Research Quarterly

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Securities Industry and Financial Markets Association

U.S. Bond Market Issuance Increases in 2006; Equity, Higher Credit Risk Asset Classes Top Performers

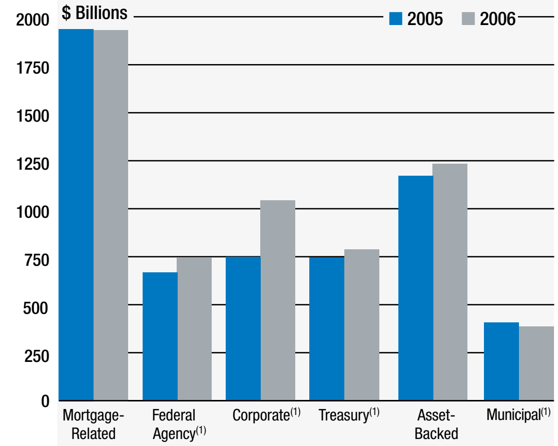
U.S. Bond issuance reached $6.13 trillion in 2006, the second highest issuance year ever. The corporate bond sector led the way, as rising mergers and acquisitions (M&A) and LBO volumes, favorable borrowing terms, and tight credit spreads pushed sector issuance to a new record. The ABS market set another record on strong home equity loan issuance. MBS and municipal volumes were only marginally lower, benefiting from historically low interest rates. Equity underwriting was $188 billion, slightly behind last year, following a strong fourth quarter. Lower-rated, high-yield and distressed corporate debt were leading fixed-income total return asset classes, and equity indices rose during the year, with the Dow setting a record.

Supportive financial market conditions will once again define the operating environment in 2007. Firmer economic data suggest GDP is growing faster than the consensus, below-trend projections. The Federal Reserve is now likely to maintain the target Fed funds rate through the first half. As a result, benchmark yields have edged up, though general interest rate increases will be limited by investor demand, contained inflationary expectations and the Federal Reserve's credibility in the financial markets. Ample liquidity, low volatility and strong credit quality metrics have kept credit spreads compressed. The credit market trends are likely to move closer to historical norms, with the pace dependent on the level of market liquidity. There is room for further equity market appreciation based on the sustained economic growth and current valuation levels.

Highlights

- Treasury gross coupon issuance totaled $780.8 billion in 2006, up 4.6 percent from $746.2 billion in 2005.
- Federal agencies' long-term issuance totaled $744.1 billion in 2006, up 11.2 percent from $669.4 billion last year.
- Long-term municipal volume totaled $386.9 billion in 2006, down 5.2 percent behind the record $408.2 billion issued in 2005.
- Corporate bond issuance totaled a record $1.05 trillion for the year, up 38.5 percent from $750.8 billion last year.
- Asset-backed issuance reached a record $1.23 trillion, up 5.13 percent from the previous record of $1.17 trillion set last year.
- Global CDO issuance increased to $488.6 billion, nearly twice the $249.3 billion issued last year.
- Mortgage-related issuance totaled $1.93 trillion, down 1.62 percent from $1.97 trillion last year.
- Total outstanding money market instruments, including commercial paper, large time deposits and bankers' acceptances, totaled $4.06 trillion as of the end of the year.
- Bond mutual funds had an inflow of $60.8 billion in 2006, nearly double the $30.8 billion inflow in 2005. Stock mutual funds had an inflow of $157.9 billion.
- Special Report: Introducing the Equity Market Summary

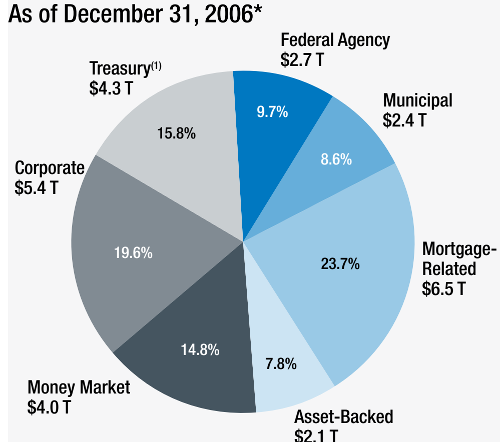
Issuance in the U.S. Bond Markets
2005 vs. 2006



(1) Includes long-term issuance only

Sources: Thomson Financial U.S. Treas. U.S. Federal Agencies

U.S. Outstanding Bond Market Debt
As of December 31, 2006*



Total: $27.4 Trillion(2)

(1) Includes marketable public debt
(2) Figures may not add due to rounding
* SIFMA estimates

Sources: Federal Reserve, U.S. Treasury, Federal Agencies, Bloomberg, Thomson Financial

Washington office: 1399 New York Ave., NW
Washington, DC 20005-4711
202.434.8400

New York ■ Washington ■ London ■ Hong Kong

Gross Treasury Issuance Rises in 2006; Improved Federal Deficit Lowers Net Coupon Issuance

Gross issuance of U.S. Treasury coupon securities totaled $780.8 billion in 2006, 4.6 percent higher than the $746.2 billion issued in 2005. Combined total net issuance of bills and coupons during the year declined by 9.9 percent to $189.7 billion from $210.4 billion, as the lower budget deficit reduced Treasury's funding requirements. The Congressional Budget Office projects a deficit of $172 billion for FY 2007, lower than the $248 billion deficit for FY 2006. The most recent Office of Management and Budget deficit estimate is $244 billion. The recent SIFMA primary dealer survey forecasts a $217 billion deficit for this fiscal year. The reduction in the budget deficit over the last few years is the result of increasing tax revenues arising from sustained economic growth and double digit corporate profit growth.

Fourth quarter gross coupon issuance totaled $188.9 billion, 15.5 percent higher than the $163.6 billion issued in the third quarter and 22.0 percent above the $154.9 billion issued in the fourth quarter of 2005 boosted by a higher refunding volume. Treasury re-introduced the 30-year bond last year and raised $24 billion through two auctions in 2006. Net combined bill and coupon issuance was $1.10 trillion in the fourth quarter, virtually unchanged from the third quarter and the same period of 2005.

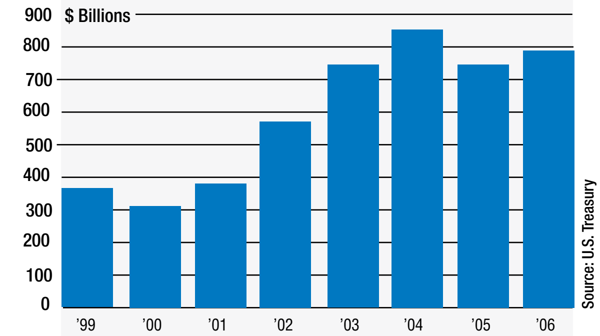
Daily cash market trading volume of Treasury securities by primary dealers averaged $524.5 billion in 2006, down slightly from the $554.5 billion during 2005. Total marketable debt outstanding was $4.32 trillion as of December 31, 2006, slightly higher than the $4.29 trillion outstanding as of the end of the third quarter. The outstanding volume of Treasury coupon securities stood at $2.44 trillion at the end of 2006, virtually unchanged from the $2.45 trillion at the end of the third quarter. The proportion of TIPS to the overall debt outstanding increased to 9.5 percent in 2006 from 7.8 percent in 2005.

The interest rate environment continues to be defined by historically low rates and a flat to slightly inverted yield curve as yields on the 2-year Treasury are higher than the 10-year. The yield on the 2-year stood at 4.81 with the 10-year at 4.70 at the close of the year. Since August of last year, the Fed has maintained the target Fed funds rate at 5.25 percent. The inverted yield curve appears to be more the result of the demand for longer-dated, fixed-income assets, more transparent communication of monetary policy and the Fed's credibility in management of inflationary expectations than a prediction of an economic slowdown.

Outlook

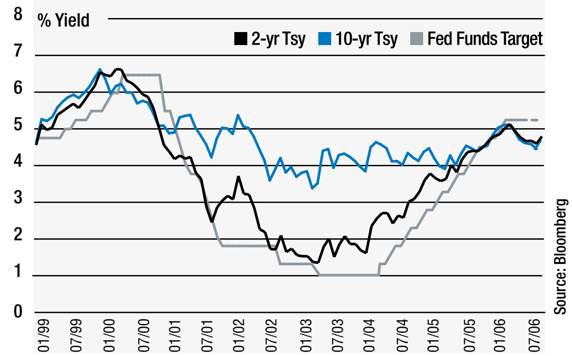
The lower projected deficit is likely to restrain net Treasury borrowing. The Treasury announced that first quarter net issuance will be $141 billion, $17 billion less than in the first quarter a year ago. As we move through 2007, the dominant view is that the shape of the yield curve will continue to be flat to inverted. Until there is a clear indication from the data that the balance of risk between growth and inflation has changed, the Fed is expected to keep the Fed funds rates at the current level. Since the end of the year, short rates have edged up as firmer economic data have lowered the likelihood of a rate cut during the early part of this year. Longer-term yields, though modestly higher during the early part of the first quarter, are restrained by domestic and non-U.S. demand for dollar-denominated assets and market confidence in the Fed's management of inflationary expectations. The SIFMA quarterly primary dealer survey in January recommended overweight or neutrality across the duration sectors, suggesting favorable buying opportunities across the curve at that time.

Issuance of U.S. Treasury Securities[1]
1999–2006

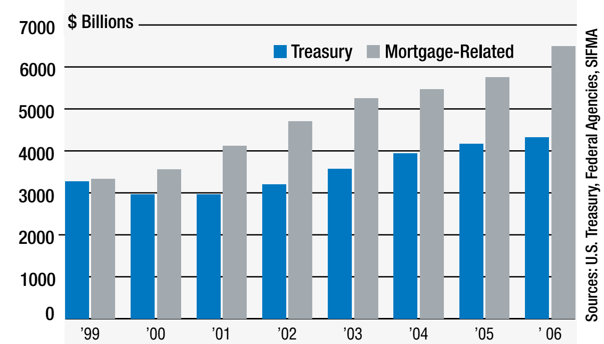


[1] Includes only marketable coupon securities

Treasury Yields and Fed Fund Rate
Jan. 1999–Dec. 2006

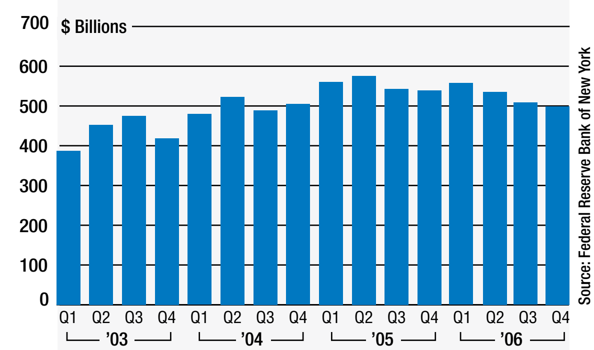


U.S. Treasury Securities Outstanding* vs.
Mortgage-Related Securities Outstanding**



* Includes Marketable Public Debt
** Includes Agency MBS, Agency CMO and Private-Label MBS

Average Daily Trading Volume of
U.S. Treasury Securities* 2003:Q1–2006:Q4



* Primary dealer activity

Long-Term Federal Agency Issuance Rebound in 2006

Issuance of federal agency long-term debt totaled $744.1 billion in 2006, up 11.2 percent from the $669.4 billion issued in 2005. Fourth quarter federal agency issuance rose to $197.1 billion, the highest quarterly total since the second quarter of 2004. The year-over-year volume growth is the result of housing GSEs adapting to the capital management and balance sheet restructuring initiative that began in 2005, as well as conforming mortgage origination growth. Issuance from Freddie Mac increased to $192.4 billion in 2006 compared to the $172.7 billion issued in 2005. Fannie Mae issuance totaled $181.3 billion, up from the $155.8 billion during the same period last year. Long-term annual issuance levels from the Federal Home Loan Banks increased by 9.2 percent and volume from the Farm Credit System increased by 6.6 percent. Tennessee Valley Authority issuance decreased 35.7 percent in 2006.

Callable debt issuance by the housing agencies, including Fannie Mae, Freddie Mac and the Federal Home Loan Banks, accounted for 52.4 percent of the overall federal agency market, as callable securities have become a core component of the agencies' interest rate management strategy. Callable new issue activity increased 21.2 percent in 2006 to $390.0 billion, compared to $321.7 billion in 2005. The Federal Home Loan Banks accounted for 40.3 percent of callable issuance, while Freddie Mac accounted for 29.9 percent and Fannie Mae 29.8 percent.

SIFMA's recent quarterly survey of government and agency strategists forecasted agency issuance to continue to rise in the first quarter of 2007 to $202.0 billion. The projected higher agency volume reflects an expectation that mortgage originations are picking up as the housing correction moves to completion in early 2007, as some industry analysts expect.

Long-Term Federal Agency Debt Issuance

$ Billions	2004	2005	2006	% Change	$ Change
FHLB[1]	389.7	295.3	322.5	9.2%	27.2
Freddie Mac	199.2	172.7	192.4	11.4%	19.7
Fannie Mae	252.2	155.8	181.3	16.4%	25.5
FCS[2]	40.6	43.9	46.8	6.6%	2.9
TVA[3]	0.1	1.7	1.1	-35.3%	(0.6)
Totals	881.8	669.4	744.1	11.2%	74.7

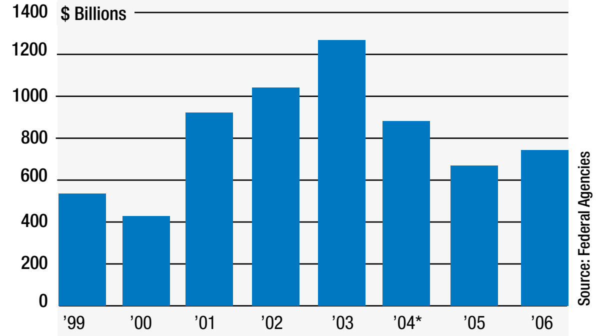
Federal Agency Debt Outstanding

$ Billions	12/31/2004	12/31/2005	12/31/2006	% Change*	$ Change*
FHLB[1]	869.2	937.4	951.7	1.5%	14.3
Freddie Mac	733.4	773.6	776.9	0.4%	3.3
Fannie Mae	944.6	766.2	774.4	1.1%	8.2
FCS[2]	99.5	113.4	134.1	18.3%	20.7
TVA[3]	23.3	20.5	20.4	-0.5%	(0.1)
Totals	2,670.0	2,611.1	2,657.5	1.8%	46.4

*Percentage and $ amount change between 9/30/2006 and 12/31/2006

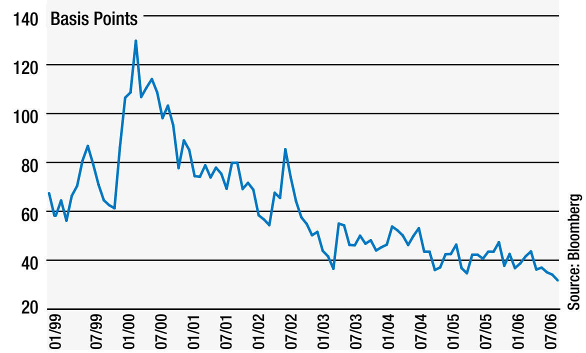
[1] Federal Home Loan Bank System
[2] Farm Credit System
[3] Tennessee Valley Authority

Long-Term Federal Agency Debt Issuance[(1)] 1999–2006

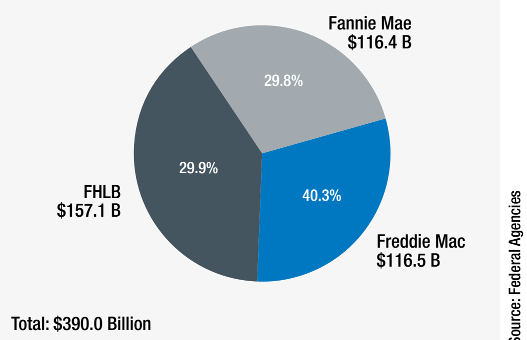


[(1)] Excludes maturities of one year or less
* Beginning with 2004, Sallie Mae has been excluded due to privatization

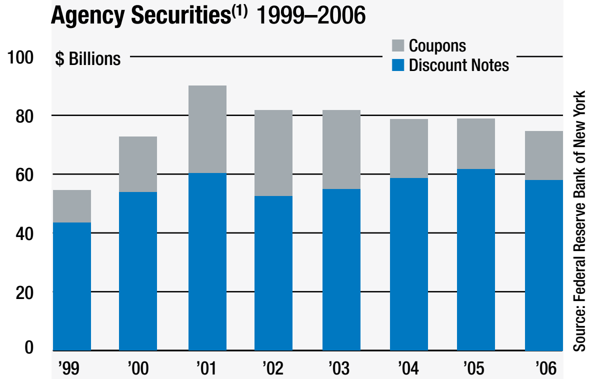
U.S. Agency Spreads to U.S. Treasury—10-Year 1999–2006



Housing Federal Agency Callable Debt Issuance 2006



Average Daily Trading Volume of Federal Agency Securities[(1)] 1999–2006



[(1)] Primary dealer activity

Municipal Volume Modestly Lower Than Last Year; Strong Fourth Quarter on New Money Issuance

Total short- and long-term municipal securities issuance reached $431.0 billion in 2006, a 6.0 percent decline from the record $458.7 billion issued in 2005 but above expectations earlier in the year. Favorable market conditions and demand for new bond financing for state and local government projects led to a strong fourth quarter, which partially offset the lower refunding volumes earlier in the year. The 2006 volume was the third highest annual total. The fourth quarter rebound, led by a number of large deals, was supported by tighter tax equivalent credit spreads and historically low benchmark yields. Strong state and local credit ratings continued to benefit from growing tax receipts based on double digit corporate profit growth, sustained strong economy and a rise in property tax revenue during the period of housing price appreciation. These factors limited any adverse effect of the housing market correction on local government finances. In addition to the favorable tax revenue and ratings trends, another indication of the current positive credit quality/tight credit spread environment is that the level of credit enhancement from bond insurance activity (i.e., "insured penetration rate") could be the lowest since 2003, according to a Bear Stearns analysis, which noted that bond insurance may have enhanced slightly less than 50 percent of the 2006 issuance volume. An S&P report noted a number of budgetary challenges in addition to the normal costs of providing services that issuers will need to address in the coming year, including rising fuel and construction costs; increasing salary, health care, and pension costs; and other post-employment benefit liabilities. Looking ahead, 2007 should be another solid year, but dip from the 2006 level to $395 billion, according to the recent SIFMA U.S. Credit Market Outlook.

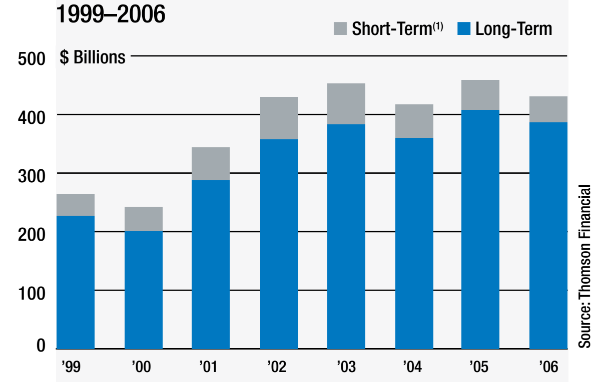
Rebounding from the pronounced issuance contraction earlier in the year, long-term municipal volume finished at $386.9 billion, only 5 percent less than the 2005 record level of $408.2 billion. Tax-exempt, short-term issuance of $44.1 billion was 12.7 percent less than last year's total, largely due to rising short-term interest rates through early August when the Fed completed its monetary tightening. Fourth quarter long-term issuance was a robust $121.0 billion, the strongest quarter of the year, the result of a solid new issue calendar and the favorable market conditions discussed above. Indeed, December represented a strong pickup from the November volume, a favorable harbinger as we entered the new year.

The ratio of the 10-year, AAA-rated G.O. municipal yield to Treasury securities of similar maturity declined during the year to a a cyclically low 81 percent. The ratio was flat for the fourth quarter but 4 percentage points below that at the beginning of the year. Strong investor demand for tax-exempt securities in the relatively low rate environment pushed down yields on municipal securities relative to benchmark Treasury securities for much of the year. SIFMA's recent survey of government market strategists in early January forecast benchmark 10-year Treasury yields of 4.63 percent at the end of the first and second quarters, below the current level.

New Capital Volume Grows, Refundings Drop

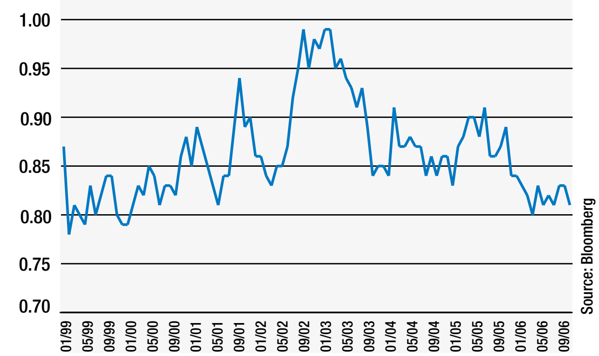
New capital issuance was $258.7 billion for the year, a 16.3 percent growth over 2005, accounting for 66.9 percent of total long-term volume. Education was the leading use of proceeds sector at $68.8 billion, followed by general government at $63.1 billion. Refunding activity fell 31.0 percent to $128.2 billion in 2006, compared to $185.9 billion during 2005. Education refunding volume declined 30.0 percent to $38.1 billion, and general government refunding fell 52.3 percent to $23.9 billion.

Short- and Long-Term Municipal Issuance
1999–2006

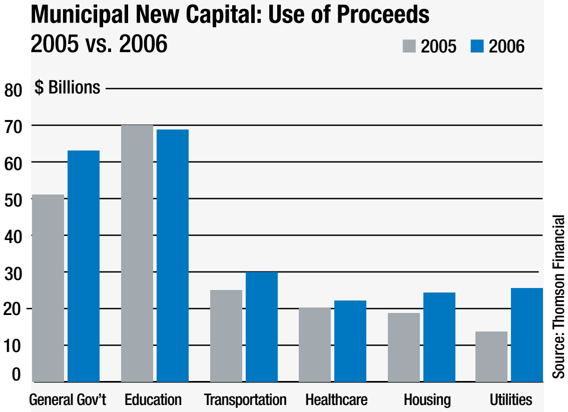


(1) Includes maturities of 13 months or less

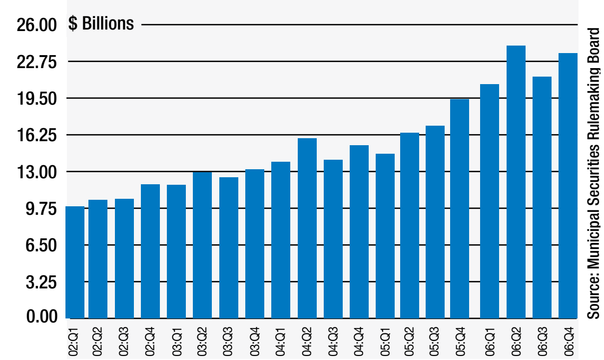
Municipal GO AAA and 10-Yr Treasury Ratio
1999–2006



Municipal New Capital: Use of Proceeds
2005 vs. 2006



Average Daily Trading Volume of Municipal Securities* 2002:Q1–2006:Q4



* Includes both dealer-to-dealer and dealer-to-customer transactions

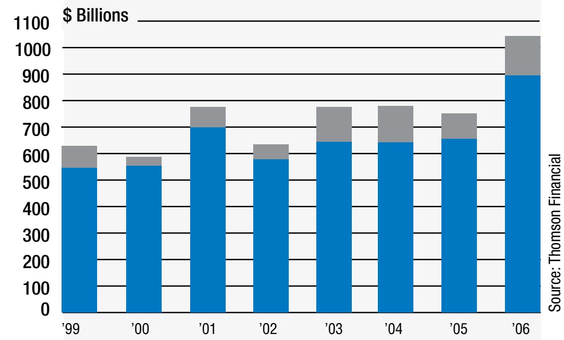
Corporate Volume Ends Blockbuster Year Strong as New Issuance Record Set in 2006; Sector Valuations Continue Rally into New Year, Led by Lower Rated and Distressed Sectors

Corporate bond issuance increased 38.5 percent in 2006, to $1.05 trillion, a new record, from $750.8 billion in 2005. In addition, fourth quarter volume was $284.8 billion, a 22.0 percent increase over the third quarter's $233.5 billion and more than 57 percent higher than fourth quarter 2005's $180.5 billion. Lower bond yields helped boost the fourth quarter volume. The record year was supported by a number of market trends, including acceleration of shareholder-friendly issuer strategies, historically compressed credit spreads, favorable financial market conditions, as the Fed ended its period of tightening in August, contained inflation, and the economy's "soft landing," with economic growth now apparently poised to exceed earlier modest, below-trend growth expectations. The higher issuance supply was easily digested based on strong market liquidity, investor risk tolerance, appetite for credit products, and the positive effect of low volatility on spreads. In addition, although net issuance was higher than in recent years, refundings continue to account for a substantial share of issuance, keeping the net volume at a relatively moderate level despite the 2006 surge. (Leveraged loans also absorbed some supply that otherwise would have been bond funded.) The result was a year of appreciating valuations and returns, especially in the lower grade, high-yield and distressed sectors.

Shareholder focused strategies and balance sheet releveraging continue to be dominant themes driving corporate issuance trends, especially as profit growth begins to moderate from the extended period of double digit gains and pressure builds to increase returns to investors, affecting both issuance and longer term credit quality outlooks. Thomson Financial reported a volume of $1.6 trillion in completed M&A deals, the highest in six years, and Bloomberg reported that private equity accounted for at least 30 percent of the acquisition deal volume. According to Merrill Lynch, 2006 was also a record year for high-yield bond financed acquisitions, including M&A and LBO. Approximately 35 percent of the 2006 high yield issuance volume went to finance corporate acquisitions. Further, to the extent that share buybacks are debt financed, the continued growth in share repurchase activity adds to the corporate demand for bond financing. As reported by S&P, the S&P 500 constituent firms bought back $435 billion in common stock in 2006, 25 percent higher than 2005's volume and more than double the 2004 level. Although not as significant as debt financed corporate transactions, based on the standard metric, business investment spending has recently begun exceeding internally generated cash flow and is thus another source of corporate demand for financing, especially as profits and internal cash generation moderate. These factors are still in place as we enter 2007 and should result in another strong issuance year. SIFMA's recent credit market outlook forecasts 2007 to be $889 billion, noting that the volume could be higher, depending on corporate acquisition and, especially, LBO volumes, which are difficult to predict. (Although too early to discern a trend, January issuance volume was lower than last year's high volume.)

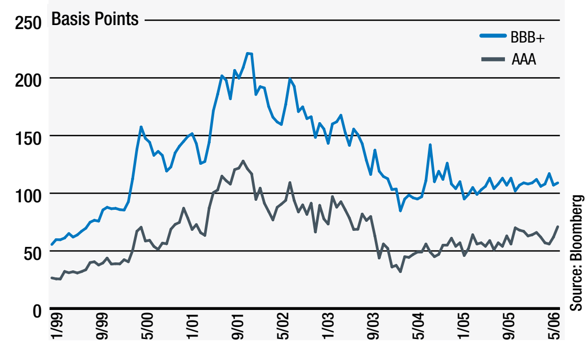
Currently, the conditions seem to be "priced to perfection" or fully reflect all the "good news." Later in the year, the credit and pricing conditions are likely to fall back, perhaps leading to reduced risk tolerance should yields edge up (consistent with the consensus expectation of economic growth gaining during the year and potentially adding some upward pressure to real bond yields adjusted for inflation). Higher yields would contribute to a volatility pickup from last year's unsustainably low level. In addition, shareholder friendly strategies and the pace of LBO activity could pose event and single name risk which would affect pricing.

Corporate Bond Issuance[1]
1999–2006

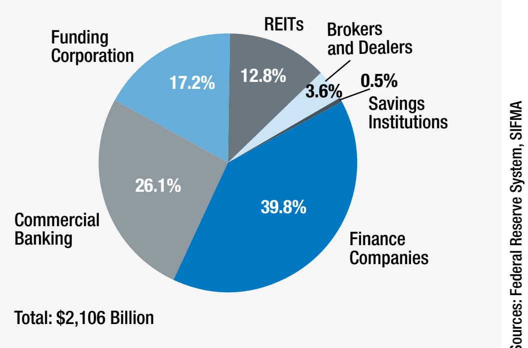


[1] Includes all non-convertible corporate debt, MTNs, and Yankee bonds, but excludes all issues with maturities of one year or less, CDs and federal agency debt.

U.S. Corporate Spreads to U.S. Treasury—10-Year
1999–2006



Corporate Debt Outstanding—Financial Sectors*
As of December 31, 2006*



* SIFMA estimates

Can Credit Conditions Get Any Better, or How Long Can Current Conditions Last?

Credit quality remains at historic and cyclical peaks. Balance sheets and cash positions remain strong following the volume of refundings over the last several years, current favorable borrowing conditions, and strong earnings in recent years (double digit year over year growth for 11 of the last 12 quarters for the S&P 500). Interest expense represents a historically low percentage of earnings and the major rating agencies reported near-historic low default rates through year end. Add to that risk mitigation available through the increasingly liquid corporate credit derivatives products. Through 2006 and into the beginning of 2007, valuations have risen and credit spreads have narrowed. Moving within a fairly narrow range over the past year and a half, investment grade spreads tightened 9 basis points in 2006 and a little more in January, according to Merrill Lynch indices. Rallying in absolute terms and relative to investment grade spreads, high-yield credit spreads have narrowed more dramatically, making the sector more susceptible to a shift in credit conditions. High-yield spreads are now at near record tight level of 287 basis points, narrowing by some 80 basis points in 2006 and another 7 basis points through mid-January. Credit derivative indices have had the same directional move with compression more pronounced. High-yield CDX was at about 268 basis points and investment grade CDX at about 34 basis points in December, reaching the tightest level ever in January, boosted by an imbalance between sellers and buyers of credit protection. Although the negative credit derivative to cash basis differential is expected to continue, at least through mid-year, it is likely to be reduced as protection buyers enter the market in response to credit conditions moving from the current peak.

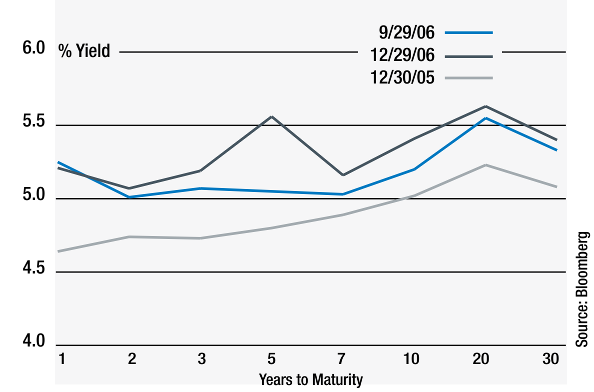
The credit cycle may have been delayed but certainly not eliminated, an observation suggested in recent Standard & Poor's Fixed Income Research analyses. S&P has noted the current market strength – for example, a record low level of the distressed debt ratio and the highest ultimate recovery rates in two decades – and the effect of the great amount of liquidity awash in the marketplace. As credit conditions weaken relative to the current environment, the ample liquidity may be reduced, and a number of risk factors will become more evident. S&P cites projected higher default rates this year (but lower than the historical average), a shifting mix towards lower rated and more credit-exposed issuers, the downgrade potential of high-yield credits, and the upward pressure on spreads as volatility rises. The SIFMA credit outlook survey projected spreads at about current levels or even tighter in some sectors through the first half relative to the level at year-end and some credit spread widening in the second half of the year.

Indeed, liquidity has been an important driver of current market conditions. About half of the $900 billion foreign investor flow has gone to corporate bonds (which include private label ABS), with the volume upshifting in November to $63 billion, based on Treasury International Capital system data. Credit Sights, Ltd. recently calculated the non-U.S. investor share of U.S. corporate bonds at 29 percent using Federal Reserve data. J.P. Morgan's measure of high yield corporate bond supply and demand shows demand exceeding supply for three of the last four years.

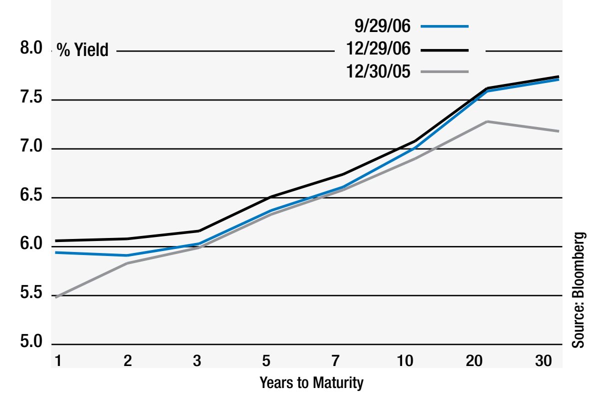
Investment-Grade Volume Increases Substantially

Non-convertible investment-grade issuance increased 36.8 percent, to $895.0 billion in 2006, significantly higher than the $654.4 billion issued a year ago. On a linked-quarter basis, issuance also increased 8.3 percent, to $226.7 billion in the fourth quarter of 2006, up from $209.3 billion in the third quarter and 44.5 percent from the fourth quarter of 2005.

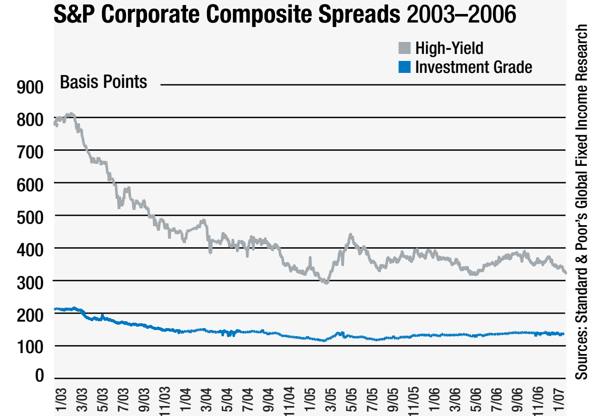
U.S.Corporate: AAA Industrial - Yield Curves



U.S. Corporate: BB Industrial - Yield Curves



S&P Corporate Composite Spreads 2003–2006



The financial sector, including commercial banks, investment banks, and other credit institutions, continues to be the leading investment grade issuing sector at $123.4 billion, more than 54 percent of the entire issuance in the quarter. The SIFMA credit outlook survey expects the financial sector share to remain at slightly above 50 percent of 2007 investment grade issuance.

High-Yield Issuance Rises

Non-convertible high-yield debt issuance increased to $148.7 billion in 2006, a 54.3 percent increase from $96.4 billion in 2005, boosted by larger deals. According to Merrill Lynch, the average high-yield issue size was a record $436 million in 2006. On a linked-quarter basis, issuance more than doubled to $57.7 billion, compared to $23.7 billion in the third quarter and $23.6 billion the fourth quarter a year ago. The manufacturing sector accounted for nearly 40 percent of the quarter's high yield issuance totaling $22.9 billion, up sharply from $9.2 billion in the third quarter and $6.0 billion in the same period a year ago. Beyond volume growth, the high yield risk profile has risen. Lower rated high-yield issuance has been particularly strong, with "CCC" rated issuance accounting for over a third of the volume, as reported by Merrill Lynch. As discussed in a recent J.P. Morgan report, high-yield issuance has become more "aggressive," with issuer motivation broadly moving from refunding existing debt to acquisition financing. This trend was also quite evident in the forward issuance calendar at the beginning of 2007, according to Bear Stearns. While such shifts will ultimately increase credit risk exposure, the credit quality risk exposure will be more visible as the issues season.

MTN and Convertible Debt Rise Sharply

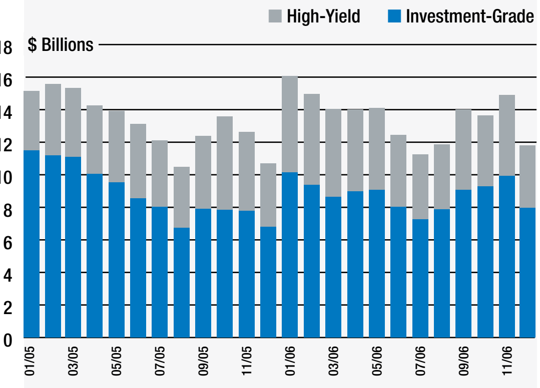
Issuance of medium-term notes (MTNs) increased to $335.8 billion in 2006, a 52.6 percent increase over 2005. MTN in the fourth quarter totaled $96.9 billion, up from $84.4 billion issued in the third quarter and nearly 80 percent higher than 2005. Convertible issuance (including investment-grade and high-yield issues) totaled $62.7 billion in 2006, more than double the $30.1 billion issued in 2005. On a linked-quarter basis, issuance increased to $22.0 billion, more than double the $9.6 billion in the third quarter and up 84.9 percent from a year ago. The growth reflects issuer demand for debt financing already discussed and the appreciating equity market.

In addition, capital securities issued by financial firms and REITs have grown in volume and emerged into a distinct asset class. Capital securities include a number of instruments such as hybrids, non-cumulative Yankee securities and trust preferreds. Issuance grew from $39 billion to $71 billion in 2006 with additional volume growth expected in 2007, according to J.P. Morgan. This asset class should grow further in terms of both issuance volumes and relative price performance following substantial progress in NAIC clarification of regulatory capital for insurance companies and with rating agency development of rating "notching" methodology.

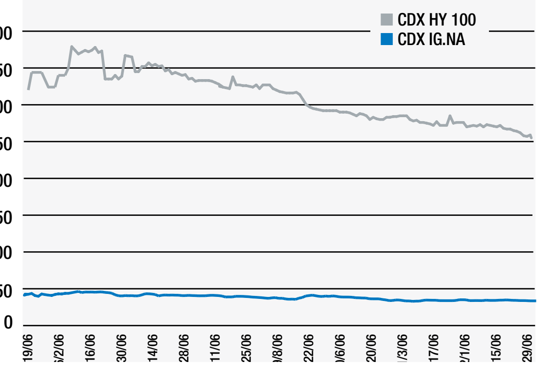
Trading Volume Increases in the Fourth Quarter

According to the NASD's TRACE system, total estimated investment-grade average daily trading volume increased in the fourth quarter to $9.1 billion, 12.5 percent higher than the third quarter's $8.1 billion and $7.5 billion a year ago. High-yield average daily trading volume increased to $4.4 billion in the quarter, up from $4.3 billion in the third quarter and $4.8 billion a year ago. Based on Federal Reserve Bank of New York data, primary dealer's average daily trading volume of corporate bonds (including REMICs) with maturities of more than one year increased by 15 percent in the fourth quarter to $23.8 billion, from $20.6 billion in the third quarter.

TRACE Average Daily Trading Volume



Credit Default Swap Spreads



ABS Issuance Sets a New Record Led by the Home Equity Sector

Asset-backed securities (ABS) issuance reached $1.23 trillion in 2006, surpassing the previous record of $1.17 trillion set in 2005. Volume in the fourth quarter totaled $324.5 billion, 5.9 percent higher than the $306.3 billion issued in the third quarter and virtually unchanged from the fourth quarter one year ago. Even with a fourth quarter dip, the home equity loan (HEL) sector again led overall issuance despite the housing market correction that appears to be approaching its conclusion. Other consumer-related sectors, such as credit card receivables and auto loans, experienced a modest volume pullback in 2006, but the overall ABS market remained strong due to historically low interest rates and continued consumer spending growth. The SIFMA forecast survey projects ABS issuance to decrease by about 5 percent in 2007 based on the effect on the HEL sector, as the housing correction slows price appreciation. The report also indicated an increase in new issue activity in the consumer related and student loan sectors in 2007, as borrowers to some extent substitute other consumer credit alternatives for HEL borrowing.

Leading ABS Sectors

The HEL sector accounted for nearly 40 percent of the overall ABS market, with issuance totaling $483.5 billion in 2006, an increase of 5.0 percent over 2005. Despite the year-over-year volume increase, fourth quarter issuance of $106.6 billion was the lowest since the first quarter of 2005. HEL ABS AAA spreads continued to benefit from favorable credit conditions with spreads ending the year nearly 19 basis points tighter than at the end of 2005. Late in the year, however, there was a larger spread differentiation between highly rated investment-grade tranches and lower-rated tranches. Lower-rated tranches widened significantly in both the cash and CDS markets, but spreads have generally compressed since the end of the year.

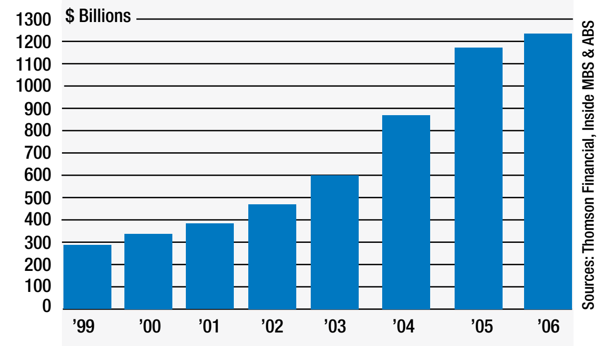
Securitization of non-jumbo mortgage loans, including transactions comprised of first lien mortgage loans with weighted average FICO scores of less than 674, declined to $138.0 billion in 2006, compared to the $251.2 billion issued in 2005. The substantial decline in mortgage-related ABS can be attributed to lower mortgage origination volume based on higher borrower debt and delinquency levels.

Issuance of securities backed by auto loans, the largest non-mortgage ABS sector, totaled $80.5 billion in 2006, slightly down from $84.9 billion in 2005. Volumes rebounded in the fourth quarter to $25.0 billion, up 1.2 percent from the third quarter and up 12.1 percent from a year ago. Auto loan originations decreased in 2006 as auto sales suffered due to lower buying incentives and higher gas prices early in the year.

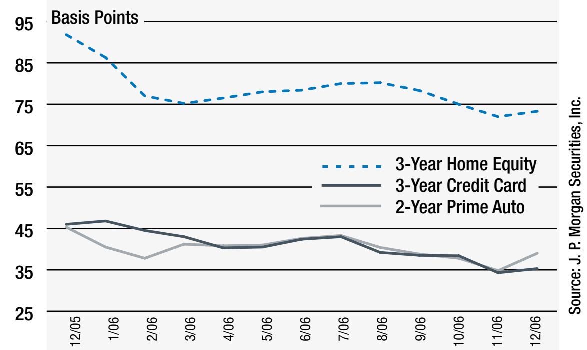
Credit card ABS issuance remained strong totaling $67.8 billion, topping last year's volume of $66.9 billion. Issuance of $12.2 billion in the fourth quarter was 32.6 percent lower than the third quarter and 50.0 percent lower than one year ago. Revolving credit card balances ended the year 5.6 percent higher than at the end of 2005, a sign that credit card ABS new issue activity should remain strong in early 2007. Although credit card growth raised concern among some analysts about consumer debt burden, both S&P and Fitch credit card indices were showing low charge-off rates for 2006.

The student loan ABS sector had another stellar year, with new issuance reaching $66.7 billion in 2006, up 5.5 percent from the $63.2 billion issued in 2005. Loan consolidations in the first half of the year, due to the interest rate reset for government loans in conjunction with a historically low student loan default rate, boosted issuance for the year.

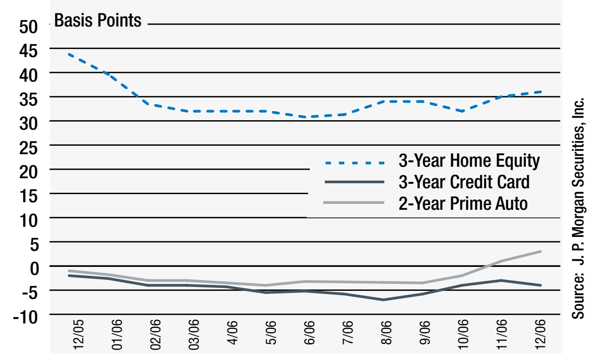
Issuance of Asset-Backed Securities
1999–2006



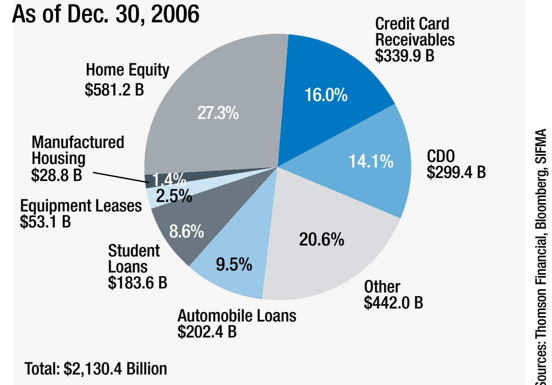
Asset-Backed Spreads to U.S. Treasury
Dec. 2005–Dec. 2006



Asset-Backed Swap Spreads
Dec. 2005–Dec. 2006



ABS Outstanding by Major Types of Credit
As of Dec. 30, 2006



CDO Issuance Sets New Record, Led by Structured Finance Products

Global CDO funded issuance totaled $488.6 billion in 2006, nearly twice the $249.3 billion issued last year. Issuance growth accelerated in the fourth quarter to a quarterly record of $147.4 billion, an increase from the $131.3 billion issued in the third quarter and $89.9 billion in the fourth quarter of 2005. Cash flow and hybrid CDOs accounted for 80.4 percent of 2006 issuance, while synthetic funded and market value sectors accounted for 12.3 percent and 2.2 percent, respectively. Arbitrage CDOs reached $419.0 billion in 2006, or 85.8 percent of total issuance, while balance sheet CDOs surged in the fourth quarter to $69.5 billion for the year. Over 90 percent of the global CDO issuance was long-term, or tranches with maturities of greater than 18 months. The SIFMA credit outlook survey projected low double digit funded issuance growth in both the U.S. and Europe for 2007 and growth rates in the 30 percent range for unfunded synthetic products.

CDO Volumes by Collateral Type

CDOs backed by structured finance collateral (SF) totaled $292.0 billion in 2006, accounting for 59.8 percent of overall CDO issuance. SF CDO volume decreased to $76.9 billion, reflecting the effect of the housing correction and lower private label affordable and subprime mortgage origination levels. The SF collateral group encompasses a wide range of collateral types, including RMBS, CMBS, CMOs, ABS, CDOs and CDS, although it is dominated by mortgage-related and home equity collateral. CDOs backed by high-yield loans were the second largest CDO product group at $164.9 billion, and accounted for 33.7 percent of total issuance. Growth of loan CDOs, known as CLOs, has led to the expansion of loan collaterals beyond leveraged loans to include second lien and middle market loans. Investment-grade bond CDO issuance totaled $22.0 billion in 2006, with CDOs backed by high-yield bonds totaling $2.7 billion. The SIFMA credit outlook survey projected CLOs and high-grade SF CDOs to be the two largest product sectors for 2007.

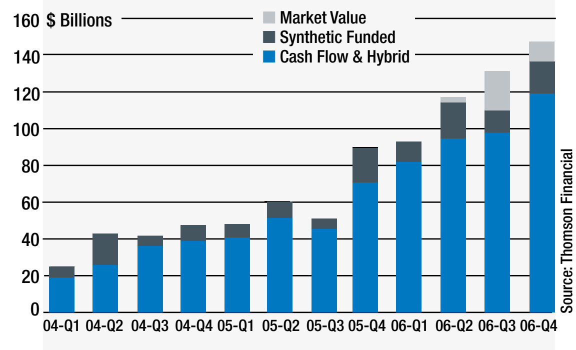
CDO by Currency

U.S. dollar-denominated CDO issuance totaled $386.3 billion in 2006 and accounted for 79.1 percent of global issuance. Most global CDO issues are dollar denominated. Euro-denominated CDO volume was the second largest at $88.1 billion, followed by sterling-denominated CDO volume at $5.6 billion and yen-denominated CDO at $4.5 billion.

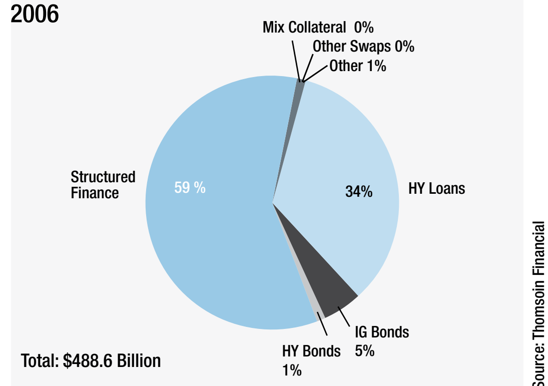
Spreads Tighten

Based on Merrill Lynch data, higher investment-grade rated CDO tranches experienced varying degrees of spread tightening in 2006 based on generally favorable credit conditions and expanding liquidity due to institutional investor interest. "A" rated and above SF CDO spreads were flat for the fourth quarter but about 8 basis points tighter than the at beginning of the year. Reflecting credit exposure in lower rated mortgage securities, "BBB" tranches widened by 20 basis points for the year. "A" rated and above CLO spreads tightened by 1 to 10 basis points and BBB CLO spreads tightened by about 15 basis points, indicative of investor search for yield and favorable conditions in the loan markets. High-grade spreads across the universe of CDO cash products were flat for the first month of the year, as were lower investment-grade CLO tranches. Institutional investors find the sector attractive, especially relative to more commoditized product sectors. Tighter spreads have the effect of increasing returns and demand for CDO equity.

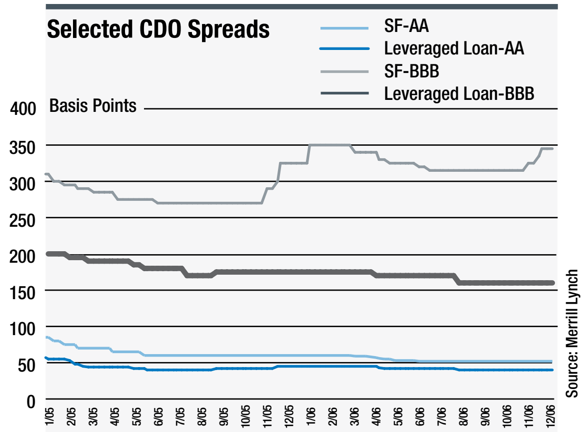
Global CDO Issuance by Transaction Structure



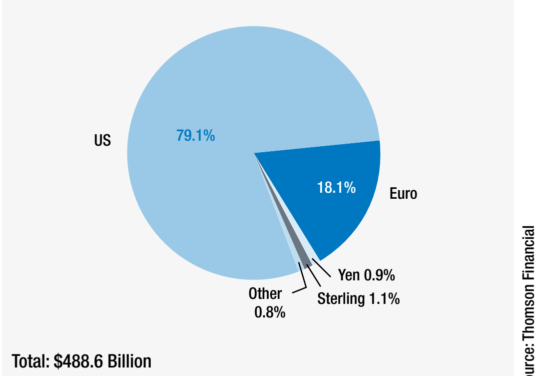
Global CDO Issuance by Underlying Collateral 2006



Selected CDO Spreads



Global CDO Issuance by Currency 2006



Mortgage-Related Issuance Slightly Lower; Non-Agency MBS Grows

Despite the housing sector correction, there was only a slight year-over-year decline in issuance of mortgage-related securities, including agency and non-agency pass-throughs and CMOs, of 1.62 percent to $1.93 trillion in 2006 compared to the $1.97 trillion issued in 2005. The 2006 volume was lower as a result of reduced fourth quarter issuance of $458.7 billion, 5.4 percent less than the third quarter and 13.6 percent less than the same period one year ago. Lower fixed-rate mortgage interest rates and a flat-to-inverted yield curve created incentives to refinance out of adjustable rate and into fixed-rate, helping to boost volumes for the year. For example, the Freddie Mac weekly primary market survey showed the 30-year rate falling by 13 basis points while the 5/1 hybrid ARM declined by only 2 basis points during the fourth quarter. According to the Mortgage Bankers Association, refinancing activity increased to an estimated 46 percent of originations in the fourth quarter, up from 40 percent in the third quarter.

The consensus is that the housing correction, which has resulted in double digit declines in home sales and mortgage originations over the past year, should be completed this year. This view is supported by stronger than expected new home sales in November and December, gains in median home prices and reduced housing construction bringing down inventories. The SIFMA issuance survey projected a 2.6 percent decline in 2007. Mortgage-related securities issuance will be sensitive to mortgage rates and housing sales level and price trends.

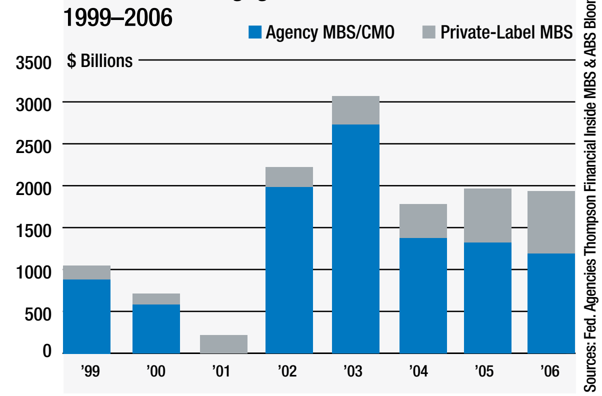
Issuance of agency mortgage-backed pass-throughs reached $899.2 billion in 2006, down 6.9 percent from last year. Agency collateralized mortgage obligations (CMO) issuance totaled $292.0 billion in 2006, a decrease of 17.7 percent compared to 2005. Agency MBS and CMOs combined had a 61.6 percent share of mortgage-related issuance, down from 67.2 percent in 2005.

Non-agency MBS issuance, including jumbo and higher quality residential and commercial mortgage-backed securities, increased to a record $742.8 billion in 2006, 15.1 percent higher than volumes in 2005 and the sixth consecutive annual increase. Benefiting from the growth in the last few years of jumbo mortgages and affordable loan products, including ARMs and Alt-A, private-label issuers can be more flexible in developing their collateral portfolios as they are not subject to agency conforming loan size and underwriting criteria. According to *Inside MBS & ABS*, Fannie Mae sponsored a non-agency MBS transaction for the first time. As Deutsche Bank notes, although still new and not tested over a cycle, innovations including a viable RMBS CDS market and a related index product in 2006 offer new ways to manage risk and build incremental return.

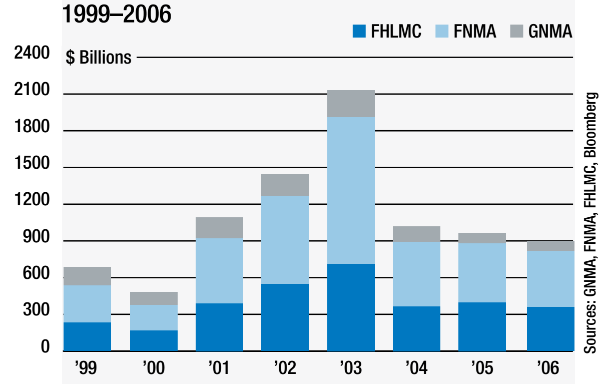
Volume in non-agency residential mortgage-backed securities (RMBS) new issue increased 17.2 percent to $574.3 billion in 2006, accounting for 76.4 percent of the total non-agency MBS market. Private-label RMBS credit quality remained solid despite the slower housing market with Standard & Poor's raising its rating on 866 issues, while lowering only 371 ratings in 2006. With the trend of lower price growth compared to the peak of the housing boom, and with tighter underwriting standards developing, Bear Stearns commented that the 2006 vintage is likely to be the most credit exposed.

Commercial mortgage-backed securities (CMBS) issuance totaled $168.5 billion in 2006, up 8.3 percent from 2005. The sector continued to benefit from a strong commercial real estate environment, low delinquencies and positive rating trends.

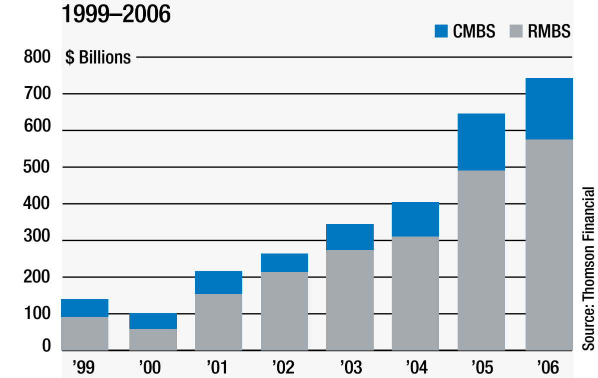
Issuance of Mortgage-Related Securities
1999–2006



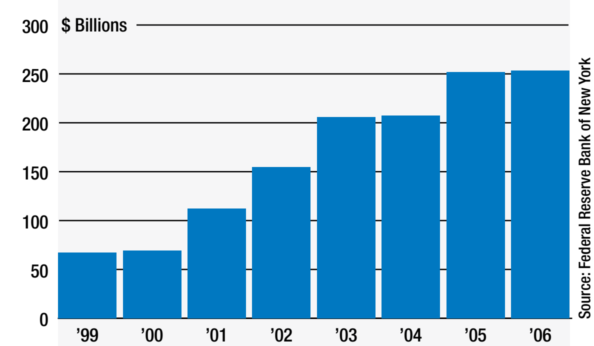
Issuance of Agency Mortgage-Backed Securities
1999–2006



Non-Agency MBS Issuance
1999–2006



Average Daily Trading Volume of Agency Mortgage-Backed Securities[(1)] 1999–2006



[(1)] Primary dealer activity

Repo Average Daily Amount Outstanding Declines Slightly in 2006

The average daily volume of total outstanding repurchase (repo) and reverse repo agreement contracts totaled $5.61 trillion in 2006, a 0.5 percent decrease from the $5.64 trillion outstanding during 2005, the first such decline since 1999. The decline may be due in part to reduced term repo volume, as dealers now incur a daily interest charge back for term repurchase transactions, effectively raising the cost of that source of funding. Daily outstanding repo agreements averaged $3.39 trillion in 2006, a 3.0 percent increase compared to $3.29 trillion in 2005. Average outstanding reverse repo declined to $2.23 trillion, slightly less than the $2.36 trillion outstanding for the same period a year ago. The data represent financing activities of the primary dealers reporting to the Federal Reserve Bank of New York and include repurchase and reverse repurchase agreements involving U.S. government, federal agency, agency mortgage-backed and corporate securities.

The Fixed Income Clearing Corporation's Government Securities Division (GSD), an SEC-registered clearing agency, facilitates orderly settlements in the U.S. government securities market and tracks repo trades settled through its system by product type. Over $419.6 trillion in repo trades were submitted by GSD participants in 2006, with an average daily volume of approximately $1.7 trillion. Transactions involving Treasury notes accounted for the largest share of GSD's repo activity, representing $301.1 trillion, or 71.8 percent of total volume. Repos involving Treasury bills accounted for an estimated $28.2 trillion, or 6.7 percent of the total. Treasury bonds accounted for $37.0 trillion of the activity for the year. Transactions involving federal agency non-mortgage securities accounted for $35.2 trillion, or 8.4 percent of 2006's volume.

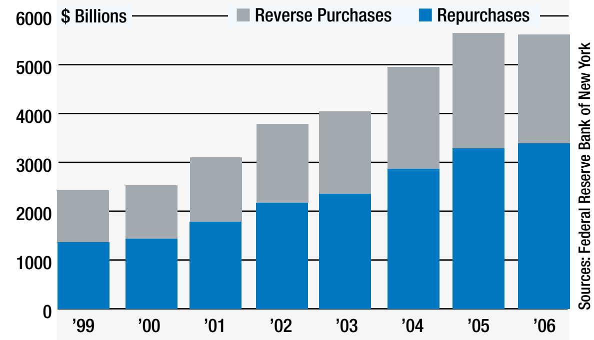
CP Outstanding Increases; Money Market Outstanding Exceeds $4.06 Trillion

The outstanding volume of total money market instruments, including commercial paper (CP), large time deposits and bankers' acceptances, totaled more than $4.06 trillion at the end of 2006, a 6.3 percent increase from the end of the third quarter and 18.7 percent over the past year. CP outstanding rose to $1.95 trillion as of December 31, a 4.8 percent increase compared to the end of the third quarter.

Financial CP outstanding reached $736.7 billion at the end of 2006, a 0.4 percent increase compared to the end of the third quarter, and non-financial CP outstanding was $144.2 billion in the third quarter, a slight increase from $138.2 billion at the end of the third quarter. Asset-backed CP reached $1.05 trillion in 2006, a 26.6 percent increase over the $831 billion outstanding a year earlier. CP growth has been driven by corporate investment, asset-backed CP product development and the recent surge in M&A activity. Investors are attracted to the short-term markets by the current inverted yield curve environment. A recent Stone & McCarthy report noted that the short-term credit expansion is broad based, including consumer and industrial loans. SIFMA's annual Credit Market Outlook survey forecast CP outstanding of $2.17 trillion by year-end 2007, a 12.5 percent increase with the highest growth rate expected in the unsecured corporate (non-financial) sector.

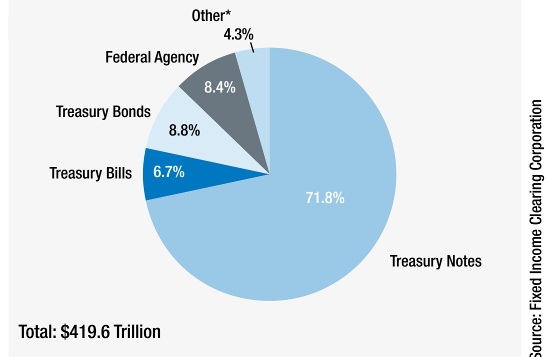
The outstanding level of large time deposits rose 3.0 percent to an estimated $2.10 trillion, up from $1.78 trillion at the end of 2005. Bankers' acceptances totaled an estimated $0.8 billion at the end of the fourth quarter, substantially less than the $4.1 billion outstanding at the end of the fourth quarter of 2005.

Financing by U.S. Government Securities Dealers Average Daily Amount Outstanding 1999–2006



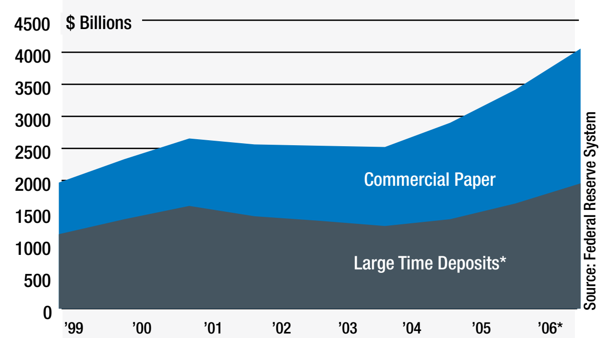
* Beginning July 2001 corporate securities are included

Repo Trades Submitted to the FICC 2006:Q4



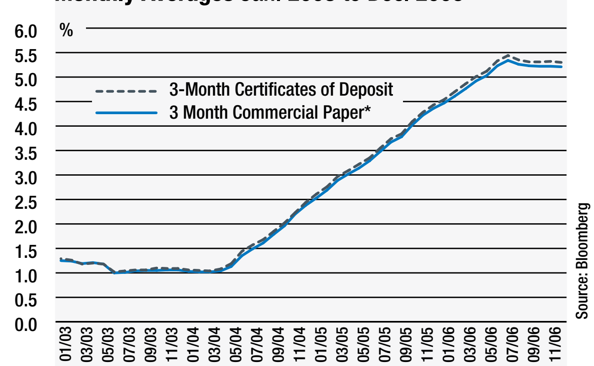
* Includes Discount Agency, Forward Starting Generic Repo Trades, TIPS Bonds, TIPS Notes

Outstanding Money Market Instruments 1999-2006*



* SIFMA estimates

Domestic Money Markets Interest Rates Monthly Averages Jan. 2003 to Dec. 2006



* Discount basis

Bond Mutual Fund Flows Surged in 2006 with the Strong Fourth Quarter Led by the Corporate and Municipal Sector Funds; Equity Funds Also Grew for the Year

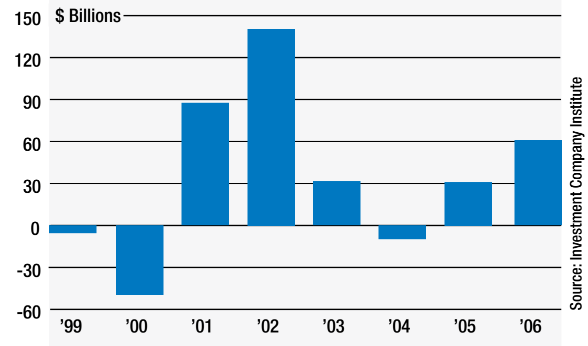
Strong inflows in the first and fourth quarters of the year boosted bond mutual fund net inflows to $60.8 billion in 2006, almost twice the $30.8 billion inflow in 2005, during a period in which there were net inflows to equity funds as well. During the fourth quarter, net bond fund inflows totaled $26.1 billion, the strongest quarter since the first quarter of 2003. Positive returns across the fixed-income sectors, with the strongest gains from the higher credit risk sectors, were factors in the bond fund flow trends. The liquidity ratio—the amount of cash relative to total assets held by a mutual fund—for bond funds decreased slightly to 5.7 percent, suggesting that the funds were increasingly invested. Stock mutual fund net flows were also positive in 2006, with an inflow of $157.9 billion, up from the $135.6 billion inflow in 2005, reflecting equity market appreciation during the year. (Note that, with the merger forming SIFMA, beginning with this issue and to a greater extent in future issues, the mutual fund section will include an equity fund discussion.) Net assets of all mutual funds increased to $10.4 trillion at the end of 2006, compared to $10.3 trillion at the end of 2005.

Strong Flows into Corporate and Municipal Bond Funds

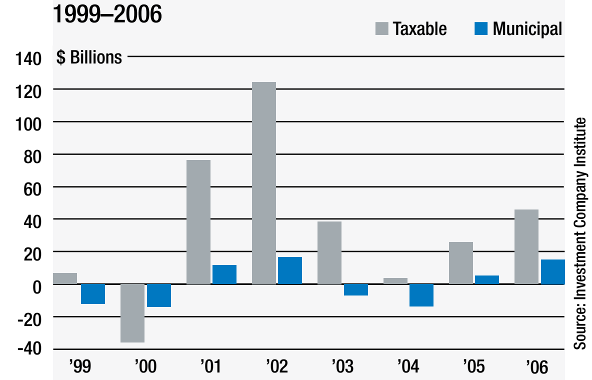
Municipal and investment-grade and high-yield corporate mutual funds experienced strong net inflows during the fourth quarter, while a net outflow from Treasury and MBS bond funds reflected increased investor risk tolerance and relative performance of the respective fixed-income sectors. The largest net flow on a dollar basis occurred in the corporate investment-grade sector, with a gain of $18.4 billion in the fourth quarter, the largest quarterly inflow in 2006. Corporate high-yield mutual fund inflows reached $2.8 billion in the fourth quarter, up from the inflow of $1.8 billion in the third quarter as investors searched for yields were attracted by the sector's return performance. Net cash flows into municipal funds totaled $7.1 billion, an increase from the inflow of $4.8 billion in the third quarter. Treasury bond fund flows continued to decline, with an outflow of $3.7 billion in the quarter compared to the outflow of $0.5 billion in the previous quarter. Treasury outflows in the last two quarters were indicative of investor willingness to accept credit risk for higher returns in other asset classes that have also benefited from the low volatility environment. MBS sector funds had a net outflow of $2.1 billion in the fourth quarter, compared to the outflow of $1.6 billion in previous quarter, undoubtedly affected by the housing correction and concerns in the lower credit quality mortgage product sectors as well as perhaps prepayment expectations, as the 30-year mortgage rate declined in the fourth quarter. Sector metrics are expected to stabilize in the coming year.

Bond fund flows were the beneficiaries of favorable bond market conditions during the quarter and year. Many of the same fundamentals are still in place at the beginning of 2007, though benchmark yields have edged up. While it would not be surprising if investors engage in profit taking, especially if the present credit market conditions recede and risk tolerance wanes, the current environment remains positive for bond funds. The improved economic growth prospects relative to the consensus below trend forecast at year end, combined with the likelihood that the Fed is likely to keep rates steady through the first half of the year, suggests there could be further gains for equity funds. As of December 2006, the S&P Investment Policy Committee was recommending a 60 percent equity allocation for 2007.

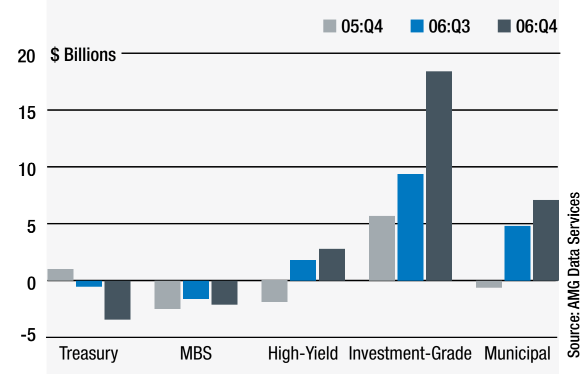
Net Cash Flows of Bond Mutual Funds 1999–2006



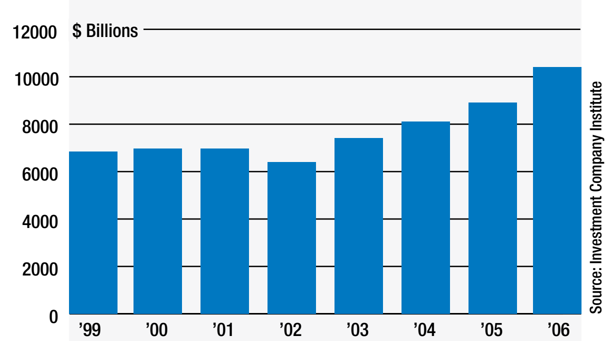
Net Cash Flows of Taxable vs. Municipal Mutual Funds 1999–2006



Net Cash Flows of Mutual Funds by Sector



Assets of Mutual Funds 1999–2006



Special Topic: Introducing the SIFMA Research Quarterly Equity Market Summary

Strong Performance in 2006, Favorable Metrics for 2007

With the formation of the Securities Industry and Financial Markets Association, or SIFMA, the Research Quarterly has expanded its coverage beyond the U.S. debt markets to incorporate the equity markets as well. Beginning with this issue, there will be an equity market analysis section and data presentation that encompasses the broad financial market universe – bonds and equities.

Our expansion into equities could not come at a more auspicious time, with strong equity index performance during the fourth quarter as well as for the full-year 2006 and metrics suggesting that there is more room for growth. Equity performance is consistent with the broader 2006 trend of higher returns from the higher risk asset classes. Favorable performance has continued into 2007, with the Dow hitting a new high. In addition, average daily trade volume in terms of both shares traded and dollar value also grew for the quarter and the year.

Equity Indices Up for the Year

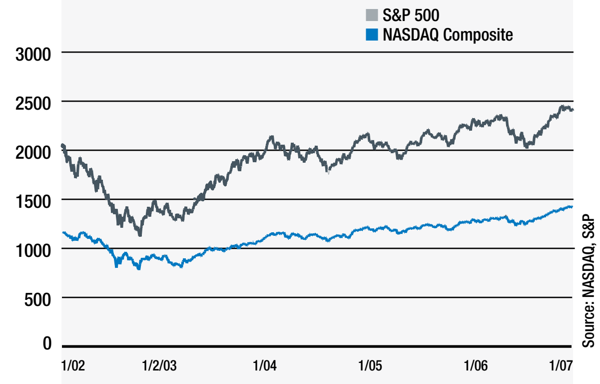
The early 2006 rally that waned in May resumed in September and produced the third best ever yearly point gain for the Dow Jones Industrial Average (DJIA), up 1,745 points for the year. Several factors contributed to the performance, including continuation of double digit profit growth, low interest rates, and the retreat in oil prices during the second half of the year as the price of the crude oil benchmark, West Texas Intermediate fell to $61.05 per barrel at year-end from a high of $77.03 per barrel on July 14, 2006. In addition, corporate finance strategies focused on building shareholder value and returns, including M&A and share buyback transactions. Some of the same factors that produced strong performance in 2006 appear to be in place for 2007, also the current price-earnings ratio (P/E) suggests moderate valuations. The combined dividend and buyback yield is running slightly above 5 percent, well above the levels of a few years ago, according to Deutsche Bank Alex. Brown, and a level that looks attractive relative to other asset classes on a risk/return basis and offers protection should equity prices retreat. Adding to the market's prospects for the coming year is that profits should continue to be solid, although moderating to high single digits, according to the SIFMA economic outlook. In addition, monetary policy is likely to be stable at least until mid-year with contained inflationary expectations which limit upside rate movements. Economic growth prospects have picked up from the below trend consensus at year-end based on recent economic data. Equity index performance through the first month of the year supports such a view.

At year end, the DJIA was at 12,463 and the S&P 500 at 1,418 and the NASDAQ at 2,415. For the fourth quarter, the DJIA rose 6.7 percent, the S&P 500 6.2 percent, and the NASDAQ 6.9 percent. For the year DJIA, S&P and NASDAQ were up 16.3 percent, 13.6 percent and 9.5 percent, respectively. The SIFMA economic outlook survey in December projected an S&P 500 of 1,500 by year-end 2007, up 5.8 percent over 2006.

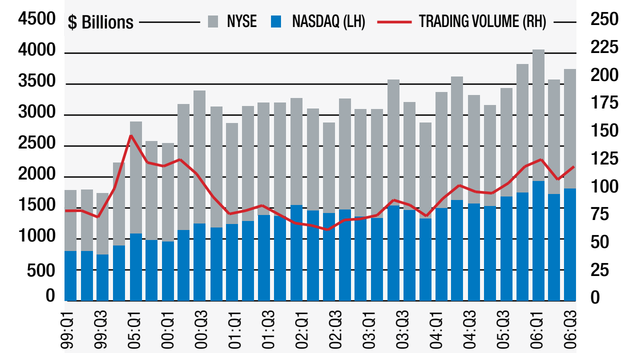
Low Volatility

The low-volatility environment has been positive for valuations but, at the same time, may be a warning to the investor community about complacency. The Chicago Board Options Exchange Volatility Index, or VIX, ended the fourth quarter down 3.5 percent from the third quarter close of 11.98 and down 4.2 percent from the 2005 close of 12.07. The VIX has been gen-

Daily Closing Stock Prices

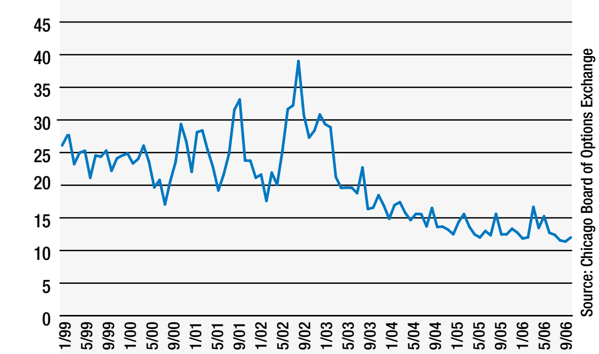


NYSE and NASDAQ Average Daily Share and Trading Volume



Source: NYSE, NASDAQ

SPX Volatility Index (VIX)



erally moving lower over the last four years and well below the peak level in 2002. Historically low volatility is certainly not a permanent condition, and the VIX has picked up from its low in January by 9.9 percent.

S&P 500 Price/Earnings in Moderate Range

The aggregate S&P 500 equity price has remained under 20 times earnings since the end of 2004, closing 2006 at 17.76 times projected earnings. The lowest P/E during that period was 16.97 in June. By comparison, the highest month-end P/E since 2004 was 19.97, at the end of February 2005. As further context, since 1999, the highest month-end P/E for the S&P was in March 2002, at 61.33.

US M&A activity surged in 2006. For the month of December, the fourth quarter and the 2006 year, announced deals totaled $187.5 billion, $533.6 billion and $1.52 trillion, respectively. The fourth quarter was the fourth-best quarter ever, with the highest volume since the first quarter of 2000. The full-year dollar total was the fourth highest year for announced deals. Considering the ascendancy of private equity and LBO growth combined with current favorable borrowing conditions in both the leveraged loan and bond markets, the broad consensus is for M&A volumes to have another strong year, challenging if not surpassing 2006 deal volume in 2007.

Surging Share Buyback Volumes

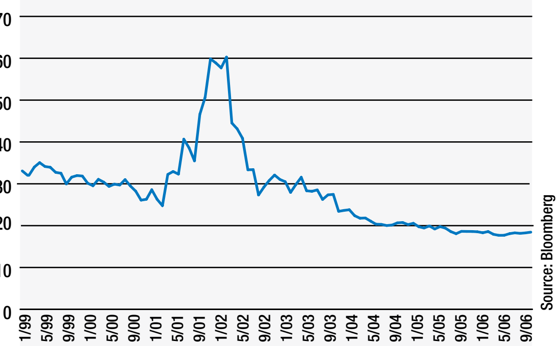
Enabled by solid corporate balance sheets and cash positions, the pace of share repurchases continues to accelerate as part of a broader corporate balance sheet re-leveraging. S&P 500 buybacks hit $435 billion in 2006, 25 percent higher than in 2005 and more than double the 2004 level, according to S&P. As another indication of the buyback trend, New York Stock Exchange listed firms had a total of 54 share buyback announcements in the fourth quarter, up from 20 in the third quarter. NYSE share buyback dollar volume totaled $53.6 billion in the fourth quarter, up from $18.9 billion in third quarter. NASDAQ listed firms had 18 announced share buybacks in the fourth quarter, up from 10 in the third quarter, although dollar announcements did decline to $7.0 billion from $20.5 billion in the quarter.

Buyback programs still have room to grow, although there ultimately are limits based on imposed financial leverage targets and constraints and implications for issuers' credit profiles, an effect on stock prices, and corporate returns on buybacks relative to other investments. Nevertheless, there is little evidence that aggregate corporate share repurchase volumes will decline in the near term. In fact the trend has been accelerating over the last three years. The most active share buyback quarter this decade on the NYSE was the first quarter of 2000, when the NYSE reported 232 share buybacks. For the NASDAQ, it was the fourth quarter of 2000 with 200 share buybacks. Today's environment, however, is much different than 2000's, as equity performance is being driven to a much greater extent by fundamentals such as balance sheet and earnings-based performance. Based on a Deutsche Bank Alex. Brown analysis, the environment today is different from the record high buyback period of 2000 because the earlier peak buyback cycle was motivated by offsetting dilutive transactions (e.g. stock options) and buybacks were more debt financed during the earlier period.

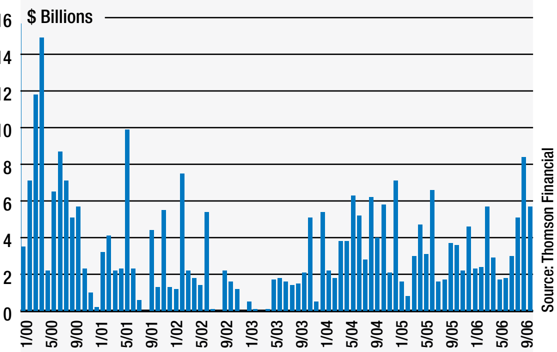
Equity Underwriting Picks Up in the Fourth Quarter, Modestly Lower for the Year; IPOs Strong in 2006

Supported by robust equity market performance, total equity issuance in the fourth quarter rose 74.5 percent from the third quarter and 22.4 percent over the same period a year ago, recording the highest quarterly total since the first quarter of 2004. Full-year 2006 equity issuance totaled $188.0 billion, down 1.2 percent compared to 2005. Initial public offering (IPO) vol-

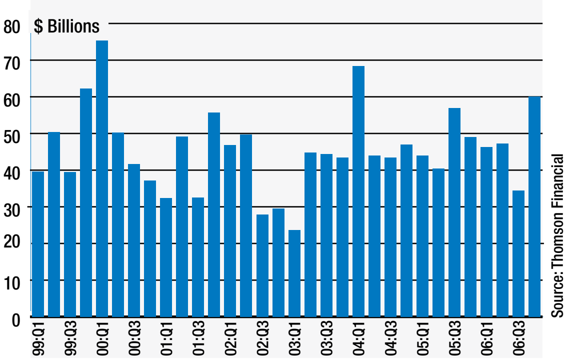
S&P 500 Aggregate Price-Earnings Ratio



"True" IPO Issuance



Total Equity Underwriting

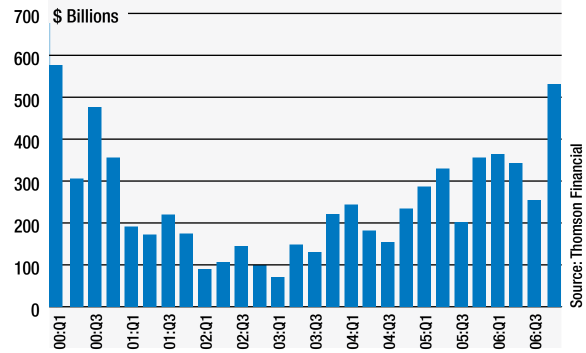


ume in the fourth quarter was $19.2 billion, surging 193.7 percent above the third quarter level and 115.8 percent higher than a year ago. For full-year 2006, US IPO volume reached $45.9 billion, 16.0 percent higher than 2005, though still well below the record-setting IPO year of 2000, when $75.8 billion in new offerings were placed. The total value of fourth-quarter secondary offerings was $28.1 billion, 71.7 percent above the third quarter, but 8.2 percent less than the fourth quarter a year ago. For the year, secondary offerings were up slightly by 1.3 percent from 2005, reaching $99.1 billion. Total equity issuance was down due to the close-end funds IPOs.

Trading Volume Rises

Average daily share volume for the fourth quarter was up 5.2 percent on the NYSE and 4.7 percent on the NASDAQ. For full-year 2006, NYSE average daily volume rose 13.7 percent to 1.83 billion shares per day, while NASDAQ volume was up 12.1 percent to 2.0 billion shares per day. NYSE average daily dollar volume for the quarter of $68.5 billion was 9.5 percent above the third quarter average and 15.5 percent above a year ago. For the year as a whole, NYSE average daily dollar volume of $68.3 billion was 21.7 percent above the 2005 average, with a monthly record high of $77.3 billion set in May. NASDAQ fourth quarter daily dollar volume averaged $46.8 billion, up 14.3 percent from the third quarter level and 14.0 percent above a year ago. NASDAQ daily dollar volume averaged $46.5 billion in 2006, up 17.6 percent from the 2005 level, but still well below the record of $80.9 billion pace set in 2000, with the highest monthly volume of the year recorded in January at $55 billion. As would be expected, August was the lowest dollar volume trading month on both the NYSE and NASDAQ.

U.S. Mergers & Acquisitions Announced Deals



S&P 500 Index Share Buybacks