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Invested in America

RESEARCH QUARTERLY

THIRD QUARTER 2010

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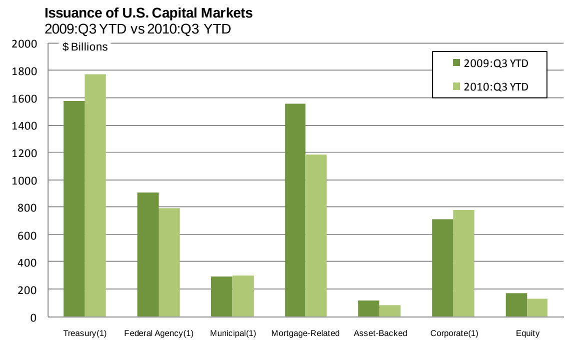
CAPITAL MARKETS OVERVIEW



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

$ Billions	2010:Q3	2009:Q3	Y-o-Y % Change*	2010:Q3 YTD
Treasury [1]	560.0	574.5	-2.5%	1,771.6
Federal Agency [1]	251.6	164.7	52.8%	791.9
Municipal [1]	93.4	92.5	1.0%	298.1
Mortgage-Related	442.0	535.6	-17.5%	1,189.7
Asset-Backed	26.3	51.4	-48.8%	88.4
Global CDO	2.0	0.6	250.0%	6.4
Corporate [1]	319.2	225.6	41.5%	777.0
Equity	46.4	43.7	6.2%	129.0

* Percent change between 2010:Q3 and 2009:Q3
[1] Includes long-term issuance only

Total Capital Markets Issuance Increased 13.9 Percent to $1.74 Trillion in Third Quarter 2010

Talk of quantitative easing capped the end of the third quarter after reports of slower-than-expected U.S. economic growth trickled in. With the passage of the Dodd-Frank Wall Street and Consumer Protection Act (Dodd-Frank Act), quantitative easing, refinancing pressure, mid-term election uncertainties, and the European sovereign crisis continued to create an impact on the market.

In the third quarter of 2010, $1.74 trillion in securities were issued, a 13.9 percent improvement from last quarter's $1.52 trillion and a 2.9 percent increase year-on-year (y-o-y) from $1.69 trillion in 3Q'09.

Municipal issuance totaled $93.4 billion in the third quarter of 2010, down 6.5 percent from $99.9 billion in 2Q'10. Market share for taxable issuance declined slightly to 30.4 percent from 32.8 percent in the previous quarter due to the decline in Build America Bonds (BABs) issuance. The future of the BABs program continues to remain ambiguous.

Total third quarter gross issuance of U.S. Treasury securities, including all cash management balances, was $560.0 billion, down 2.5 percent from 2Q'10's $574.5 billion. This decrease occurred in spite of significant increase in total issuance for the month of August.

Federal agency long-term debt issuance was $251.6 billion in 3Q'10, an increase of 8.1 percent from the $232.7 billion in the prior quarter. Year-to-date, however, nearly $792 billion has been issued, a 12.8 percent decline in the same period in 2009.

Mortgage-related securities issuance totaled $442.0 billion in the third quarter of 2010, an increase of 23.5 percent from 2Q'10. Agency issuance market share declined to 98.7 market share in third quarter (from 99.0 percent in 2Q'10) due to a slight uptick in commercial real estate securities (CMBS) issuance; on the other hand, the residential non-agency market remained closed.

Asset-backed securities (ABS) issuance in the third quarter of 2010 totaled $26.3 billion, a decline of 7.1 percent from 2Q'10. Year-to-date, ABS issuance amounted to $88.4 billion and is on pace to fall short of 2009 issuance total of $146.2 billion, when the Term Asset-Backed Securities Facility (TALF) had been available.

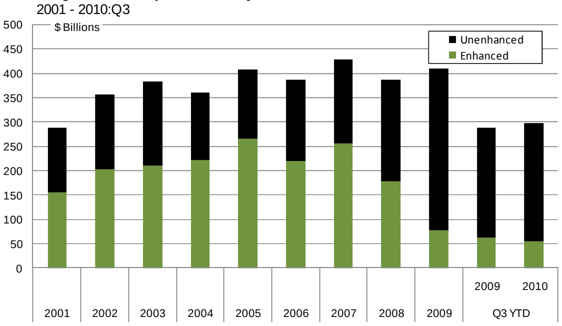
Global collateralized debt obligation (CDO) issuance increased to $2 billion in 3Q'10, a 150 percent increase from the previous quarter and nearly triple y-o-y as a few European deals were done, although the majority were retained.

Corporate bond issuance increased significantly in 3Q'10 to $312.7 billion, more than double than 2Q'10's $154.5 billion. The sharp increase was concentrated in investment grade bonds (117 percent increase from the prior quarter). High yield bonds reached all-time high for issuance, with $70 billion issued in 3Q'10, as high yield issuers sought to refinance their debt.

Equity issuance stood at $46.4 billion in 3Q'10, a 3.2 percent decline from the last quarter but 6.2 percent improvement compared to 3Q'09. Although IPO activity increased by 5 percent to $5.4 billion, average deal size has been quite small: year-to-date the average size of an IPO has been $150 million, compared to 2009's average of $292 million and is the lowest since 2000.

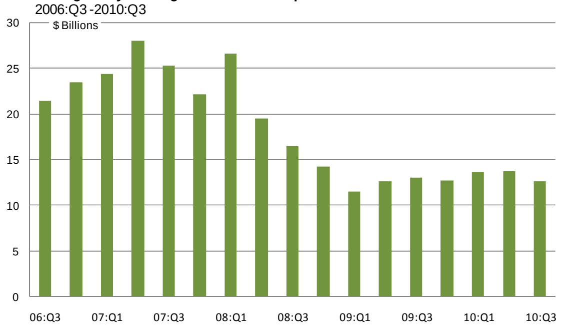
MUNICIPAL BOND MARKET

Long-Term Municipal Issuance by Enhancement Status¹
2001 - 2010:Q3



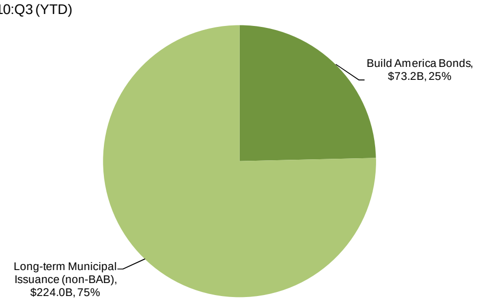
¹Includes maturities of 13 months or more
Source: Thomson Reuters

Average Daily Trading Volume of Municipal Securities¹
2006:Q3 -2010:Q3



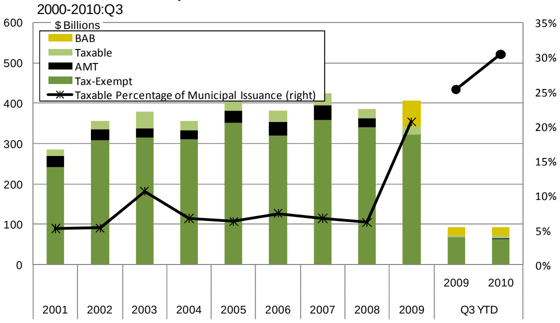
¹Includes both dealer-to-dealer and customer-to-dealer transactions.
Source: Municipal Securities Rulemaking Board

Build America Bond Issuance
2010:Q3 (YTD)



Sources: Bloomberg, Thomson Reuters, SIFMA

Taxable vs. Tax-Exempt Issuance
2000-2010:Q3



Source: Thomson Reuters, SIFMA

According to Thomson Reuters, long-term municipal issuance volume, including taxable and tax-exempt issuance, totaled $93.4 billion in the third quarter of 2010, down 6.6 percent from $99.9 billion in 2Q'10 and a moderate increase of 1.9 percent from 3Q'09. Excluding taxables, tax-exempt issuance totaled $63.3 billion, a decline of 4.5 and 7.1 percent, respectively, from 2Q'10 and 3Q'09.

Market share in taxable issuance declined modestly in 3Q'10 from the prior quarter, a 30.4 percent share compared to 32.8 percent in 2Q'10; market share, however, remains well above last year, when taxable issuance took 25.4 percent market share in 3Q'09. The slight decline in market share was primarily due to the reduction in Build America Bonds (BABs) issuance in 3Q'10, as non-BAB taxable issuance has remained steady at $7.8 billion in 3Q'10 (compared to $7.7 billion in 2Q'10).

Tax-exempt issuance gained market share in the third quarter with issuance of $63.3 billion, and tax-exempt mutual fund inflows continued to remain strong throughout the third quarter: according to Investment Company Institute (ICI), inflows for the third quarter of 2010 totaled $12.3 billion, for a total of $31.4 billion year-to-date.[1]

The spread between the 10-year AAA G.O. and 10-year Treasury yields stayed elevated throughout 3Q'10, averaging 99.5 compared to 91.7 in 2Q'10 and ending at 105.4.

Build America Bonds and Non-BAB Taxables

BAB issuance declined by 18.1 percent in the third quarter from the prior quarter, reaching $20.6 billion (from $25.1 billion 2Q'10), but still an increase of 3.1 percent from 3Q'09. Concerns over issue price, offsetting payment disputes with the IRS and seasonality may have contributed to the drop in issuance, as issuance in July and August ($6.4 and $5.4 billion, respectively) were well below monthly issuance average through the first three quarters of 2010 ($8.1 billion).

The future of the BABs program continues to remain ambiguous. Although the Senate Finance Committee Chairman Max Baucus' (D-MO) Job Creation and Tax Cut Act of 2010 slims down the current BABs extension proposal even further with a 1-year extension, the measure was not taken up as the House and Senate adjourned for mid-term elections.

Non-BAB taxable issuance remained steady in 3Q'10 at $7.8 billion, up 2.3 percent from $7.7 billion in 2Q'10 and 138.4 percent from 3Q'09. The uptick from the prior year, as in 2Q'10, is due to the direct payment bonds authorized in both the American Recovery and Reinvestment Act (ARRA) and the Hiring Incentives to Restore Employment Act (HIRE).

Credit Enhancement

Non-enhanced issuance in 3Q'10 comprised 82.6 percent of total issuance, down slightly from the 84.8 percent share in 2Q'10 but up by from the 80 percent share in 3Q'09, in part due to the slight uptick in VRDO issuance. Insured bond issuance of $7.2 billion represented 7.7 percent of total enhanced issuance, up slightly from 7.1 percent in 2Q'10 but down from the 9.6 percent share in 3Q'09.

[1] Investment Company Institute (ICI), Long-Term Mutual Fund Flows

VRDO and ARS Issuance and Update

Issuance of variable rate demand obligations (VRDOs), long-term municipal bonds with a floating interest rate that resets daily or weekly and contains a put feature, saw a slight uptick with $4.2 billion issued in 3Q'10 from $4.0 billion in 2Q'10, but a significant decline from $9.4 billion in 3Q'09. According to ICI, tax-exempt money market funds shrank an additional $16.7 billion in 3Q'10; year to date, tax-exempt money market fund assets under management (AUM) have declined by $150.8 billion, or 32.7 percent. The SIFMA Municipal Swap Index, a 7-day high-grade market index comprised of tax-exempt VRDOs, ended September at 0.27 percent and averaged 0.28 percent throughout 3Q'10.

Forthcoming Basel capital regulations threaten to negatively impact pricing on short-term bank liquidity facilities for VRDOs, such as letters of credit (LOCs) and standby bond purchase agreements (SBPAs). As of end-June 2010, $130.2 billion of letters of credit were scheduled to expire in 2010 and 2011 and alternative options, such as self/internal liquidity, remain relatively rare.[2] Higher cost of liquidity, forthcoming Basel capital regulations and limited number of banks participating in the LOC and SBPA market may negatively impact the pricing and availability of liquidity facilities to support VRDOs in the future.

Government Update

On July 21, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. The Act directly impacts the municipal sector, containing provisions relating to financial advisors, municipal derivatives, swaps participation by state and local government, Municipal Securities Rulemaking Board (MSRB) board composition, SEC divisions, rating agencies, and others.[3] Shortly after the end of the third quarter, the MSRB announced new members to its expanded board[4] and began its expanded authority over municipal financial advisors, although the rules surrounding municipal advisors remains in flux.

Tax Revenues

According to the Nelson A. Rockefeller Institute of Government, preliminary tax collection data show improvement in overall state tax collections, particularly personal income tax (PIT) and sales tax revenue.[5] While 30 of 47 reporting states reported gains in overall tax collections in the period April-June 2010 from April-June 2009, 17 states reported declines, notably Illinois (7.0 percent) and California (0.9 percent). By region, the Rocky Mountain region was the only region to report a decline in overall tax revenue (4.4 percent), whereas other regions generally reported an increase in tax revenues.[6] Although PIT revenues generally showed improvement overall, much of this improvement could be attributed to the improvement in California, a result of legislation rather than organic growth; excluding California would result in a 1.1 decline in PIT nationally. Corporate income tax revenues declined steeply by 18.8 percent in 3Q'10 from 3Q'09.

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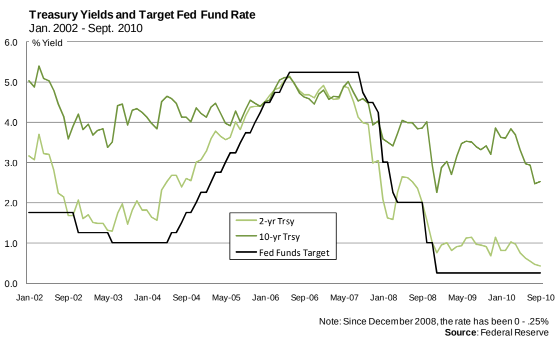
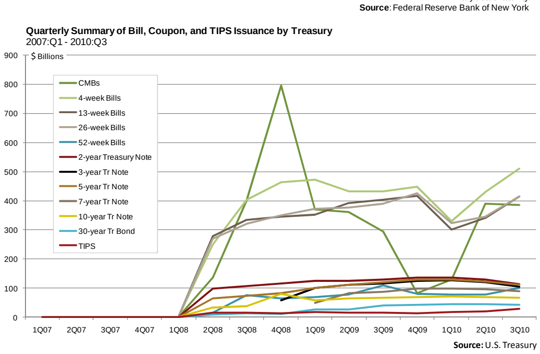
[2] See SIFMA's Research Report, VRDO Update 2010, October 2010.
[3] See SIFMA Dodd-Frank Resources for more details.
[4] New Public Majority Board Members: Milroy Alexander, Sheryl Bailey, Robert Fippinger, Jay Goldstone, Robert Jackman, David Madigan, Benjamin Thompson, C. Christopher Trower. New Municipal Advisor Representatives: Adela Cepeda, Robert Lamb, Noreen White. Remaining members were already existing members of the board.
[5] Nelson A. Rockefeller Institute of Government, State Revenue Report, October 19, 2010.
[6] The Rocky Mountain region comprises Colorado, Idaho, Montana, Utah, and Wyoming.

TREASURY MARKET





Slight Net Issuance Increase; Federal Reserve Announces Second Round of Easing

Total third quarter net issuance of U.S. Treasury securities was $395.8 billion, up over 15 percent from 2Q'10's $343.6 billion, including all cash management balances. Excluding cash management bills (CMBs), total net issuance was $10.8 billion in the third quarter, a significant jump over the $(45.4) billion in the prior quarter. This jump was primarily the result of a significant increase in total issuance for the month of August (especially coupon issuance, which soared from $81 billion to $297.5 billion month-over-month, or m/m) plus lesser total redemptions (especially bill redemptions, which fell 21.5 percent m/m). The use of short-term CMBs remained steady throughout the third quarter. The total 3Q'10 net issuance of $395.8 billion was 13.1 percent higher than Treasury's August borrowing estimate of $350 billion for the third quarter.

Approximately $559.5 billion of Treasury coupons and TIPS were issued in the third quarter, a number that has been continually falling since the beginning of the year. Treasury previously announced their intent to decrease the size of coupon auctions going forward. Treasury also continues to consider additional TIPS reopenings in order to increase the frequency of TIPS auctions, as needed[7]. Treasury notably restarted purchases of longer-term securities in August 2010, after terminating such activity at the end of October 2009.

Net coupon issuance for the third quarter was $389.9 billion, which also has been steadily decreasing since the start of 2010. Gross coupon issuance was $530.2 billion, nearly 9 percent below the $581.8 billion issued in the second quarter this year. TIPS issuance was at a high in the third quarter, over $29 billion, a nearly 48 percent leap from the previous quarter's $19.8 billion issued.

SIFMA's recently completed 4Q'10 Government Forecast survey of primary dealers[8] projected total net issuance of $387.0 billion for the upcoming fourth quarter, under the net $395.8 billion issued in 3Q'10. Survey participants also expect Treasury to end the year with $270 billion in cash (including $200 billion for their Supplementary Financing Program, or SFP), slightly below the $300 billion projected in Treasury's November marketable borrowing estimates[9].

Gross issuance of bills, including CMBs, was approximately $1.83 trillion in the third quarter, up nearly 16 percent from the $1.58 trillion in 2Q'10 and over 57 percent from the $1.16 trillion in 1Q'10.

Total amount of Treasury securities issued were nearly $2.4 trillion in the third quarter, including CMBs, and approximately $2 trillion when excluding CMBs. Total issuance has been increasing since the start of 2010, and saw a 22.5 percent rise between 1Q'10 and 2Q'10 and another more moderate nine percent incline from 2Q'10 to the third quarter.

The economic environment remains questionable as labor statistics show weakness and housing markets continue to display problems. Reflecting the weakness in the economy, the Federal Reserve has recently announced a second round of quantitative easing targeting the longer end of the Treasury yield curve[10].

Daily trading volume of Treasury securities by the primary dealers averaged $515.3 billion in the

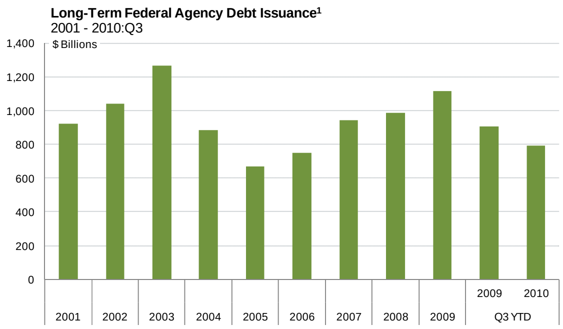
[7] See US Treasury's August 2010 Quarterly Refunding Statement.
[8] SIFMA Government Forecast, October 28, 2010
[9] See Treasury's press release.
[10] See Federal Reserve's FOMC statement on November 3, 2010.

third quarter, 2.3 percent below 2Q'10's $527.5 billion but over 23 percent above the same year-ago period's $417.8 billion in average daily volume. The decrease in the third quarter was the first decrease in daily trading activity observed since the 10 percent decline between 4Q'08 and 1Q'09.

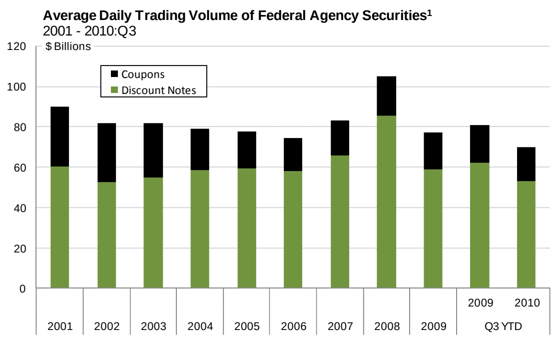
The 2-year Treasury yield was 0.42 percent at the end of the third quarter, down from 0.61 percent at end-2Q'10. The 10-year Treasury yield at the end of the third quarter was 2.53 percent, down from the 2.97 percent at end-2Q'10, and the 30-year bond fell from 3.91 percent at end-2Q'10 to 3.69 percent at end-3Q'10, reflecting an increased demand for longer-term Treasury notes. The 2-year to 10-year yield spread increased to 211 basis points (bps) at the end of the third quarter from a low of 200 bps at end of the prior quarter.

Looking forward, primary dealers polled by SIFMA in the Government Forecast survey expect yield rates to stay relatively flat or continue their downward trend going through the end of the year and into 2011. As a result, the yield curve is expected to largely flatten going through year-end 2010. The recent announcement by the Federal Reserve for another round of quantitative easing will likely also drive flattening of the curve going forward.

FEDERAL AGENCY DEBT MARKET



¹Excludes maturities of one year or less
* Beginning in 2004, Sallie Mae has been excluded due to privatization
Sources: FHLB, FNMA, FHLMC, SLMA, TVA, FCS



¹Primary dealer activity
Sources: FRBNY

Agency LT Debt Issuance Sees Slight Jump; GSE Report Probable in Early 2011

Federal agency long-term debt (LTD) issuance was $251.6 billion in the third quarter, an increase of 8.1 percent from the $232.7 billion in the prior quarter. Year-to-date, nearly $792 billion total has been issued, still a 12.8 percent decline compared to the same year-ago period. As of September 30, overall average daily trading volume of agency securities (coupons and discount notes) was approximately $70.1 billion for the third quarter, a decrease of 13.4 percent from the same year-earlier period.

The twelve Federal Home Loan Banks (FHLBs) issued $115.9 billion in total bonds in the third quarter, a 19.3 percent drop from 2Q'10's $143.6 billion issued but a 14.5 percent increase from the same year-ago period's $101.2 billion issued. Total FHLB bonds outstanding were $621.7 billion as of September 30, 6.5 percent below the $665 billion outstanding at end-2Q'10. Global debt issuance (separate issuance of bonds as part of the Global Debt Program and meant for foreign investors) was $47.8 billion, which has also been falling through this year (31 percent decrease from 2Q'10's $69.3 billion and 48 percent dive from 1Q'10's $92.3 billion). Total FHLB global debt outstanding at the end of the third quarter stood at $323.9 billion, 7 percent under the $348.4 billion outstanding at end-2Q'10.

Treasury continues to expect to release a report sometime in early 2011 outlining their proposals and recommendations for potentially bringing the GSEs Fannie Mae and Freddie Mac out of conservatorship. No one obvious solution has emerged to date, and proposals range widely, from fully abolishing the two agencies to continuing their current operations and structure, or switching to the creation of a covered bond market in the U.S. or establishing some mortgage insurance fund. One bill proposed by the Republicans[11] earlier this year would require the GSEs to be removed from conservatorship within two years after the bill is signed into law, and then eventually phased out.

Fannie Mae's gross short-term debt (STD) issuance was approximately $100 billion, 32.3 percent below the $147.6 billion issued in 2Q'10. Long-term debt (LTD) issuance was $138.8 billion, conversely up 37.6 percent from 2Q'10's $100.9 billion. At the end of the third quarter, Fannie Mae had $219.4 billion in outstanding STD and another $610.8 billion in outstanding LTD.

Freddie Mac's third quarter gross debt issuance totaled $196.3 billion, slightly under the prior quarter's $198.2 billion. Total debt outstanding fell nearly 8 percent to $745.9 billion at end-September from $809.3 billion at the end of the second quarter.

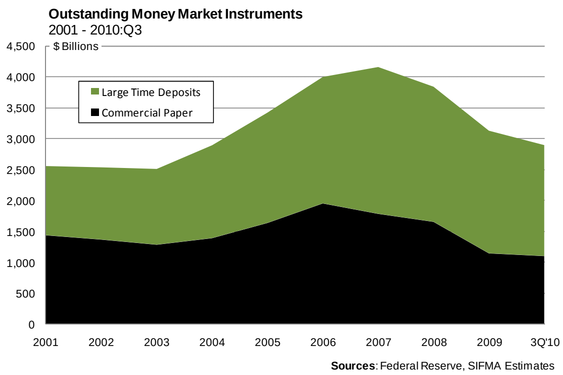
Total bond issuance by the Farm Credit System totaled $35.3 billion in the third quarter, approximately 20 percent above the $29.5 billion issued in the prior quarter.

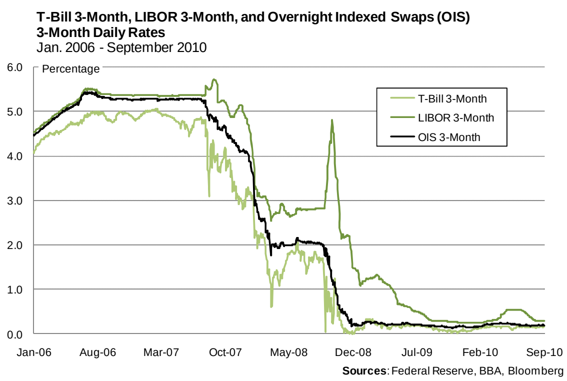
The Tennessee Valley Authority (TVA), currently the largest public power system in the U.S, previously released their quarterly results ending on June 30. Total debt outstanding rested at $23.2 billion at end-June, of which approximately $1.9 billion was STD and $21.4 billion was LTD. Quarter over quarter, STD outstanding fell 13.6 percent and LTD outstanding conversely rose nearly 3 percent.

Primary dealers polled by SIFMA for the Government Forecast survey[12] expect gross coupon issuance levels by the four largest agencies to jump 33.4 percent in 4Q'10 to $334.5 billion.

[11] H.R. 4889: GSE Bailout Elimination and Taxpayer Protection Act
[12] SIFMA Government Forecast, October 28, 2010.

FUNDING AND MONEY MARKET INSTRUMENTS





Total Repos and Reverse Repos Keep Rising[13]; Rates Tumbled and Spreads Narrowed

The average daily amount of total outstanding repurchase (repo) and reverse repo agreement contracts saw a jump of approximately $109 billion in the third quarter and was $4.62 trillion year to date (nearly 22 percent above the $3.8 trillion in the same year-ago period). Daily average outstanding repo transactions totaled $2.6 trillion year-to-date, up nearly 17 percent from the $2.2 trillion recorded in the same year-ago period, while reverse repo agreements averaged $2.02 trillion, up also nearly 29 percent from the $1.57 trillion daily average outstanding during the same year-ago period.

The Federal Reserve Bank of New York continued to hold more rounds of reverse repo testing in the third quarter to help determine whether this tool could be used to drain reserves from the U.S. banking system when it becomes necessary.

Rates overall dropped in the third quarter, and spreads narrowed. 3-month LIBOR rates fell from 53.4 basis points (bps) at the end-2Q'10 to 29 basis points at the end of 3Q'10. The over-night indexed swaps (OIS) rate, a commonly used measure of liquidity and stress in the marketplace, similarly saw a decline from 20 bps at end-2Q'10 to 18.4 bps at end-3Q'10. The 3-month Treasury bill yield fell from 0.17% to 0.15% quarter over quarter (q/q). SIFMA's Government Securities Issuance and Rates Forecast report for 4Q'10[14] projected yields to largely stay flat or continue their downward trend for the remainder of the year.

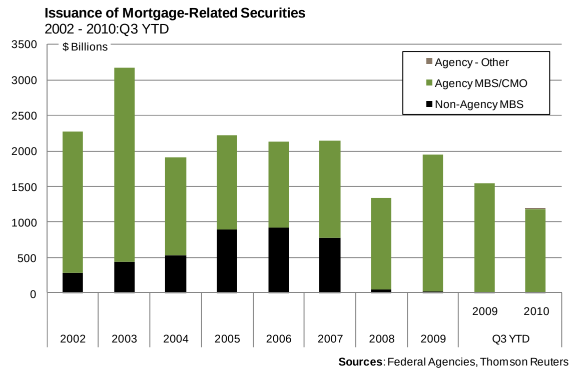
The LIBOR-OIS 3-month spread, a key indicator of overall liquidity and lending risk, narrowed from 33.2 bps at the end of the second quarter to 10.6 bps at end-3Q'10. Similarly, another key indicator of credit risk and specifically the likelihood of loan defaults by banks, the TED spread, plummeted from 36.4 bps at end-2Q'10 to 13.7 bps at end-3Q'10.

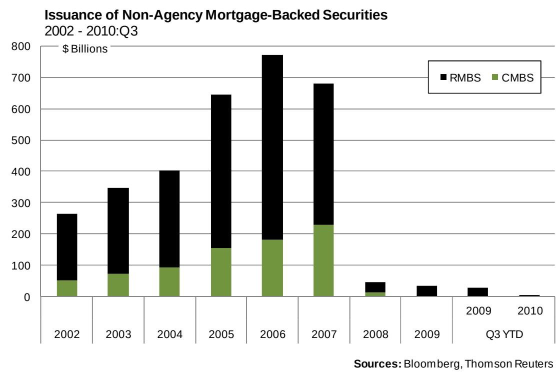
Total CP Outstanding Down Year Over Year But Up From 2Q'10

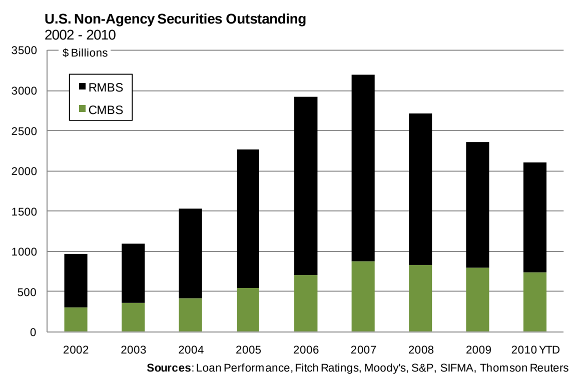
The outstanding volume of total money market instruments (MMI), including commercial paper (CP) and large time deposits, rested at $2.9 trillion at the end of the third quarter, over 9 percent below the nearly $3.2 trillion a year ago. CP outstanding totaled approximately $1.1 trillion, 13.8 percent below the nearly $1.3 trillion at the end of 3Q'09 but 6 percent above end-2Q'10's $1.04 trillion outstanding. Financial CP outstanding increased 4.6 percent q/q to rest at $541 billion at end-3Q'10, and non-financial CP outstanding similarly increased 9.4 percent q/q to rest at $1.46 trillion at end-3Q'10. Notably, while financial CP outstanding fell 13.5 percent year over year, non-financial CP actually rose over 25 percent over the same time period.

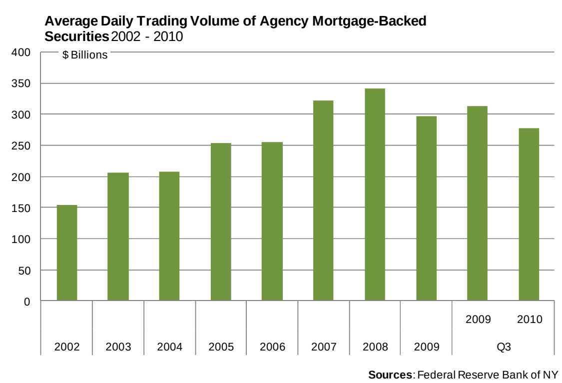
[13] As a reminder, repo data is that provided by the primary dealers only: http://www.newyorkfed.org/markets/gsds/search.cfm. For a breakdown of tri-party repo data, please refer to the Federal Reserve Bank of New York's Tri-party Repo Reform website here: http://www.newyorkfed.org/tripartyrepo/margin_data.html.
[14] SIFMA Government Forecast, October 28, 2010

MORTGAGE-RELATED SECURITIES









Mortgage-Related Market

Issuance of mortgage-related securities, including agency- and non-agency pass throughs and collateralized mortgage obligations (CMOs), totaled $438.3 billion in the third quarter of 2010, an increase of 23.5 percent and a decline of 17.5 percent, respectively, from 2Q'10 and 3Q'09. Although agency share declined compared to the second quarter due to a slight uptick in non-agency issuance from the commercial subsector, the non-agency residential market remains closed.

Agency Issuance

Agency mortgage-related issuance in 3Q'10, including FDIC transactions, totaled $436.4 billion, an increase of 23.3 percent from 2Q'10 but a decline of 16.8 percent from 3Q'09. Agency issuance market share declined slightly, comprising 98.7 percent of all mortgage-related issuance in the third quarter (down from 99.0 percent in 2Q'10).

Non-Agency Issuance and Outstanding

Non-agency issuance in third quarter totaled $5.6 billion in 3Q'10, an increase of 48.0 percent but a decline of 49.2 percent respectively 2Q'10 and 3Q'09. Issuance was largely from the commercial mortgage-backed-securities (CMBS) sector, with a few conduit/fusion deals coming to market, although issuance, as in prior quarters, continue to remain both by dollar and number amount dominated by re-Real Estate Mortgage Investment Conduit (REMIC) securitizations.

Outside of non-agency CMBS, the non-agency residential mortgage-backed security (RMBS) market remains closed.

Housing Conditions

Further weakness in the housing market were exposed in the third quarter: self-imposed foreclosure moratoriums by large servicers and low housing demand contributed to reduced home sales activity and declining home prices.

Government

In July, the Federal Reserve announced its agreement for the U.S. Treasury to reduce the amount of credit protection for the Term Asset-Backed Securities Facility (TALF) from $20 billion to $4.3 billion. As of the end of 3Q'10, TALF stood at $30.7 billion outstanding, with no assets purchased by TALF LLC.

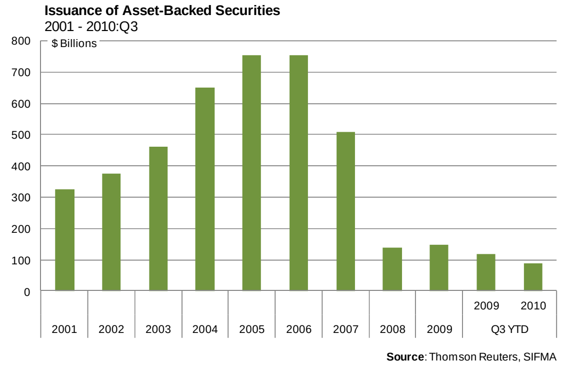
In late August, the U.S. Administration announced additional support for the housing market by providing additional financing for housing finance agency (HFA) programs and unrolling a new program, the Emergency Homeowners Loan Program.

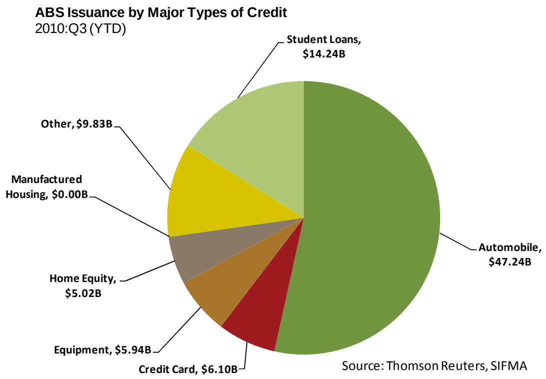
Also in August, President Obama signed H.R. 5981 into law on August 11, allowing the caps on Federal Housing Administration (FHA) premiums to be removed.

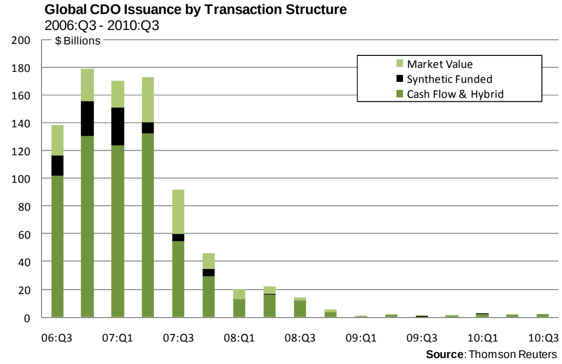
Finally, the Federal Deposit Insurance Corporation (FDIC) approved its final rule regarding safe harbor protection for securitizations on September 27, which may entice bank issuers in particular to "move forward" planned deals before the end of the transition period and before the new rules come into effect.[15]

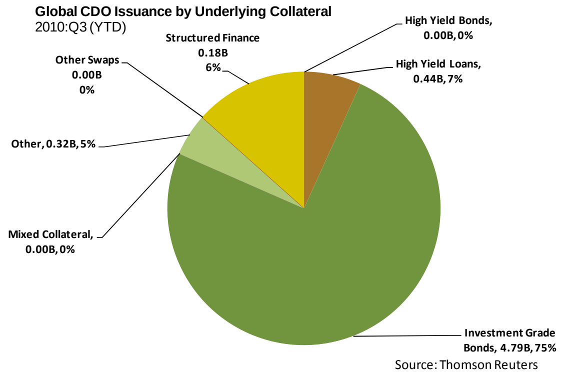
[15] FDIC, Safe Harbor Extension Final Rule, September 27, 2010.

ASSET-BACKED SECURITIES AND CDOS









Asset-Backed Market & CDO

Asset-backed securities issuance in the third quarter of 2010 totaled $26.3 billion, a decline of 7.2 and 48.9 percent, respectively, from 2Q'10 and 3Q'09. Third quarter issuance, as in prior quarters, were led by the auto sector ($15.3 billion, or 58.2 percent of all issuance), followed by student loans ($3.8 billion). New issue activity picked up toward the end of the third quarter as the summer closed. Year-to-date, ABS issuance has amounted to $88.4 billion and is on pace to fall short of 2009 issuance total of $146.2 billion, when the Term Asset-Backed Securities Facility was in use.

Consumer Credit and Spreads

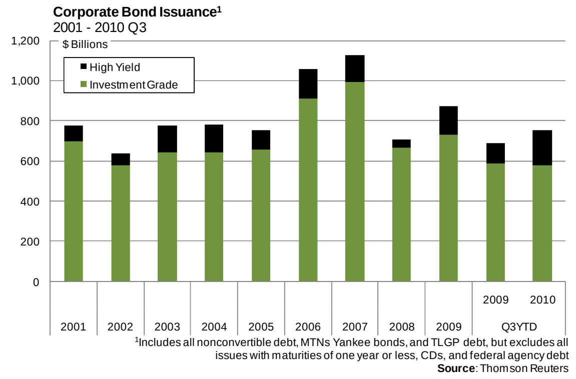
Net issuance remains negative, with outstandings continuing to shrink in 3Q'10, which in turn contributed to continued tight spreads on highly rated issues.

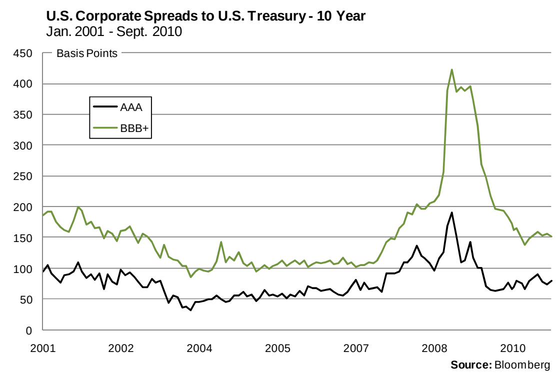
Fundamentally, supply will remain impacted as households continue to deleverage on an ongoing basis. According to Federal Reserve data, consumer credit declined 1.4 percent on an annualized basis in the third quarter, with revolving credit in particular declining by 8.8 percent on an annualized basis. On the flip side, household spending has ticked up slightly, although moderated by continued elevated unemployment (9.6 percent end-September, up from 9.5 percent end-June, on a seasonally adjusted basis).

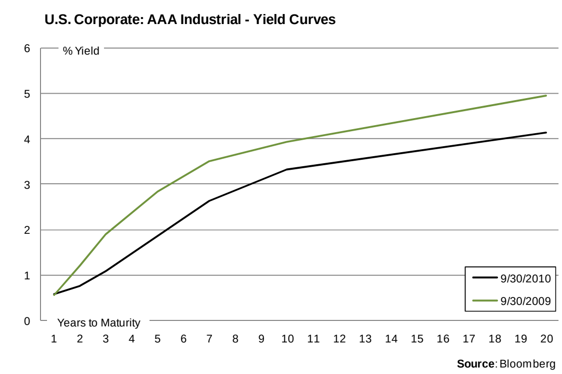
Collateralized Debt Obligations

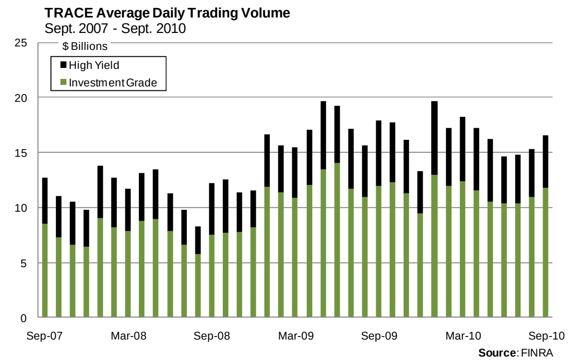
Global funded collateralized debt obligation (CDO) issuance totaled $2.0 billion in 3Q'10, an increase of $1.3 billion from 2Q'10 and nearly a threefold increase from 3Q'09. A few European cash flow collateralized loan obligation (CLO) deals executed for arbitrage purposes made it to market in the third quarter, but the market remains quiet.

CORPORATE BOND MARKET









Corporate Bond Issuance Doubles in 3Q'10; High Yield Issuance Reaches All-Time High

Total corporate bond issuance stood at $312.7 billion in 3Q'10, more than double the amount issued in 2Q'10 ($154.5 billion) and a 42.5 percent increase from 3Q'09 ($219.36 billion). The sharp increase in corporate issuance was concentrated in investment grade (IG) bonds, which increased by 117 percent from the previous quarter to $242.7 billion. The volume of corporate high yield (HY) debt increased as well, reaching an all-time high of $70 billion. According to Fitch Ratings, 40 percent of HY bonds were issued in a bond-for-loan strategy[16]; in which issuers target a significant portion of HY proceeds to repay bank debt. The 3Q'10 year-to-date (YTD) issuance of IG bonds was $578 billion, comparable with 3Q'09 YTD numbers of $589 billion; while HY issuance was up 76 percent to $176 billion in 3Q'10 YTD from $100 billion in 3Q'09 YTD and is on pace for a record-breaking year.

Spreads Tighten as Default Rates Slow

S&P reported composite spreads for IG and HY bonds tightened at the end of 3Q'10 to 203 basis points (bps) and 641 bps, respectively, reflecting stabilization in credit quality. While the IG composite spread was close to its five-year moving average, 198 bps, the HY composite spread is 11 percent wider than its five-year moving average of 579 bps, reflecting some of the sovereign debt turmoil in Europe.

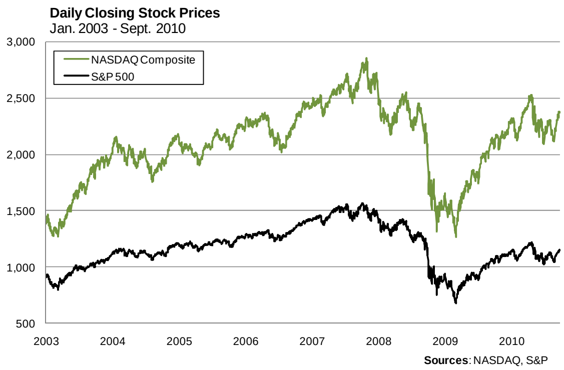
According to S&P's Global Fixed Income Research, 15 issuers defaulted worldwide in 3Q'10, raising the year-to-date 2010 global default number to 57 (significantly down from 3Q'09 YTD 225), 41 of those being U.S. issuers. Missed interest or principal payments and distressed exchanges accounted for over half of the defaults worldwide. In 3Q'10 S&P Ratings Services downgraded 94 issuers and upgraded 124 worldwide. The global downgrade ratio in 3Q'10 ties with 2Q'07 for the lowest downgrade ratio of the decade. However, the downgrade ratio in the U.S. increased to 60 downgrades to 82 upgrades in 3Q'10 from 93 to 53 during the previous quarter.

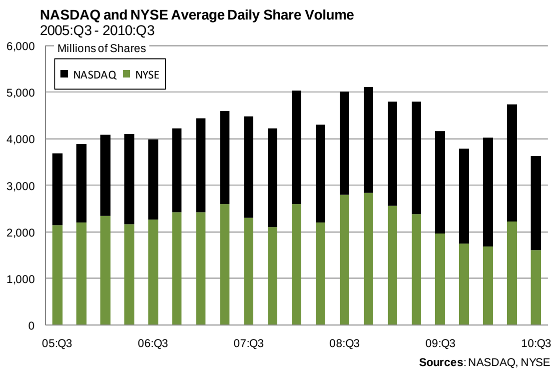
Trading Volume Increases in 3Q'10

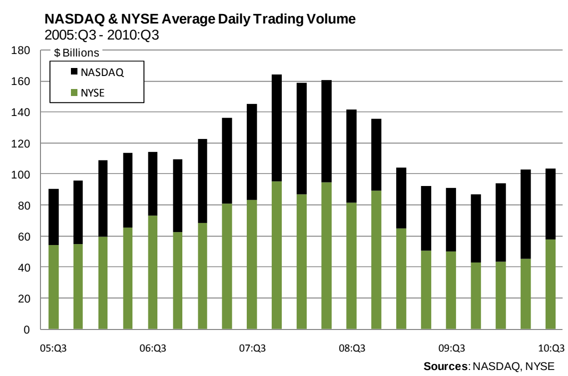
According to the FINRA's TRACE data, IG average daily trading volume increased to $11.8 billion in 3Q'10, up 14.6 percent from $10.3 billion in previous quarter, but down slightly from $11.9 billion in 3Q'09. The HY average daily trading volume was $5.3 billion, an increase of 25 percent but down 10 percent respectively in 2Q'10 ($4.3 billion) and 3Q'09 ($6 billion).

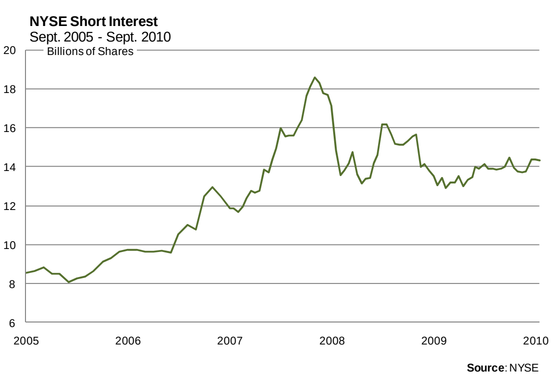
[16] Fitch Ratings. Bridging the Refinancing Cliff, Volume II, p. 6, October 13, 2010

EQUITY AND OTHER MARKETS









U.S. equity indices rose in the 3Q'10, almost completely recovering the losses incurred in the 2Q'10. Among the major indices, the Dow Jones Industrial Average (DJIA) increased 10.3 percent, closing 3Q'10 at 10,788.05; NASDAQ increased 12.3 percent to close at 2,368.62; and S&P500 closed the quarter at 1144.73, a 10.7 percent increase. The recovery was largely concentrated in the month of September, during which DJIA, NASDAQ, and S&P gained 7.78 percent, 12.04 percent, and 9.13 percent respectively, marking the biggest September rally since World War II.

NYSE & NASDAQ Daily Share Volume Decreases

The New York Stock Exchange's (NYSE) average daily share volume decreased to 1.6 billion shares in 3Q'10, down 27 percent from the last quarter's 2.2 billion and an 18 percent decrease from 2 billion in 3Q'09. After a short-lived improvement in 2Q'10 the average daily share volume dropped back to below two billion shares. The NYSE's average daily dollar trading volume decreased to $43.9 billion from the previous quarter's $57.7 billion almost equating the daily average of $43.1 billion from the 3Q'09.

NASDAQ's average daily share trading volume decreased to two billion shares at the end of 3Q'10 from 2.5 billion shares in the previous quarter and 2.2 billion in 3Q'09. NASDAQ's average daily dollar trading volume decreased to $45.8 billion, 20 percent down from $57.7 billion in the previous quarter, but above the 3Q'09 figure of $41.2 billion, an 11 percent improvement y-o-y.

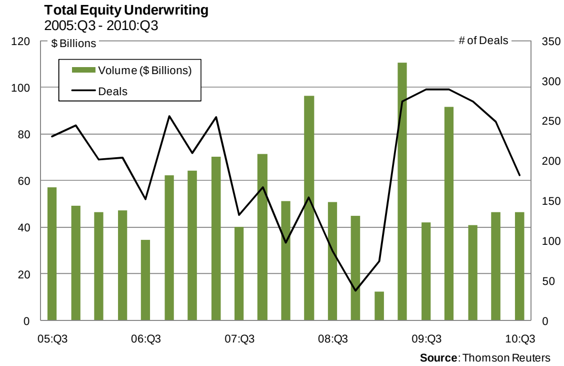
Short Interest Increases

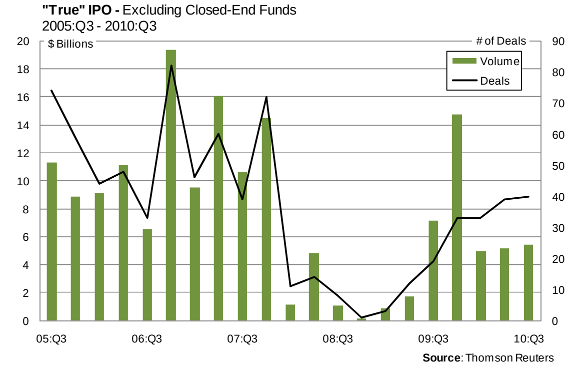
NYSE short interest stood at 14.3 billion shares at the end of 3Q'10, a slight increase from the end of last quarter's 13.9 billion, and almost a 10 percent increase from 13.1 billion at the end of 3Q'09.

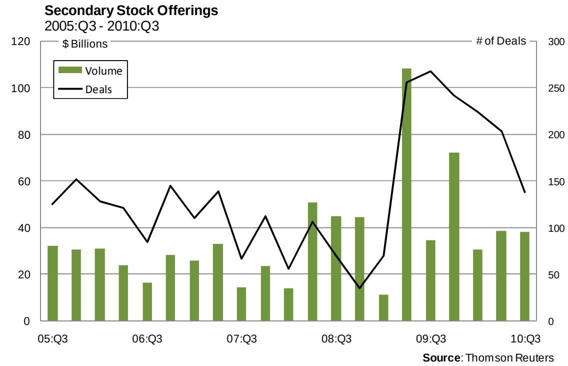
Circuit Breaker Extended to Russell 1000; SEC Enhances Disclosure

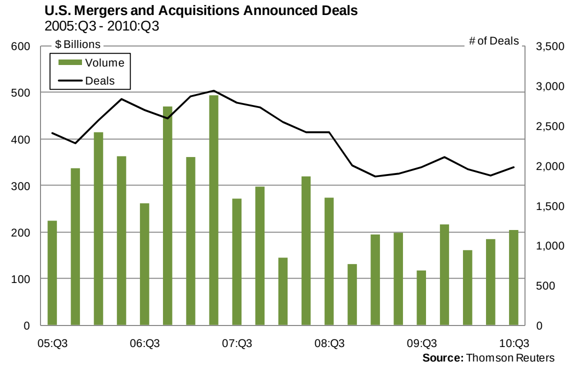
On September 10, the U.S. Securities and Exchange Commission approved new rules to expand a recently-adopted circuit breaker program to include all stocks in the Russell 1000 Index and certain exchange-traded funds. The circuit breaker pilot program specified that trading in a security included in the program is paused for a five-minute period if the security experiences a 10 percent price change over the preceding five minutes and it is in effect on a pilot basis through December 10, 2010.[17] Earlier in the third quarter SEC announced that it was creating three specialized offices to enhance its disclosure review and policy operations, one of which will focus on reviewing new securities products and capital market trends. This office will also develop recommendations for changes to enhance investor protection in securities offerings.[18]

[17] Securities and Exchange Commission (SEC). Press Release: SEC Approves Rules Expanding Stock-by-Stock Circuit Breakers and Clarifying Process for Breaking Erroneous Trades, September 10, 2010.
[18] Securities and Exchange Commission (SEC). Press Release: SEC Adds Unites to Oversee Financial Institutions, Asset-Backed Securities, New Financial Products and Trends, July 16, 2010.









Equity Underwriting Remains Flat

The total volume of equity underwriting remained flat at $46.4 billion in 3Q'10 (compared to $46.3 billion in 2Q'10), however the number of deals fell by 27 percent to 182 (from 249 in 2Q'09) causing the average deal size to increase by 37 percent to $255 million in 3Q'10, from $186 million in 2Q'09. Comparing this quarter to 3Q'09, the equity underwriting expanded by 10 percent in volume but contracted by 37 percent in number of deals. The average deal size in 3Q'10 increased by 75 percent y-o-y, however, both dollar volume and number of deals of equity underwriting was below the five-year average.

IPOs Increase in Volume; Average Deal Size Falls

"True" initial public offerings (IPOs), which exclude closed-end mutual funds, increased by 5 percent to $5.4 billion on 40 deals (from $5.1 billion on 39 deals last quarter). Year-over-year (y-o-y) the number of IPOs more than doubled from 19 deals in 3Q'09 but average deal size fell significantly, causing the dollar volume to drop by 24 percent from $7.1 billion in 3Q'09 to earlier mentioned $5.4 billion in 3Q'10.

So far this year the average IPO size has been $150 million, 95 percent below last year's average of $292 million and the lowest since 2000, when the average was $148 million.

Secondary Offerings Flat

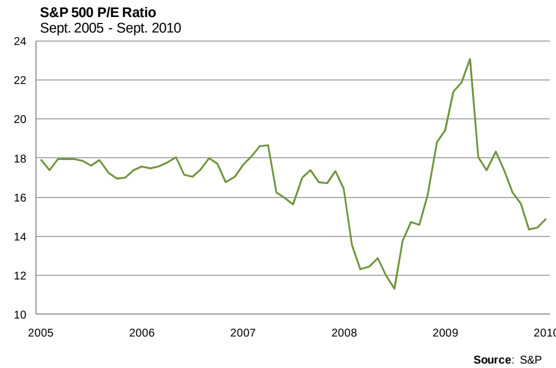
Secondary market issuance fell slightly by 1.0 percent in 3Q'10 to $38.1 billion from $38.5 billion in 2Q'10, although the number of deals shrunk by one-third (138 deals in 3Q'10 compared to 203 in previous quarter). Average deal size for the quarter rose by 46 percent to $276 million, and more than double compared to 3Q'09. Secondary issuances were up 10 percent from 3Q'09 in dollar volume but 32 percent down in number of deals.

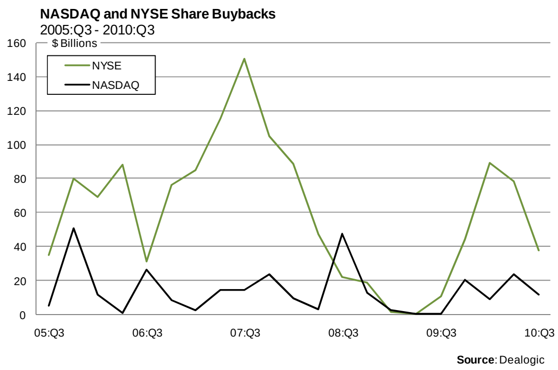
M&A Increases

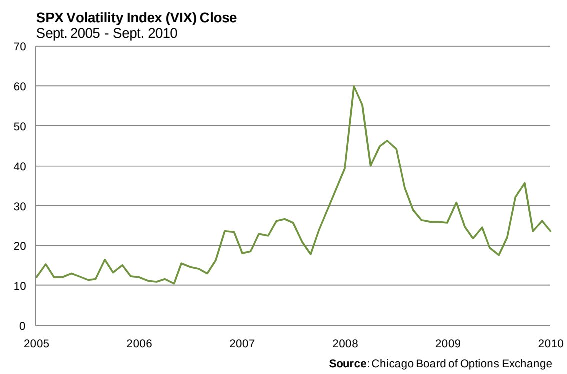
Announced U.S. mergers and acquisitions (M&A) volume in 3Q'10 reached $205.2 billion, an 11.3 percent increase from the previous quarter's $184.4 billion. The number of deals also increased to 1,984 in 3Q'10 from 1,876 in 2Q'10.

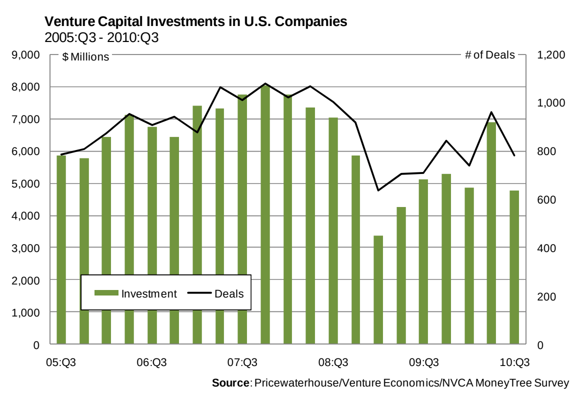
The most active sectors in M&A volume were telecommunications, oil and gas, and chemicals. The largest deal year-to-date was the acquisition of Potash Corporation of Saskatchewan Inc by BHP Billiton Ltd for $42.97 billion cash on August 17, 2010.[19]

[19] Bloomberg. MAATUS Index: M&A Transaction Value US.









P/E Ratio Rises Slightly, Remains Low

The S&P 500's P/E ratio averaged 14.6 in 3Q'10, down 11.4 percent from the previous quarter's average of 16.4, and remains below the five-year average of 16.8. Even though the average showed a decline, there was an upward trend in P/E ratio throughout 3Q'10, from 14.4 in July to 14.9 in September or 3.4 percent. The incline within the quarter was a reflection on more stable market, the removal of come uncertainty with the passage of Dodd-Frank and more optimistic outlook for 4Q'10, all of which drove stock prices up. However, on a quarterly basis, P/E ratio recorded the lowest average this year.

Buybacks Fall by Half on Both NYSE & NASDAQ

The number of corporate share repurchases decreased on NYSE to 102 deals totaling $37.7 billion in 3Q'10, compared to 112 deals and $78.3 billion in 2Q'10. While the number of buybacks fell only by 8.9 percent, dollar volume decreased by 51.8 percent. On NASDAQ, the number of share repurchases rose to 92 in 3Q'10 from 88 in the previous quarter. By dollar volume, share purchases declined to $11.6 billion, a 51.3 percent decrease from $23.8 billion in 2Q'10. Both NYSE and NASDAQ have seen significant increases in stock buybacks over a y-o-y basis due to the fact that 3Q'09 numbers were very weak.

CBOE VIX Index Falls

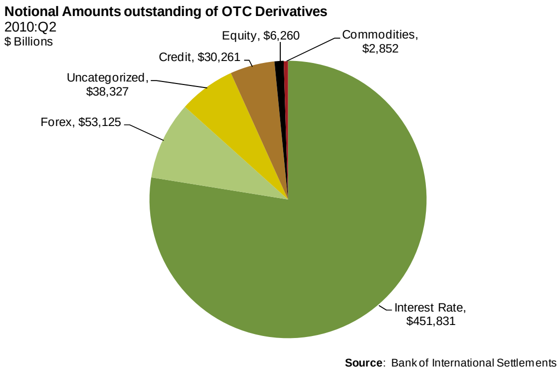
The Chicago Board Options Exchange Volatility Index (VIX) fell in 3Q'10 to 23.7, a decline of over 30 percent from the previous quarter. The average value in the third quarter was 24.3, lower than 2Q'10 average of 26.3. Volatility declined during third quarter as the European stabilization plan calmed worries over the sovereign debt crisis in Europe, US economic data showed signs of stabilization, and Dodd-Frank was passed. Although the VIX remains elevated (the 1Q'10 average was 20.1) it has been trending downward since the May 6 'Flash Crash.'

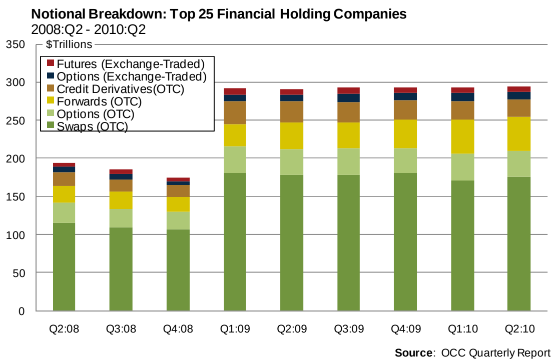
Venture Capital Decreases

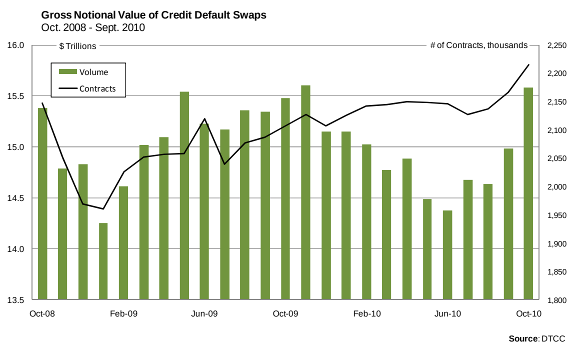
Venture capital (VC) investments fell in 3Q'10 in both volume and number of deals. Dollar volume fell to $4.8 billion in 3Q'10 from $6.9 billion in 2Q'10 and from $5.3 billion in 3Q'09. The number of deals decreased by 19 percent to 780 from last quarter's 962 but increased y-o-y from 709 deals in 3Q'09.

Although overall numbers for VC investments fell, more money was invested in first-time deals compared to follow-on rounds, suggesting that the confidence in start-ups increased. The largest investment in 3Q'10 totaled $106 million, a follow-on investment in a wireless solutions network provider in California - Trilliant Inc. The software industry remained the leading sector for VC investments this quarter.

DERIVATIVES







Derivatives Notional Value Rises

Globally, according to the semiannual Bank of International Settlements (BIS) OTC derivatives survey, the outstanding OTC derivatives market was $582 trillion end-June 2010, a decline of two percent from end-June 2009 outstanding of $594.5 trillion. Foreign exchange contracts and interest rate contracts were the only two OTC groups to increase in gross notional outstanding y-o-y, while the remaining derivative categories (equity-linked contracts, commodity contracts, credit derivatives, and other) all shrank.

In the U.S., according to the Office of the Comptroller of the Currency (OCC), 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 $294.8 trillion in the second quarter of 2010 (the most recent data available), an increase of 0.6 percent and 1.2 percent respectively in 1Q'10 ($293.0 trillion) and 2Q'09 ($291.2 trillion) by $1.8 trillion, or 0.6 percent. Year-over-year, the value outstanding represents a 1.2 percent increase in the derivatives market from 3Q'09. Interest rate products, the largest category, account for 84 percent of total derivative gross notional value. Swaps are the dominant product in derivatives market, representing 63 percent of total notional derivatives, while forwards, options, futures, and credit derivatives make up significantly smaller subsets.

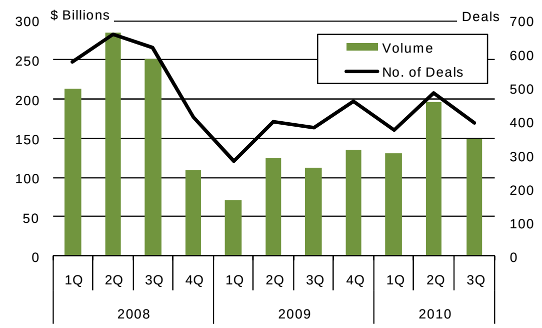
Credit Default Swaps

According to DTCC, in 3Q'10 the gross notional value outstanding of credit default swaps (CDS) rose by 4.3 percent to $15.0 trillion and the number of contracts increased by 3.3 percent to 6.92 million. The net notional value outstanding, however, remained flat throughout 3Q'10 at $1.2 trillion.

Gross notional of CDS outstanding was $15.6 trillion at the end of October 2010, 8.4 percent increase from year-to-date low of $14.4 trillion in June 2010 and 0.7 percent increase from $15.5 trillion in October 2009. The number of contracts during that time, however, increased by 5.1 percent to 2.2 million. Both the gross notional and number of CDS contracts grew by 4.3 and 3.3 percent, respectively, in 3Q'10, from 2Q'10. The average size of a contract increased in 3Q'10 to $7.0 million but still remains almost 6 percent below the year-earlier average of $7.4 million.

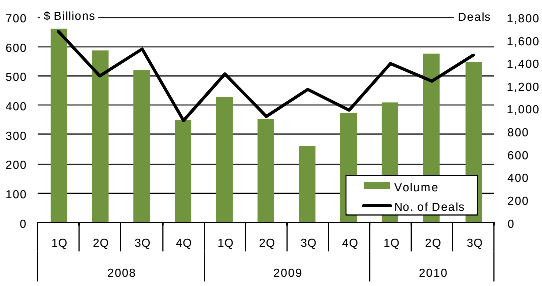
PRIMARY LOAN MARKET[20]

Primary Leveraged Loan Market Volume
2008:1Q - 2010:3Q



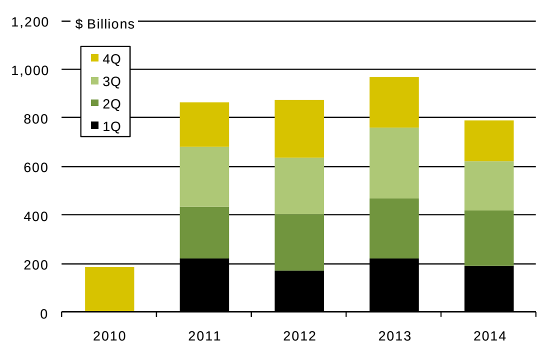
Source: Dealogic

Primary Investment Grade Loan Market Volume
2008:1Q - 2010:3Q



Source: Dealogic

Maturing Sydicated Volume by Year*



*as of September 30, 2010

Source: Dealogic

Primary Loan Market: Third Quarter Review

Primary loan market volume reached $1.99 trillion in the first nine months of 2010. The third quarter saw borrowing volume of $675.0 billion, down 13 percent from the $773.6 billion raised during 2Q'10. Syndicated loan volume in 3Q'10 climbed 81 percent from 3Q'09, which was the lowest quarterly volume of last year.

Leveraged loan volume for 3Q'10 was $146.4 billion, down from the $196.4 billion borrowed in 2Q'10 which was the highest quarterly volume since 3Q'08. Out of the three major world regions, Asia-Pacific was the only world region to see an increase in leveraged loan volume, up 128 percent to $12.4 billion. The Americas and Europe, Middle East, and Africa (EMEA) both saw decreases of 32 and 18 percent respectively. Investment-grade volume also saw volume check back in 3Q'10 with $528.4 billion, down slightly from the $577.2 billion raised in the prior quarter.

Acquisition-related financing rallied in 3Q'10 having reached $133.8 billion, up 94 percent from 2Q'10. This marked the highest quarterly acquisition-related volume since 3Q'08 when $252.7 billion was borrowed. LBO volume contributed $29.6 billion to 3Q'10 acquisition-related volume, up 145 percent from the prior quarter showing signs of life returning to the leveraged buy-out market. The UK rocketed into the second ranking spot for LBO loans by country in 3Q'10 with $7.9 billion, up significantly from the 6th rank in 2Q'10 when companies from the UK only borrowed $335 million.

As some confidence returns to the capital markets, average tenor was seen increasing to 5.4 years in 3Q'10 from 4.7 years in 2Q'10. This was fuelled by the Americas world region which saw their average tenor increase to 6.0 years from 3.7 years in the prior quarter. Despite this positive indicator, average pricing on leveraged loans increased 50 bps in 3Q'10 to 473 bps. This marked the first leveraged average pricing increase after three consecutive quarters of average pricing decreases. Average pricing on investment grade loans fell to 204bps in 3Q'10 from 236 bps observed in 2Q'10.

As of the end of 3Q'10, and excluding revolving credit facilities, there is an expected $187.5 billion in syndicated primary market loans due to mature by the end of 2010, and $866.4 billion due to mature by the end of 2011. Volume for maturing loans is expected to hit a peak level of $970.2 billion in 2013.

[20] The author of the Primary Loan Market discussion is Stephen Reardon, Dealogic. For any questions, please email Stephen.Reardon@dealogic.com.

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SIFMA CAPITAL MARKETS

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