3 basis points (bps) at 1Q'11. The rate declined steadily throughout the quarter which is line with the movement of other rates. The over-night indexed swaps (OIS) rate, used often to measure marketplace liquidity and stress, decreased in 1Q'11 from 12.9 bps to 12 bps.

The LIBOR-OIS 3-month spread decreased by 4.9 bps during the 2Q'11 to 12.5 bps at the end of 2Q'11 from 17.4 bps at the end of 1Q'11. The TED spread remained relatively flat with a slight increase of 0.2 bps in 2Q'11 to 21.5.

[4] SIFMA US Government Forecast for 2Q 2011

FEDERAL AGENCY DEBT MARKET





Agency LT Debt Issuance Continues to Decline

Federal agency long-term debt (LTD) issuance was $147.6 billion in the second quarter, a 16.6 and 36.6 percent decline, respectively, from 1Q'11 ($177.0 billion) and 2Q'10 ($232.7 billion). Overall, average daily trading volume of agency securities (coupons and discount notes) declined modestly in the second quarter to $62.6 billion, compared to the $70.7 billion daily average traded in the same year-earlier period.

The twelve Federal Home Loan Banks (FHLBs) issued $60.9 billion in long-term debt in the second quarter, an increase of 23.2 percent and a decline of 14 percent, respectively, from 1Q'11 ($49.4 billion) and 2Q'10 ($71.1 billion). A little over $1.3 trillion in short-term debt (STD) was issued in 2Q'11, generally in the form of discount notes.

Total FHLB bonds outstanding were $546.5 billion as of June 30, 6 percent below the $581.6 billion outstanding at the end of the first quarter and down nearly 18 percent y-o-y from end-June 2010's $664.9 billion. Discount notes outstanding also saw a similar decline, declining to $181.0 billion at end-June 2011 from end-March 2011 ($184.4 billion) and end-June 2010 ($181.5 billion).

Fannie Mae's gross debt issuance, both STD and LTD, totaled $163.1 billion ($139 billion STD, $24 billion LTD), a 17 percent increase and 29.2 percent decline, respectively, from 1Q'11 ($139.5 billion) and 2Q'10 ($230.3 billion). Short-term issuance rose q-o-q by 58.5 percent but was down 6.8 percent y-o-y, whereas LTD issuance was down 53.7 percent q-o-q and down 70.9 percent y-o-y. As of June 30, Fannie Mae had $162.1billion STD outstanding and $573.6 billion LTD outstanding.

Freddie Mac's first quarter gross debt issuance, both STD and LTD, totaled $165.4 billion, down 12.5 percent from 1Q'11 ($189.1 billion) and down 16.5 percent from 2Q'10 ($198.2 billion).

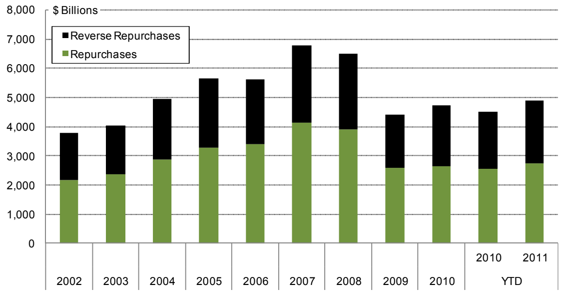
Total Farm Credit System bond issuance, both STD and LTD, totaled $93.1 billion in 2Q'11. Total debt outstanding, both STD and LTD, ended March at $186.1 billion.

Primary dealers polled by SIFMA in the April Government Forecast survey expect gross coupon issuance for the four largest Federal agencies (FHLB, Fannie Mae, Freddie Mac, and Farm Credit Systems) to be $190.2 billion for the third quarter of 2011.[5] By agency, gross coupon issuance was expected to be $46.6 billion for Fannie Mae, $49.3 billion for Freddie Mac, $89.8 billion for the FHLBs, and $21.6 billion for the Farm Credit System.

[5] SIFMA U.S. Government Forecast Survey, 2Q'11

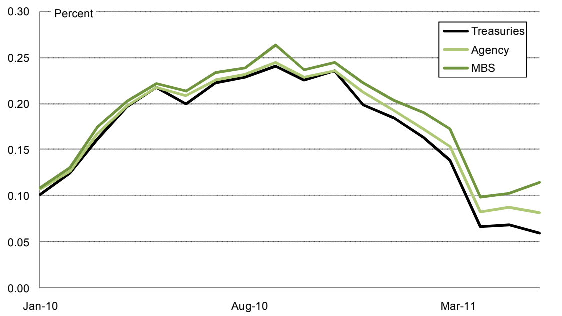
FUNDING AND MONEY MARKET INSTRUMENTS

Financing by U.S. Government Securities Dealers
Average Daily Amount Outstanding
2002 - 2011:Q2



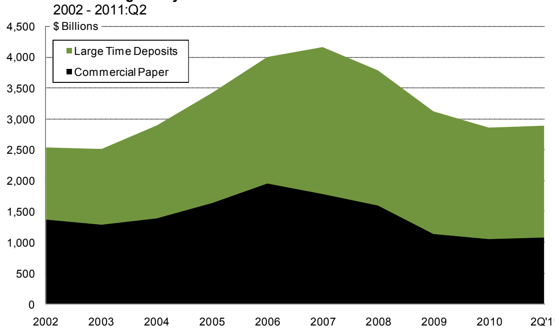
Note: Data include corporate securities.
Source: Federal Reserve Bank of NY

DTCC GCF Repo Index™
Jan. 2010 - Jun. 2011



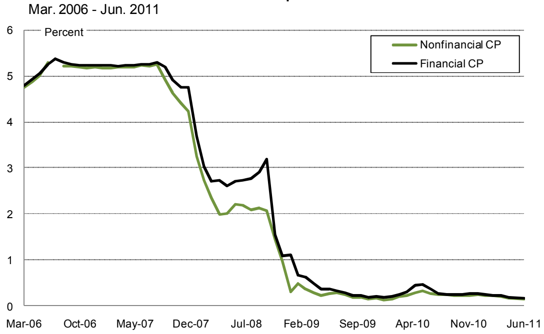
Sources: The Depository Trust & Clearing Corporation

Outstanding Money Market Instruments
2002 - 2011:Q2



Sources: Federal Reserve, SIFMA estimates

Financial & Nonfinancial Commercial Paper 3-Month Interest Rates
Mar. 2006 - Jun. 2011



Sources: Federal Reserve

Repurchase Activity Increases[6]

The average daily amount of total outstanding repurchase (repo) and reverse repo agreement contracts increased in 2Q'11 to $4.9 trillion (8.6 percent above 2Q'10's average of $4.5 trillion).

Daily average outstanding repo transactions totaled $2.7 trillion in 2Q'11, up 7.1 percent from 2Q'10's $2.5 trillion, while reverse repo transactions averaged nearly $2.2 trillion for the second quarter, a 10.5 percent increase y-o-y.

Repo Rates Fall

In 2Q'11 the DTCC GCF Repo Index fell for all three security classes: treasuries, agency debt, and MBS. The repo rate for Treasuries (30-year and less) fell to 0.06 percent end-June from 0.14 percent end-March, the agency repo rate fell to 0.08 percent from 0.15 percent during 2Q'11, and the MBS repo rate declined to 0.11 percent from 0.17 percent last quarter.

Total CP Outstanding Rises

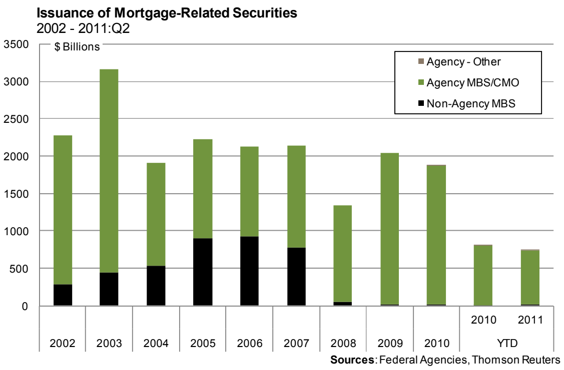
The outstanding volume of total money market instruments (MMI), including commercial paper (CP) and large time deposits, stood at $2.89 trillion at the end of the second quarter 2011, 2 percent above the $2.84 trillion a year ago. CP outstanding totaled $1.08 trillion and was 3.8 percent above the $1.04 trillion in 2Q'10.

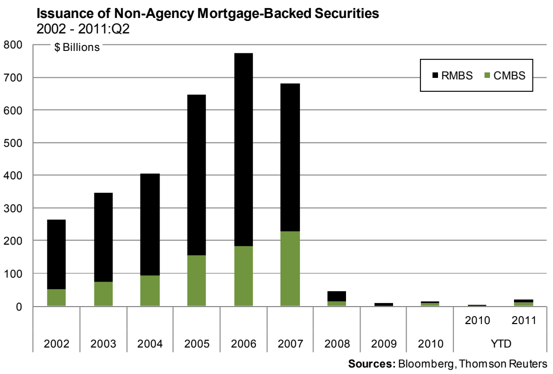
CP 3-Month Interest Rates Fall

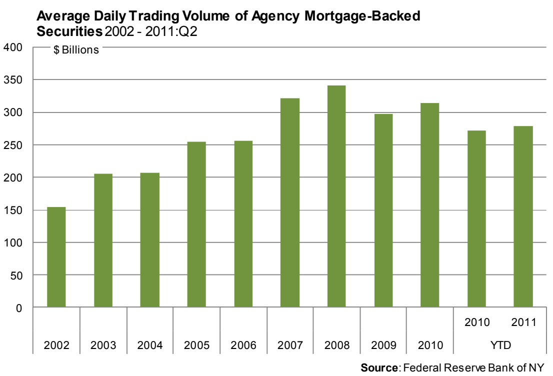
Interest rates for both financial and nonfinancial commercial paper fell in the second quarter of 2011. The nonfinancial CP's rate was 0.15 percent at the end of 2Q'11, 8 bps lower than 0.23 percent in 1Q'11 and a 17 bps drop y-o-y. The rate for financial CP fell to 0.17 percent, 6 bps decrease from 0.23 percent in 1Q'11 and 29 bps decline from 2Q'10's 0.46 percent.

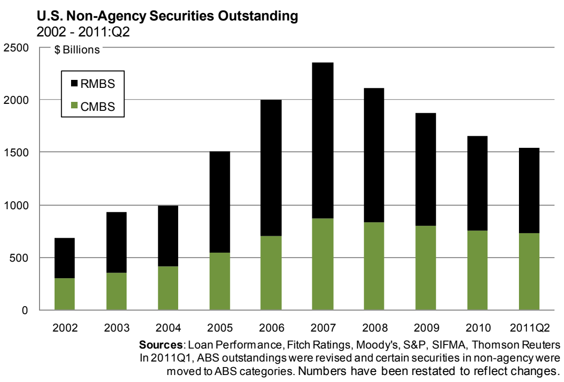
6 Repo data includes primary dealer activity only: http://www.newyorkfed.org/markets/gsds/search.cfm. For a breakdown of tri-party repo data, please refer to the Federal Reserve Bank of New York's Tri-party Repo Reform website here: http://www.newyorkfed.org/tripartyrepo/margin_data.html.

MORTGAGE-RELATED SECURITIES









Mortgage-Related Market

Issuance of mortgage-related securities, including agency and non-agency passthroughs and collateralized mortgage obligations (CMOs), totaled $330.2 billion in the second quarter of 2011, a decline of 14.1 and 6.7 percent, respectively, from 1Q'11 ($384.3 billion) and 2Q'10 ($354.1 billion). The non-agency commercial mortgage-backed securities (CMBS) space continues to see primary market activity in the second quarter, although shortly after the end of the second quarter Standard and Poor's suspended ratings due to internal conflicting rating criteria.

Agency Issuance

Agency mortgage-related issuance, including issues from non-traditional oneoff transactions (e.g., National Credit Union Adminitration), totaled $291.1 billion in 2Q'11. Agency share of issuance declined slightly to 97.2 percent , down from 98 percent in 1Q'11.

Non-Agency Issuance and Outstanding

Non-agency issuance totaled $7.0 billion in 2Q'11, an increase of of 45.0 percent from 1Q'11 ($4.9 billion) and an increase sevenfold from 2Q'10 ($0.9 billion). CMBS issuance continued to be the primary source of new issuance in the non-agency category.

Regulatory and Government Update

At the end of the second quarter, the agencies (SEC, FDIC, OCC, Federal Reserve, FHFA, and HUD) sought public comment on a proposed rule requiring a minimum of 5 percent risk retention of assets underlying securitizations.[7]

[7] SEC, "Agencies Seek Public Comment on Risk Retention Proposal", March 31, 2011. http://sec.gov/news/press/2011/2011-79.htm

ASSET-BACKED SECURITIES AND CDOS

Asset-Backed Market & CDOs

Asset-backed securities (ABS) issuance totaled $35.5 billion in the second quarter of 2011, an increase of 12.2 percent and 67.1 percent respectively from 1Q'11 ($31.6 billion) and 2Q'10 ($28.3 billion). Auto issuance continues to lead issuance totals, with $19.4 billion sold (52.5 percent of all issuance in 2Q'11), followed by student loans ($6.4 billion, or 17.2 percent).

Net issuance continues to remain negative, with outstanding ending at $1.89 trillion in 2Q'11, shrinking by 3.6 percent from 1Q'11 ($1.95 trillion). Credit card outstandings declined the most, declining at an annualized rate of 36 percent from 1Q'11, followed by auto (17.9 percent decline, annualized), equipment (14.9 percent decline, annualized), and CDOs within the Other category (13.0 percent, annualized).

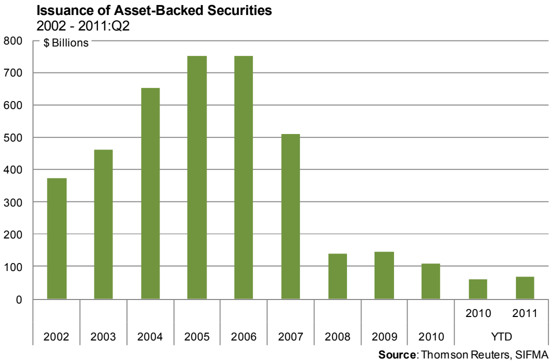
The Other category of ABS ($3.4 billion) continued to see robust issuance in the second quarter of 2011, with issuance from aircraft securitizations ($290 million), catastrophe bonds ($150 million), container ships ($635 million), timeshares ($86.3 million), and structured settlements ($247.2 million), among others..

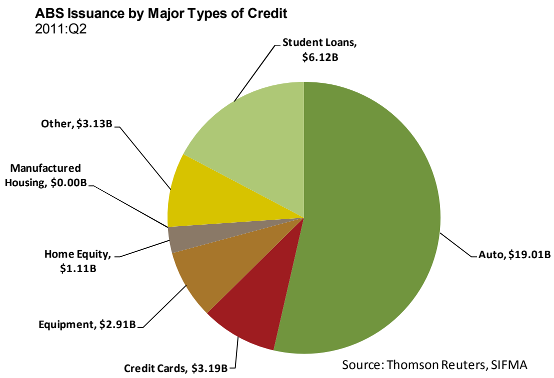
Collateralized Debt Obligations

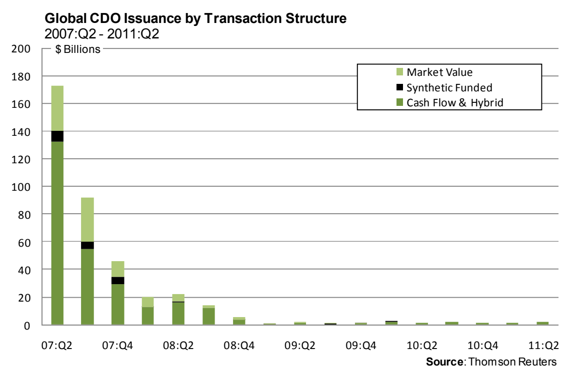
Global funded collateralized debt obligations (CDO) issuance totaled $1.8 billion in 2Q'11, an increase of 17.9 percent and 6.9 percent, respectively, from 1Q'11 and 2Q'10. The CLO market continued to pick up in 2Q'11, with all issuance in the second quarter backed with leveraged loans.

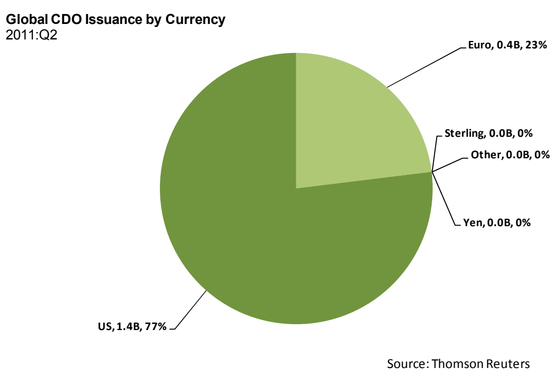
Regulatory and Government Update

At the end of the first quarter, the agencies (SEC, FDIC, OCC, Federal Reserve, FHFA, and HUD) sought public comment on a proposed rule requiring a minimum of 5 percent risk retention of assets underlying securitizations.[8]



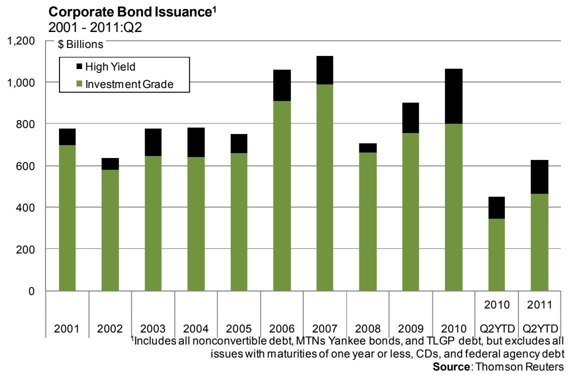


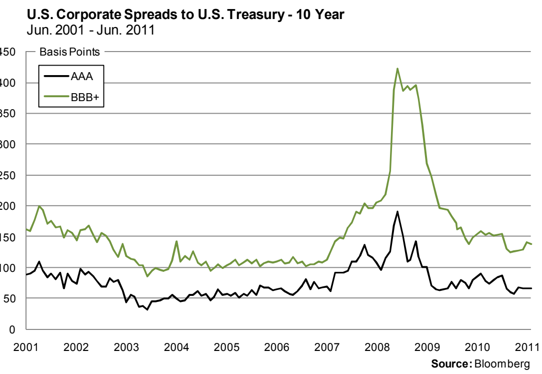


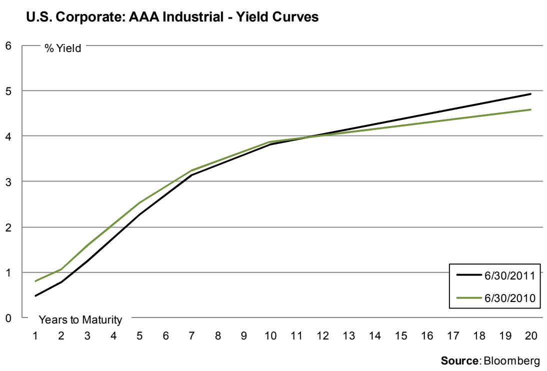


[8] SEC, "Agencies Seek Public Comment on Risk Retention Proposal", March 31, 2011. http://sec.gov/news/press/2011/2011-79.htm

CORPORATE BOND MARKET







Corporate Bond Issuance Decreases in 2Q'11; High Yield Issuance Continues Near Record Levels

Total corporate bond issuance totaled $266.1 billion in 2Q'11, a 26.0 percent decrease from $359.5 billion during last quarter. However, total bond issuance in 2Q'11 improved 68 percent over the $158.5 billion issued in 2Q'10. While corporate bond issuance this quarter was driven primarily by investment grade (IG) bond issuance, high yield (HY) bond issuance volume continued at near record breaking levels.

Investment grade (IG) bond issuance decreased in 2Q'11 to $185.8 billion, down 33.1 percent from $278.0 billion in 1Q'11. IG issuance in 2Q'11, however, improved 63.1 percent from the $113.9 billion issued in 2Q'10. The $185.8 billion was reached on 198 issues, which represents a 16.4 percent decrease in total issuances from 1Q'11. According to Thomson Reuters, approximately 45.3 percent of the IG debt in 2Q'11 was issued by financial companies, up slightly from 44.6 percent of the market a year ago[9].

The issuance of high yield (HY) bonds continues to approach levels last seen before the recession. At $80.3 billion, high yield issuance decreased 1.5 percent from 1Q'11 and ranked as the third largest quarterly volume on record. Further, the $80.3 billion represented a 80 percent improvement over the $44.6 billion issued in 2Q'10. Overall demand for HY bonds continued to be exceptionally high due to moderate economic improvement and near-zero benchmark interest rates. As a result, the last three quarters: 4Q'10, 1Q'11, and 2Q'11 were the three largest HY issuance quarters on record at $85.4, $81.5, and $80.3 billion respectively.

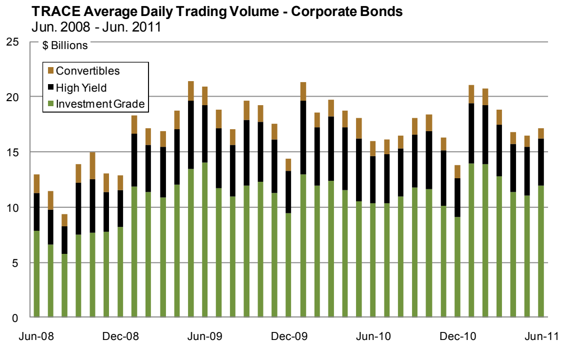
Spreads Widen; Default Rates Increase

According to S&P, composite spreads for both investment-grade and speculative-grade bonds widened in 2Q'11. IG bond spreads widened to 171 basis points (bps), a 3.6 percent increase over 1Q'11. HY bonds spreads increased to 539 bps, a 12.8 percent increase over 1Q'11. Overall, the 2Q'11 spreads for both IG and HY bonds are still below their 5-year moving averages. Specifically, with IG bond spreads 25 percent below its 5-year moving average of 228 bps and HY bond spreads 19.5 percent below its 5-year moving average of 670 bps.

S&P's Global Fixed Income Research reported 15 issuers defaulted worldwide in 2Q'11, nine of which were based in the U.S. Four of the defaults in 2Q'11, were the result of missed interest or principal payments and six were due to distressed exchanges, both of which were among the main reasons for defaults in 2010. This is a notable increase from 1Q'11 where only three issuers defaulted (two in the U.S.) and is more in line with 4Q'10, when 20 issuers defaulted worldwide (13 in the U.S.).

In 2Q'11, S&P Ratings Services downgraded 57 U.S. issuers, which represents a 16.3 percent increase from the 49 downgraded in 1Q'11. Further, 98 U.S. issuers were upgraded this quarter, a 20.9 percent increase from the 81 upgraded in 2Q'11.

[9] Thomson Reuters, Debt Capital Markets Review. First Half, 2011.

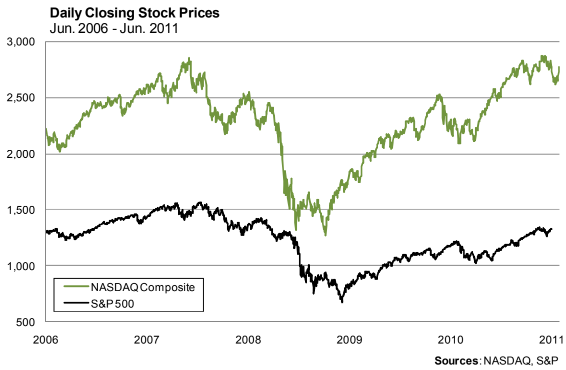


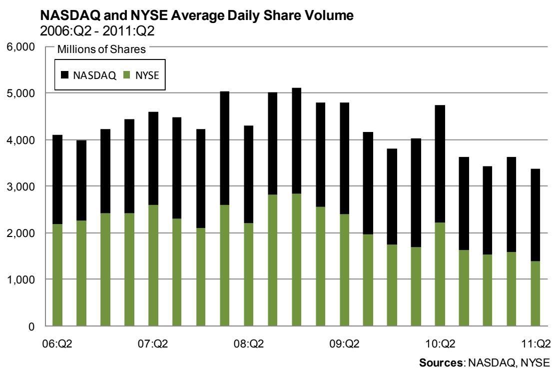
Source: FINRA

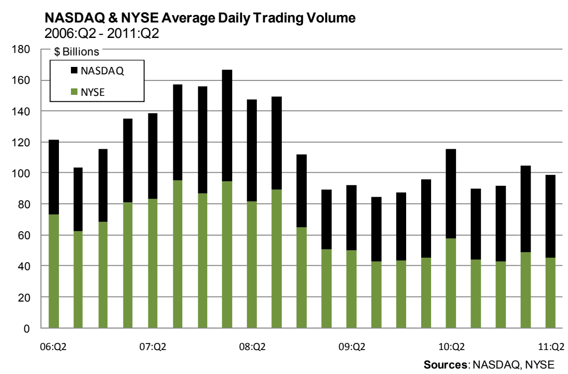
Trading Volume Decreases in 2Q'11

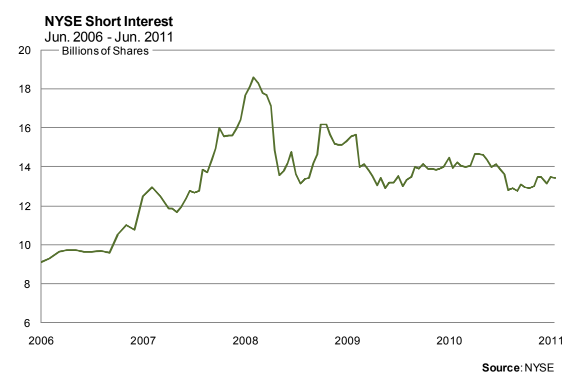
According to FINRA's TRACE data, trading volume for all three bond categories: IG, HY, and convertibles (CVs) decreased in 2Q'11 compared to the previous quarter. IG average daily trading volume decreased to $12.0 billion in June 2011, down 6.4 percent from $12.8 billion in March 2011. However, IG average trading volume increased 15.6 percent in June 2011 from $10.3 billion in the same year earlier period. HY average daily trading volume decreased by 10.1 percent from $4.7 billion in March 2011 to $4.2 billion in June 2011 and decreased by 1.1 percent from $4.3 billion in the same year-earlier period. The average daily trading volume of CVs fell in 2Q'11, ending at $0.95 billion, a 30.7 percent decrease from the end of last quarter and 27.48 percent lower than the average trading volume a year ago.

EQUITY AND OTHER MARKETS









Disappointing Economic Indicators Drive Equity Market

The second quarter of 2011 started strong, however, later in the quarter the disappointing economic news and continued slow recovery weighted on the stock market retuns. U.S. GDP rose at an annualized seasonally adjusted rate of 1.3 percent in 2Q'11 (much slower than the expected 1.8 percent growth), the Fed downgraded its outlook for economic growth for the reminder or the year, the housing market continued with a very slow recovery, and worries returned over the European debt crisis. All those events led to a 7.2 and 8.9 percent fall in S&P 500 and NASDAQ Composite indices, respectively, in the middle of 2Q'11. Due to the steep increase in the market in the last week of the quarter, the q-o-q performance remained flat.

Equity market indices finished the second quarter of 2011 with almost no change compared to the end of 1Q'11. The S&P 500 closed 2Q'11 at 1,320.64, a 0.4 percent decrease from the prior quarter but a 26.8 percent gain y-o-y. The NASDAQ composite index ended at 2,773.52, 0.3 percent lower than end-1Q'11 but a 31.5 percent increase y-o-y. The Dow Jones Industrial Average (DJIA) improved to 12,414.34 on June 30, posting a 0.8 percent gain q-o-q and 27.0 percent improvement from 2Q'10. Although the market stayed flat q-o-q, there have been large movements of the indicies throughout the quarter.. Equity markets started the second quarter strong, recording a 3.0 percent gain, boosted by the positive earning results from 1Q'11 and the FOMC's anouncement that it will continue expanding its holdings of securities to promote stronger pace of economic recovery. Later in the quarter, due to the concerns about the European debt crisis, slowing U.S. economic growth, disappointing economic reports, and uncertainty over the debt ceiling debate, the stock market fell by approximately 8.0 percent to reach the quarter low in the middle of June. Since then, the market rebounded to close the quarter only slightly below 1Q'11's levels.

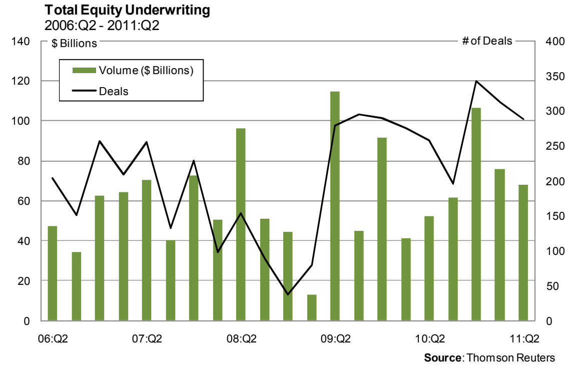
Daily Share & Trading Volume Decreases

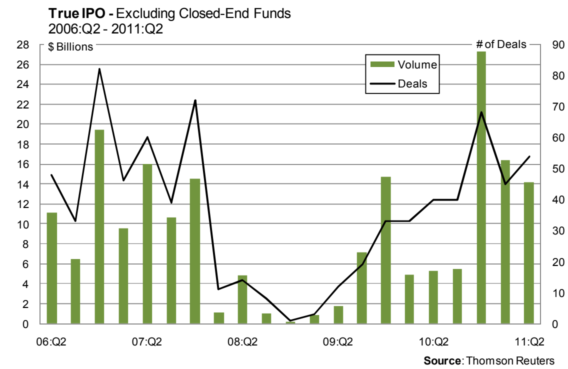
The New York Stock Exchange's (NYSE) 2Q'11 average daily share volume decreased to 1.4 billion shares, down 12.2 percent from the last quarter's 1.6 billion and 37.6 percent decrease from 2Q'10's 2.2 billion shares. The average daily share volume of 1.4 billion is the lowest average on the NYSE since 3Q'04. The NYSE's daily trading volume decreased as well, averaging $45.1 billion in 2Q'11, a 7.8 percent drop from the previous quarter's $48.9 billion and a 21.7 percent decrease y-o-y.

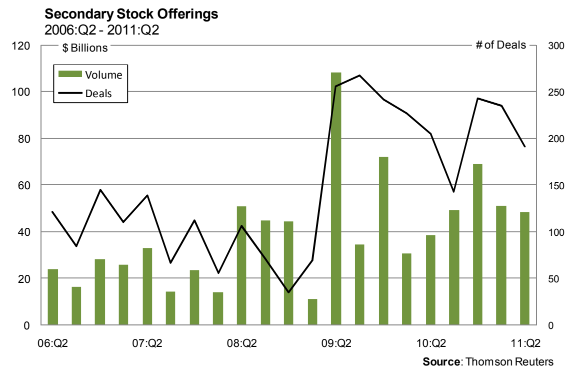
NASDAQ's average daily share volume decreased by 2.7 percent to 2.0 billion shares at the end of 2Q'11 from 2.1 billion shares in the previous quarter and was down 21.1 percent from 2.5 billion in 2Q'10. The dollar trading volume decreased to $53.4 billion in 2Q'11, down 4.2 percent from $55.7 billion in the previous quarter and 7.5 percent below the 2Q'10's figure of $57.7 billion.

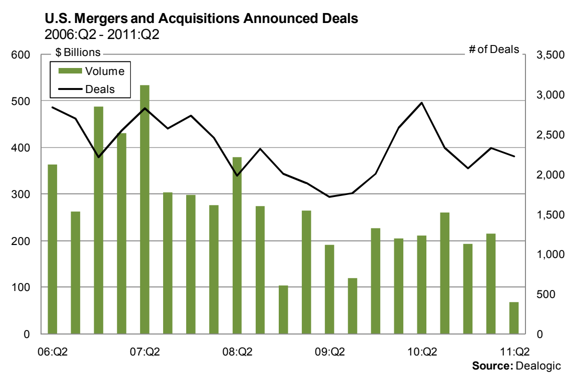
Short Interest Increases

The number of shares sold short on the NYSE stood at 13.4 billion in the second quarter, a 4.2 percent increase from 1Q'11 but a 3.5 percent decrease y-o-y. The short interest remained at subdued levels, 27.8 percent lower than the all-time high of 18.6 billion in July 2008 and 5.6 percent below the 3-year average of 14.2 billion shares.









Equity Underwriting Declines, Remains Above Five-Year Average

Total equity underwriting volume decreased to $68.2 billion in 2Q'11, down 10.1 percent from the 1Q'11's $75.9 billion but a 30.0 percent improvement over 2Q'10's $52.5 billion. The number of deals declined as well; in 2Q'11 there were 288 equity underwriting deals, down 7.7 percent from 312 deals in 1Q'11 but 11.6 percent higher than 258 deals in 2Q'10. Despite the 35.8 percent decline since a very strong 4Q'10 ($106.3 on 342 deals), equity underwriting remained 10.4 percent above the five-year average of $61.8 billion. The average deal size in second quarter 2011 was $236.8 million, 2.6 percent down from 1Q'11 but a 16.4 percent increase y-o-y.

IPO Volume Decreases, Remains Above Five-Year Average

True initial public offerings (IPOs), which exclude closed-end mutual funds, declined further to $14.1 billion on 54 deals in 2Q'11 (13.8 percent decrease in volume but 20.0 percent increase in number of deals). Even though IPO volume declined for the second consecutive quarter, down 48.6 percent from the record breaking $27.5 billion in 4Q'10, it remained well above the 5-year average of $8.9 billion. Also, first half 2011 volume was already 70.6 percent of the total issuance from 2010. The number of IPOs has been rising during recent years; in 2010 the number of IPOs more than doubled the total for 2009 and was more than four times the total in 2008. In 2011, there has already been 99 IPOs, compared to the total of 181 in 2010.

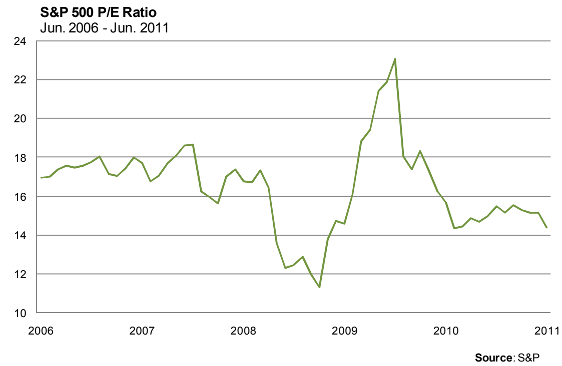
Secondary Offerings Decrease

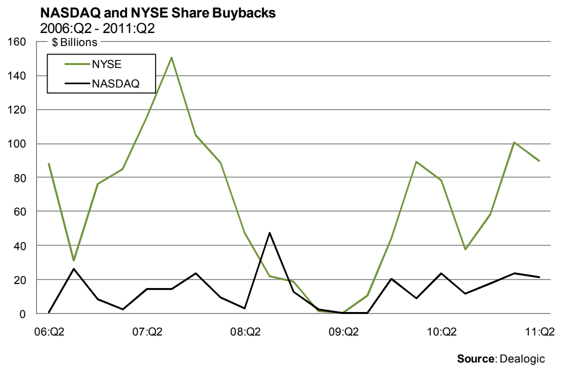
Secondary market issuance decreased in 2Q'11 to $48.5 billion from $51.2 billion in 1Q'11 (a 5.3 percent decline). The average deal value for the quarter, however, increased by 16.5 percent to $253.8 million as the number of deals decreased by 18.7 percent to 191 deals in 2Q'11 from 235 deals in 1Q'11. Year-over-year, secondary issuance rose by 25.7 percent from 2Q'10 in dollar volume but fell by 6.8 percent in number of deals.

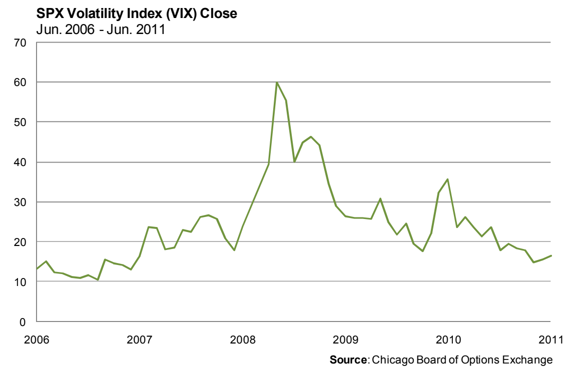
M&A Volume Down Over 60 Percent

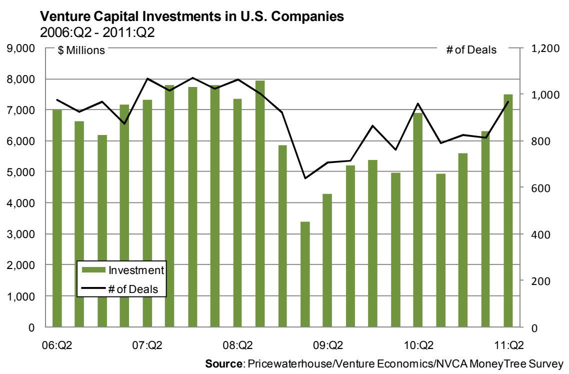
Announced U.S. mergers and acquisitions (M&A) volume in 2Q'11 stood at $67.7 billion, a 68.3 percent fall from the previous quarter's $213.8 billion and the lowest level since our records start in 2000. The number of deals decreased only by 4.0 percent, falling to 2,227 in the second quarter from 2,320 in 1Q'11, while the average deal dropped to $30.4 million from $92.2 million (67.0 percent decline). Like in many other areas, M&A activity was low in 2Q'11 due to the economic uncertainty and slower than expected U.S. recovery, however it is predicted to pick up in the second half of 2011 as many companies currently hold large amounts of cash on their balance sheets.

According to data from Dealogic, the amount of money invested in U.S. companies from other countries through M&A deals decreased by 9.5 percent in 2Q'11; the "U.S. inbound" M&A quarterly volume declined to $45.0 billion from $49.8 billion in the previous quarter. The dollar amount U.S. companies invested in other countries fell as well: American firms invested $54.5 billion in deals outside of the U.S. in 2Q'11, a 14.7 percent decrease from $63.9 billion in 1Q'10.









P/E Ratio Falls Slightly

The S&P 500's P/E ratio averaged 14.9 in 2Q'11, down 2.7 percent from the previous quarter's average of 15.3, and remains 9.5 percent below the 5-year average of 16.5. According to economists, the P/E ratio's q-o-q decrease reflects the uncertainty in the market and less optimistic economic outlook as the Fed downgraded the GDP and inflation forecast for the remainder of the year in the end of April. Y-o-y, the P/E ratio decreased by 9.3 percent that the earnings of S&P 500 firms rose more over the last year than the price of their stock.

NYSE Buybacks Decrease

The volume of corporate share repurchases on NYSE totaled $89.6 billion on 109 deals in 2Q'11, compared to $100.7 billion on 86 deals in 1Q'11. While the dollar value of buybacks decreased by 11.0 percent, the number of deals increased by 26.7 percent resulting in a 15.2 percent decrease in the average deal size to $1.0 billion from $1.2 billion in 1Q'11. Compared to 2Q'10, NYSE share buybacks increased by 14.5 percent in volume but decreased by 2.7 percent in number.

NASDAQ buyback volume fell to $21.4 billion, a 8.2 percent decrease from 1Q'11's $23.3 billion, while the number of deals increased to 91 (up 44.4 percent from 63 in the previous quarter). Compared to 2Q'10, NASDAQ share repurchases decreased by 9.8 percent in value, though the number of deals decreased by 3.4 percent y-o-y.

Both NYSE and NASDAQ have seen slight decreases in buybacks in 2Q'11 as the uncertainty over economic recovery continued and encouraged firms to hold on to excess cash on their balance sheets.

CBOE VIX Index Decreases in 2Q'11

The Chicago Board Options Exchange Volatility Index (VIX) decreased in 2Q'11 to 16.52, a 6.9 percent decline from 17.75 in 1Q'11, recording the third lowest month-end value since June 2007 (all three of the lowest readings occurred in the months of 2Q'11). The index has been generally trending downward since the Flash Crash (May 6, 2010). During the quarter, however, the VIX index first fell to 14.75 at the end of April following the good first quarter profit data, however, after the discouraging economic signals later in the quarter and continued worry about European debt crisis, the index started rising again. Overall, the low VIX level suggests that investors are more optimistic about the shape of financial markets, however the upward trend during the quarter shows that the investor's confidence is not as strong as it was in April. According to Zacks Investment Research, the VIX is expected to remain the 15 to 20 range for the remainder of the year, with only occasional spikes to reflect exogenous events.

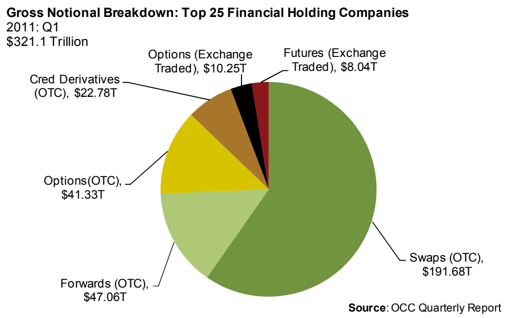
Venture Capital Increases in 2Q'11

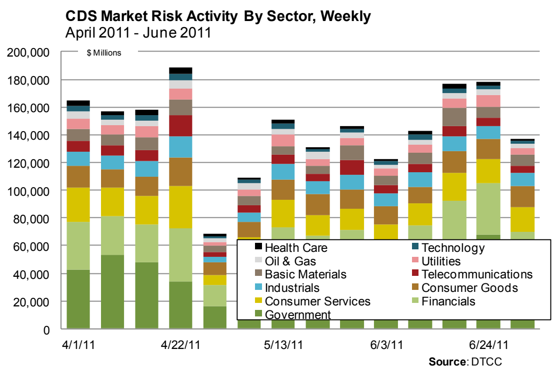
Venture capitalists invested $7.5 billion in 966 deals in the second quarter of 2011, according to the MoneyTree™ Report from PricewaterhouseCoopers LLP (PwC) and the National Venture Capital Association (NVCA). Quarterly venture capital (VC) investment activity increased 19 percent in terms of both dollars and the number of deals compared to the first quarter of 2011 when $6.3 billion was invested in 814 deals.[10] Year-over-year, the dollar volume of venture capital investments rose by 8.7 percent, while the number of deals stayed flat. The top three industries for VC investments in U.S. companies remained unchanged from the previous quarter: software, biotechnology, and medical devices and equipment.

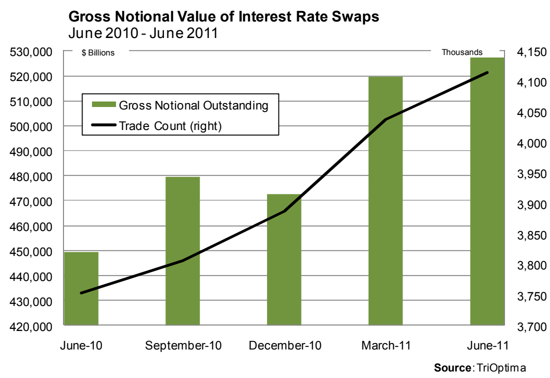
---

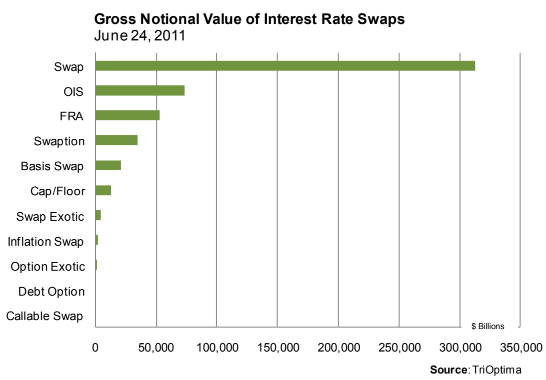
[10] PriceWaterhouseCoopers. Money Tree Report. Second Quarter 2011 Press Release. July 20, 2011.

DERIVATIVES









Derivatives Gross Notional Value

In the U.S., according to the Federal Reserve, the gross notional value of derivatives outstanding, both over-the-counter (OTC) and exchange-traded, held by the top 25 U.S. financial holding companies, was $321.1 trillion in the first quarter of 2011 ($1.6 trillion on a net credit exposure basis). Gross notional outstanding increased by 7.8 percent q-o-q, but decreased by 25.1 percent y-o-y. Gross exposure increased this quarter in each product type, with the greatest changes concentrated in futures (up 16.7 percent) and OTC options (up 16.2 percent). Still, net current credit exposure fell 6 percent to $353 billion.

Interest Rate Swaps

According to TriOptima data, the gross notional value outstanding of interest rate swaps (IRS) at the end of June was $539.8 trillion, up 3.9 percent from end-March's $519.7 trillion. The q-o-q increase is largely in inflation swaps and overnight indexed swaps (OIS), both up 8.6 percent and 7.8 percent, respectively. This outweighed the 19.9 percent decrease in debt options. The number of contracts increased 2.8 percent to 4.15 million end-June from 4.03 million end-March. The q-o-q increase is also a result of increases in overnight indexed swaps (up 7.9 percent) and inflation swaps (up 7.8 percent).

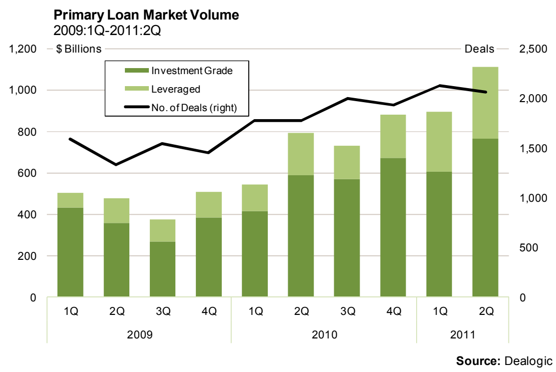
Credit Default Swaps

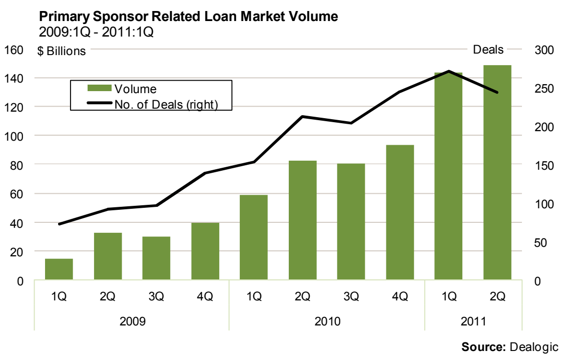
According to DTCC, the gross notional value outstanding of credit default swaps (CDS), including single names, tranches, and indices increased by 5.5 percent to $28.9 trillion end-June from $27.4 trillion end-March (up 17 percent y-o-y).

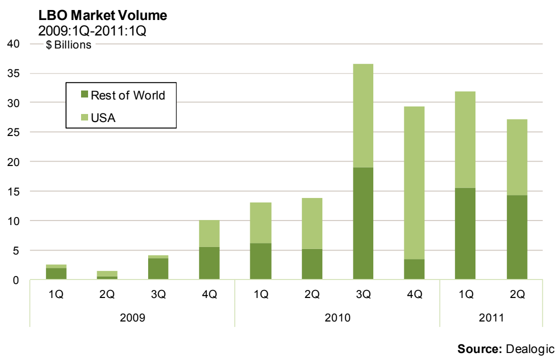
Single name CDS increased in outstanding value on a gross notional basis 3.4 percent to $15.6 trillion (single side of transaction) end-June from end-March. During the same time, the outstanding value increased on a net notional basis by 0.8 percent to $1.22 trillion.

The majority of new market risk activity in the second quarter of 2011 was concentrated in government and financial entities ($582.6 billion and $417.1 billion, respectively). The most widely referenced entities booked in 2Q'11 by gross exposures were concentrated among European sovereigns: Spain ($94 billion), Italy ($67 billion), France ($34 billion), and Germany ($26 billion); in general, government CDS contract activity increased 20.0 percent in the second quarter, largely due to fears of a Greek default and its ensuing spillover effects. However, exposure on a net notional outstanding basis ultimately decreased during Q2 for Germany, Greece, Ireland, Holland, and Italy, implying some hedging on outstanding exposures. Contracts booked on financial organizations increased 17.5 percent in the same time period. Outside of sovereigns and financials, activity increased in consumer services by $258 billion (up 33.4 percent q-o-q) and consumer goods by $199 billion (up 30.9 percent q-o-q).

PRIMARY LOAN MARKET[11]







Global primary syndicated loan volume stood at $1.11 trillion in 2Q'11, up 41 percent from the $789.8 billion borrowed in 2Q'10 and the highest quarterly volume since 3Q'07. Global loan deal count also increased to 2,059 from 1,777 in 2Q'10. Deal count, however, was down slightly compared with 2,130 deals recorded in 1Q'11 despite 2Q'11 dollar volume being up 24 percent.

The Americas region accounted for the largest share (59 percent) of global loan volume, with volume up 60 percent in 2Q'11 compared with 2Q'10. EMEA and Asia-Pacific also experienced volume increases of 22 percent and 17 percent, resulting in 2Q'11 loan volumes of $302.4 billion and $157.0 billion, respectively.

Refinance-related loans accounted for the largest share (48 percent) of global loans' use of proceeds, followed by General Corporate Purposes (24 percent) and Acquisitions & Merger-related loans (12 percent). 61 percent of 2Q'11 EMEA loans were for refinance-related purposes, compared to 45 percent for Americas and 31 percent for Asia Pacific.

Global investment grade loan volume reached $763.1 billion in 2Q'11, up 30 percent over the comparable period in 2010 ($586.7 billion). The second quarter 2011 volume was the highest quarterly volume since 3Q'07 when $874.9 billion was borrowed. Oil & Gas borrowers led all corporate investment grade borrowers with $80.7 billion in 2Q'11, followed by Utility & Energy with $76.8 billion. Of the top ten investment grade sectors by loan volume, the Transportation sector saw the largest volume increase, with volume most tripling to $43.3 billion in 2Q'11 from $16.3 billion in 2Q'10.

Leveraged loan volume saw an increase of 72 percent to $348.5 billion in 2Q'11, compared with $203.1 billion in 2Q'10. 2Q'11 volume marked the highest quarterly volume since 4Q'07 ($370.9 billion). The United States led all nations in leveraged borrowing with a 75 percent share of 2Q'11 leveraged loan volume. Global LBO loan volume reached $27.1 billion in 2Q'11, almost double the 2Q'10 volume of $13.9 billion, but down 14 percent compared with 1Q'11.

Global financial sponsor related syndicated loan volume increased 80 percent to $148.4 billion compared with 2Q'10 (82.4 billion) and was the highest volume since 4Q'07. The United States accounted for 65 percent of global financial sponsor related volume, a second straight decrease since 4Q'10 when the United States accounted for 81 percent.

Average tenor for global syndicated loans increased to 5 years in 2Q'11, up from 4 years 10 months in 1Q'11. Average maturities for the Americas, Asia Pacific and EMEA stood at 4 years 6 months, 4 years 11 months and 6 years 2 months respectively, almost on par with 1Q'11 average tenors. Average loan pricing on both leveraged and investment grade loans decreased to 272bps in 2Q'11, down 33bps on the average of 305bps in 1Q'11. This decrease was caused by the average pricing for both leveraged and investment grade loans decreasing to 357bps and 174bps, respectively, in 2Q'11 compared to 385bps and 190bps respectively in 1Q'11.

.

[11] The author of the Primary Loan Market discussion is Kofi Effrah, Dealogic. For any questions, please email Kofi.Effrah@dealogic.com .

Kyle Brandon
Managing Director, Director of Research

SIFMA RESEARCH

Charles Bartlett - Vice President, Director of Statistics
Sharon Sung – Manager, Research
Justyna Podziemska – Analyst, Research

Michael Seminara – Summer Analyst, Research
Shinece Kharina Bissessar – Municipal ULF Intern
Christina Pak – Municipal ULF Intern

General Research Contact: research@sifma.org

SIFMA CAPITAL MARKETS

Joseph Cox – Analyst, Capital Markets
Timothy Cummings – Analyst, Capital Markets