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RESEARCH QUARTERLY
4Q 2010

RESEARCH REPORT

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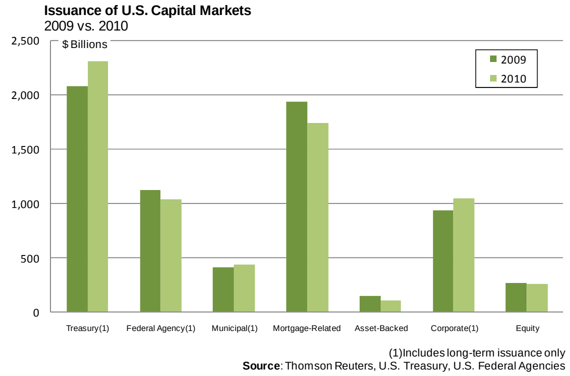
CAPITAL MARKETS OVERVIEW



Issuance Highlights

$ Billions	2010:Q4	2009:Q4	Y-o-Y % Change*	2010
Treasury [1]	519.2	491.4	5.7%	2,303.9
Federal Agency [1]	240.1	209.0	14.9%	1,032.6
Municipal [1]	132.3	120.0	10.3%	433.1
Mortgage-Related	560.6	389.2	44.0%	1,741.8
Asset-Backed	20.4	28.7	-29.0%	107.5
Global CDO	1.6	1.1	41.5%	8.0
Corporate [1]	252.2	213.0	18.4%	1,015.0
Equity	104.9	91.5	14.7%	260.1

* Percent change between 2010:Q4 and 2009:Q4
[1] Includes long-term issuance only

Total Capital Markets Issuance Increased to $1.83 Trillion in Fourth Quarter 2010

Total securities issuance reached $1.83 trillion in the fourth quarter of 2010, a 5.8 percent improvement from the previous quarter's $1.73 trillion and a 17.3 percent increase year-over-year (y-o-y) from $1.56 trillion in 4Q'09.

Total fourth quarter net issuance of U.S. Treasury securities, including all cash management balances, was $362.9 billion, down 8.3 percent from 3Q'10's $395.8 billion. Net issuance more than doubled y-o-y, but a better comparison may be made against the 2009 quarterly average of $344.1 billion, as 4Q'09 saw a precipitous drop which may have stemmed from year-end adjustments.

Federal agency long-term debt issuance was $240.1 billion in the fourth quarter, a 4.6 percent drop from the prior quarter's $251.6 billion. Approximately $1.03 trillion was issued for all of 2010, a 7.6 percent decline from 2009's $1.12 trillion issued. Overall average daily trading volume of agency securities was approximately $71 billion in 2010, compared to the $77 billion daily average traded in 2009.

Long-term municipal issuance volume totaled $132.3 billion in 4Q'10, a sharp increase of 41.2 percent from $93.7 billion in 3Q'10 and a 10.3 percent increase from 4Q'09. The upsurge in issuance was due to the then pending expiration of the Build America Bond (BAB) program, with issuers rushing to issue BABs before the program expired at year end. Excluding taxables, issuance totaled $73.6 billion, an increase of 16.0 percent and a decline of 12.6 percent, respectively, from 3Q'10 and 4Q'09.

Issuance of mortgage-related securities totaled $560.6 billion in 4Q'10, a 27.4 and 44.4 percent increase respectively from 3Q'10 and 4Q'09. Agency mortgage-related issuance, which accounted for 98.4 percent of the total, increased to $551.6 billion in 4Q'10, a 25.7 percent increase from 3Q'10 and a 39.7 percent increase y-o-y. National Credit Union Administration-guaranteed issues were among the non-traditional transactions in 4Q'10.

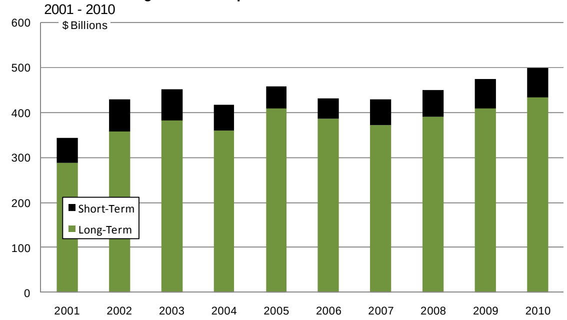
Asset-backed securities (ABS) issuance in the fourth quarter totaled $20.4 billion, a decline of 24.2 and 29.0 percent, respectively, from 3Q'10 and 4Q'09. For the full year, issuance totaled $107.5 billion, 29.0 percent below that in 2009 and the lowest total since $112.8 billion in 1995. Global funded collateralized debt obligation (CDO) issuance totaled $1.6 billion in 4Q'10, down 20.9 percent from 3Q'10 but up 41.5 percent from 4Q'09. For the full year 2010, CDO issuance totaled $8.0 billion, nearly twice the amount in 2009.

Corporate bond issuance of $252.2 billion was 19.4 percent below the $312.7 billion in 3Q'10 but a 18.4 percent improvement from $213 billion in 4Q'09. The fourth quarter total included $85.3 billion in high yield (HY) debt issuance, the largest single-quarter total for that sector. For the full year, corporate bond issuance totaled $1,015 billion, a 12.6 percent increase from $901.8 billion in 2009.

Equity issuance increased to $104.9 billion in 4Q'10, more than double the $46.4 billion issued in 3Q'10, and a 14.7 percent improvement from $91.5 billion in 4Q'09. IPO activity increased by almost 400 percent to a single-quarter all-time high $27.4 billion. Despite a strong quarter, full-year 2010 equity issuance of $260.1 billion was slightly below the $264.2 billion issued in 2009.

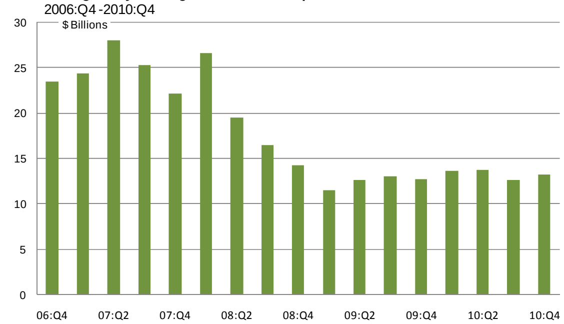
MUNICIPAL BOND MARKET

Short-[1] and Long-Term Municipal Issuance
2001 - 2010



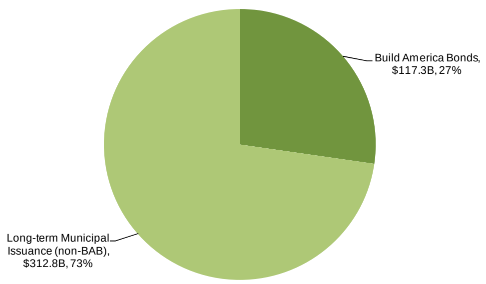
[1]Includes maturities of 13 months or less
Source: Thomson Reuters

Average Daily Trading Volume of Municipal Securities[1]
2006:Q4 -2010:Q4



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

Build America Bond Issuance
2010



Sources: Bloomberg, Thomson Reuters, SIFMA

Taxable vs. Tax-Exempt Issuance
2000-2010

Source: Thomson Reuters, SIFMA

According to Thomson Reuters, long-term municipal issuance volume, including taxable and tax-exempt issuance, totaled $132.3 billion in the fourth quarter of 2010, a sharp increase of 41.2 percent from $93.7 billion in 3Q'10 and a 10.3 percent increase from 4Q'09. The large increase in issuance is primarily due to the then pending expiration of the BAB program, with issuers rushing to issue BABs before the program expired on December 31, 2010; excluding taxables, issuance totaled $73.6 billion, an increase of 16.0 percent and a decline of 12.6 percent, respectively, from 3Q'10 and 4Q'09.

For the full year 2010, long-term municipal issuance volume totaled a record high $430.1 billion, 5.7 percent above the $406.8 billion issued in 2009. Taxable issuance rose as a percentage of the total due to the popularity of the BABs program and its expiration; which, in turn, may lead to lower issuance totals in 2011. Moreover, the loss of the BABs program, under which issuance was concentrated in longer maturities, will mean increased new-issue supply in the longer-maturity tax-exempt market going forward.

Tax-exempt issuance totaled $73.6 billion in 4Q'10, an increase of 16 percent from the $63.4 billion issued in 3Q'10 but a decline of 12.6 percent from the $84.2 billion issued in 4Q'09.

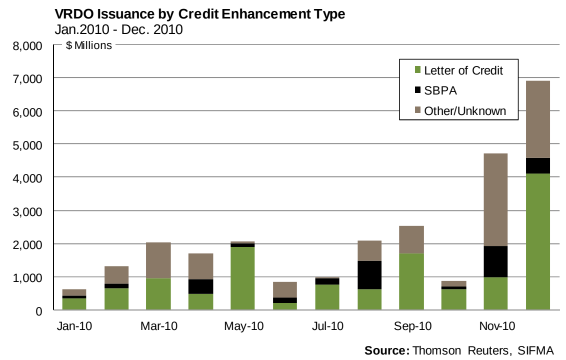
For the full-year 2010, tax-exempt issuance totaled $273.1 billion, down 15.0 percent from 2009 and a low not seen since 2001 due to their displacement by the BAB program.[1]

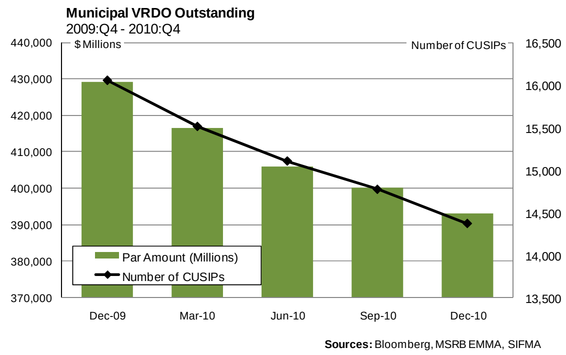
Build America Bonds and Non-BAB Taxable Issuance

After the mid-term elections, it became increasingly clear that the BABs program would not be extended into 2011. Municipal issuers issued a whopping $44.1 billion of BABs in 4Q'10, representing nearly a quarter of all BABs issued in 2009 and 2010 combined, to take advantage of the 35 percent subsidy on interest payments. For the full year 2010, BAB issuance totaled $117.3 billion, or 27 percent of total long term municipal issuance. Since its inception in April 2009, municipal issuers from every state (excluding Montana) issued $181.4 billion of BABs.

Non-BABs taxable issuance also jumped sharply in 4Q'10 to $12.3 billion, up from the $7.3 billion issued in 3Q'10 and $6.6 billion in 4Q'09, increases of 68.8 percent and 85.6 percent, respectively. For the full year, non-BAB taxable issuance totaled $33.9 billion, an increase of 70 percent from the $20 billion issued in 2009. This was chiefly due to the authorization of direct-payment options for certain bonds (*e.g.,* the American Recovery and Reinvestment Act (ARRA), Hiring Incentives to Restore Employment Act (HIRE), which included, among others, Qualified School Construction Bonds (QSCBs) and Clean Renewable Energy Bonds (CREBs).

[1] According to Thomson Reuters, long-term tax-exempt issuance in 2001 was $242.7 billion; the five-year average from 2004-2009 was $333.2 billion.





Issuance of variable rate demand obligations (VRDOs), long-term municipal bonds with a floating interest rating that resets periodically (daily, weekly, or some other specified short-term period) and containing a put feature, experienced a sharp increase in the last quarter of 2010, with $12.5 billion issued, more than double the amount in 3Q'10 ($5.6 billion) and a return to pre-crisis levels. For full year 2010, VRDO issuance totaled $26.7 billion, 25 percent below the $35.6 billion issued in 2009.

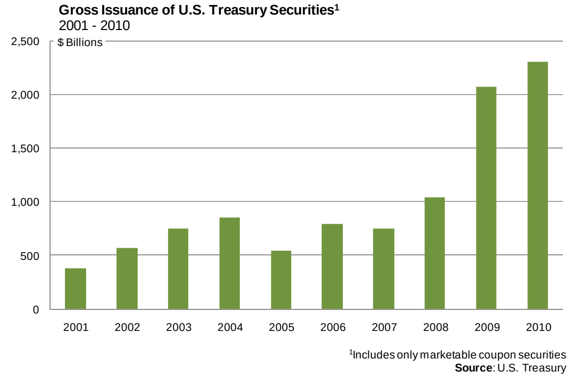
Municipal Finances

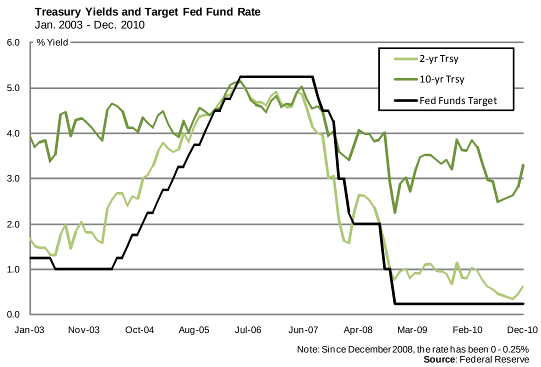
State and local governments continue to experience budgetary pressure in the near-term, due to both cyclical and structural factors. Several states already face forecasted budget gaps for fiscal 2012 and 2013 as states continue to feel the impact from both still sluggish economic growth and the end of federal assistance from ARRA. Headlines on state and city budget woes in the news have also contributed to municipal market volatility and kept municipal credit concerns at the forefront.

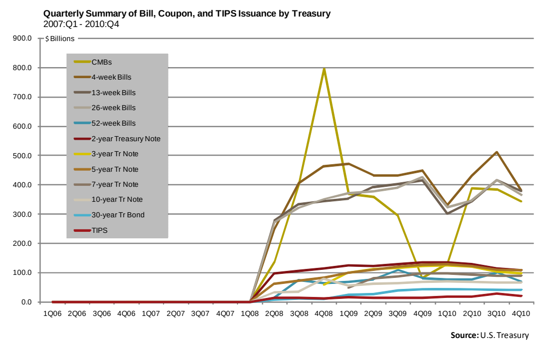
Standard and Poor's noted that the crisis that state and local governments faced were more "policy crises rather than questions of governments' continued ability to exist and function...[m]ore about tough decisions than potential defaults."[2]

[2] Standard and Poor's. "U.S. States and Municipalities Face Crises More of Policy Than Debt," November 8, 2010.

TREASURY MARKET







Net Issuance Dips as Economic Recovery Seems to Stay the Course; Inflation Concerns Return After QE2

Total fourth quarter net issuance of U.S. Treasury securities, including all cash management balances, was $362.9 billion, down 8.3 percent from 3Q'10's $395.8 billion. Year-over-year (y-o-y), net issuance more than doubled, but a better comparison may be made against 3Q'09's $392.5 billion or the 2009 quarterly average of $344.1 billion, as 4Q'09 saw a precipitous drop which partly resulted from year-end adjustments.

Excluding cash management bills (CMBs), total net issuance was $19.9 billion in the fourth quarter, nearly double the $10.8 billion in the prior quarter. This was partly due to a nearly four times spike in longer-term coupon issuance between the months of October and November, a trend that was similarly observed between the first two months of the third quarter. The use of short-term CMBs remained steady throughout 4Q'10, seeing a moderate uptick only in the final month of the year. The total fourth quarter net issuance of $362.9 billion was exactly in line with Treasury Department's November borrowing estimate[3] of $362 billion for the final three months of 2010.

Approximately $535.6 billion in Treasury coupons plus Treasury Inflation Protected Securities (TIPS) were issued in the fourth quarter, 4.3 percent below the $559.5 billion issued in the prior quarter and 12.6 percent below year-ago issuance of $613 billion. For full-year 2010, issuance reached $2.3 trillion, approximately 5.5 percent above the nearly $2.2 trillion in 2009. Overall, however, Treasury has indicated the intent to stabilize coupon issuance (with the potential for further reductions) and increase TIPS auctions.[4]

Net coupon issuance for the fourth quarter was $378.9 billion, 2.8 percent below 3Q'10's $389.9 billion, yet 4.5 percent above year-ago levels of $362.5 billion. Gross coupon issuance was $515.4 billion, also 2.8 percent below 3Q'10's $530.2 billion and nearly 14 percent below the $598.9 billion from the same year-ago period. TIPS issuance alone fell from $29.3 billion in 3Q'10 to $20.3 billion in the fourth quarter, but still was up over 44 percent from year-ago issuance of approximately $14 billion. Notably, TIPS issuance is expected to jump 63 percent quarter-over-quarter (q-o-q) in 1Q'11, as forecasted in SIFMA's most recently completed Government Forecast survey of the primary dealers.[5] Cash levels are expected to drop to $65 billion at the end of March,[6] as Treasury anticipates decreased borrowing activity in the first three months of 2011.

Gross issuance of bills, including CMBs, was close to $1.54 trillion in the fourth quarter, a drop of 16 percent from the nearly $1.83 trillion in the third quarter, yet still up nearly 6 percent from the $1.45 trillion in the same year-ago period.

Total Treasuries issuance was $2.07 trillion in 4Q'10, down 13.2 percent q-o-q and approximately the same y-o-y.

The economy saw some signs of recovery towards the end of 2010 as

[3] See U.S. Department of the Treasury's fourth quarter 2010 marketable borrowing estimates.
[4] See U.S. Department of the Treasury's November 2010 Quarterly Refunding Statement.
[5] SIFMA Government Forecast, January 28, 2011
[6] See U.S. Department of the Treasury's most recent marketable borrowing estimates.

unemployment levels dipped slightly in December, consumer spending and confidence grew, and the housing market showed some stabilization. However, following the Federal Reserve's November announcement of a second round of quantitative easing (popularly termed "QE2")[7], which was largely priced in by the marketplace in the months leading up to the statement, inflation has ticked up slightly, although well below target.

In addition, the national deficit currently rests at a little over $14 trillion and has been widely predicted to reach the $14.3 debt ceiling between March and May of this year. Since the mid-term election and as investor confidence grows in a sustained economic recovery, priorities in Congress have swung to controlling the deficit and reducing national spending.

The six-month anniversary of the enactment of Dodd-Frank into law recently passed, and the mandated rulemaking process is well underway. Prolonged uncertainties over just how final rules will be implemented, however, remain headwinds for the economic recovery.

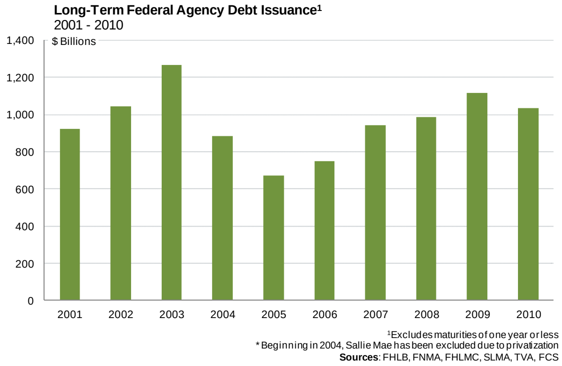
Daily trading volume of Treasury securities by the primary dealers averaged $581.1 billion in the fourth quarter, compared to $515.3 billion in the prior quarter and $434.4 billion in 4Q'09. Trading activity in the final three months of 2010 were the highest observed since the first quarter of 2008.

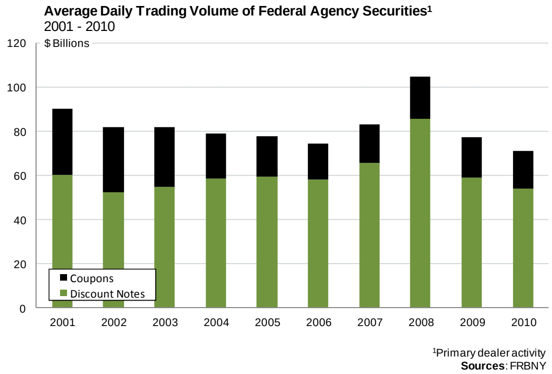
Following the November QE2 announcement, yields spiked in the last two months of 2010. The 2-year Treasury note yield was 0.59 percent at the end of the fourth quarter and the 10-year note yield was 3.3 percent, compared to 0.42 percent and 2.52 percent at the end of the third quarter. Since then, however, the Treasury yield curve steepened, with yields falling slightly in the short-end of the curve; the curve is expected to flattenagain in 1H'11.

Looking ahead, primary dealers polled by SIFMA in the January Government Forecast survey expect yields to remain flat or slightly increase going forward through the first half of 2011. Survey respondents also forecast some flattening of the yield curve..

[7] See Federal Reserve's FOMC statement on November 3, 2010.

FEDERAL AGENCY DEBT MARKET





Agency LT Debt Issuance Slides; GSE Report Due in January

Federal agency long-term debt (LTD) issuance was $240.1 billion in the fourth quarter, a 4.6 percent drop from the prior quarter's $251.6 billion. Approximately $1.03 trillion was issued for all of 2010, a 7.6 decline from 2009's $1.12 trillion. Overall, average daily trading volume of agency securities (coupons and discount notes) in 2010 was approximately $71 billion, compared to the $77 billion daily average traded in 2009.

The twelve Federal Home Loan Banks (FHLBs) issued $125.1 billion in total bonds in the fourth quarter, a 7.9 percent increase from 3Q'10's $115.9 billion. 2010 total issuance of $532.9 billion was 5.3 percent higher year-over-year.

Total FHLB bonds outstanding were nearly $602 billion as of December 31, 3.2 percent below the $621.7 billion outstanding at the end of the third quarter and nearly 18 percent down from end-2009's $732 billion. Total global FHLB debt issuance in 2010 (separate bond program meant for foreign investors) was $282.5 billion, a spike of over 35 percent from the $209.2 billion issued in 2009. Total global FHLB debt outstanding at the end of 2010 rested at $329 billion, down 3.3 percent from end-2009's $340.2 billion outstanding.

Shortly after the end of the quarter, the U.S. Treasury, as mandated by the Dodd-Frank Act, finally published its recommendations for the GSEs to the Senate Banking Committee and House Financial Services Committee on February 11.

Fannie Mae's gross short-term debt (STD) issuance was $54.2 billion, roughly half that in the prior quarter and 83 percent below the same year-ago period. In total, $438.8 billion was issued in 2010, a 68 percent drop from the $1.37 trillion issued in 2009. Long-term debt (LTD) issuance was $121.7 billion, 12.3 percent below the prior quarter but still over twice that issued in 4Q'09. Total LTD issued in 2010 was $463.4 billion, over one-and-a-half times the $295.3 billion issued in 2009.

As of December 31, 2010, Fannie Mae had $152 billion outstanding in STD (nearly 31 percent below the $219.4 billion outstanding at the end of 3Q'10 and 24.2 percent down from the $200.6 billion outstanding as of end-2009) and $641.9 billion outstanding LTD (approximately 5 percent above that outstanding as of end-3Q'10 and 10 percent above end-2009 levels).

Freddie Mac's fourth quarter gross debt issuance totaled $159.3 billion, down nearly 19 percent from 3Q'10's $196.3 billion. Total 2010 issuance of $812.6 billion was down15.6 percent y-o-y. Total debt outstanding was similarly down 9.7 percent y-o-y, to rest at $728.8 billion as of end-2010.

Total 2010 bond issuance by the Farm Credit System totaled $115 billion, over 7 percent above the $107.2 billion issued in 2009. Total bonds outstanding were $139.6 billion at end-December 2010, 5 percent above the $133 billion at end-December 2009.

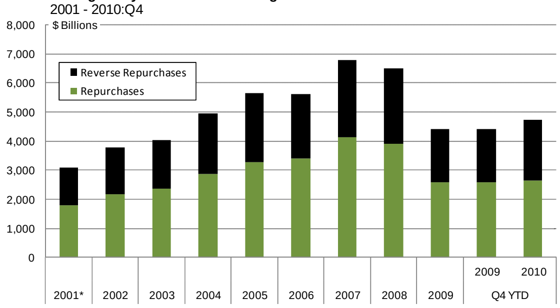
The Tennessee Valley Authority (TVA)'s fiscal year 2010 financial statement showed that debt outstanding totaled $23.4 billion in November 2010, all but $1 billion of which were LTD, and remains subject to a $30 billion debt ceiling.

Primary dealers polled by SIFMA for the January Government Forecast survey[8] expect gross coupon issuance levels by the four largest agencies to stay relatively flat in the first quarter of 2011.

[8] SIFMA Government Forecast, January 28, 2011

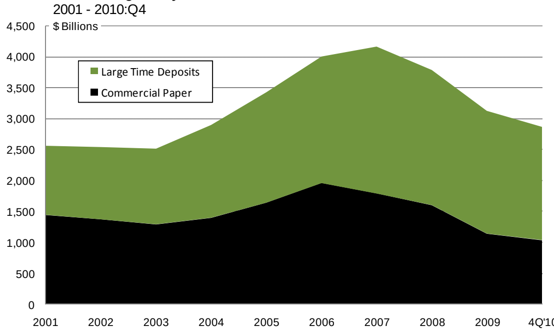
FUNDING AND MONEY MARKET INSTRUMENTS

Financing by U.S. Government Securities Dealers
Average Daily Amount Outstanding
2001 - 2010:Q4



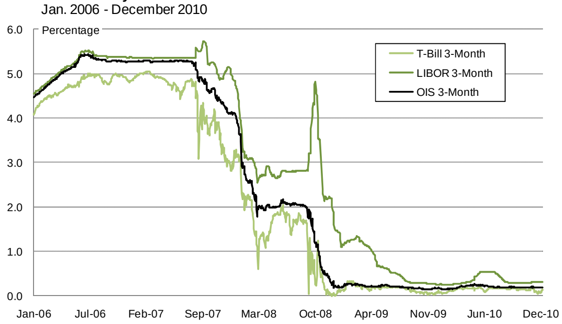
*Beginning in July 2001 corporate securities are included
Source: Federal Reserve Bank of NY

Outstanding Money Market Instruments
2001 - 2010:Q4



Sources: Federal Reserve, SIFMA estimates

T-Bill 3-Month, LIBOR 3-Month, and Overnight Indexed Swaps (OIS) 3-Month Daily Rates
Jan. 2006 - December 2010



Sources: Federal Reserve, Bloomberg

Repurchase Activity Grows[9]; Rates Spiked Following QE2 and Spreads Widened

The average daily amount of total outstanding repurchase (repo) and reverse repo agreement contracts rose in 2010 to $4.72 trillion (7.4 percent above 2009's total of $4.4 trillion).

Daily average outstanding repo transactions totaled $2.65 trillion for 2010, up over 3 percent from 2009, while reverse repo transactions averaged nearly $2.1 trillion for the year, up over 13 percent from the prior year.

The Federal Reserve continues to consider and assign money market mutual funds as potential counterparties in reverse repo transactions should the time come for the draining of reserves from the system.

Rates spiked in the final two months of 2010, after the Federal Reserve made embarked on its second round of quantitative easing ("QE2") which envisions purchases of up to an additional $600 billion in longer-term Treasury securities by the end of the second quarter of 2011. Market participants had already largely priced in expectations for another quantitative easing in the months leading up to the announcement.

Both the three-month LIBOR rate and the over-night indexed swaps (OIS) rate (used often to measure marketplace liquidity and stress) stayed approximately the same q-o-q. Three-month LIBOR was 30.3 basis points (bps) at the end of 2010 and the OIS rate was 18.3 bps, but saw some volatility intra-quarter.

While yields on longer-term Treasury notes and bonds spiked in the final two months of 2010, the 3-month Treasury bill yield plummeted from 0.16 percent to 0.07 percent between the end of 3Q'10 and end of 4Q'10, due to the resurfacing of Eurozone sovereign debt concerns in the end of November and stepped up ECB bond purchases, although yields returned to end-3Q'10 levels in the month of January. SIFMA's January Government Forecast survey[10] projected yields to largely stay flat or slightly increase in the first half of 2011.

Spreads generally widened by the end of the fourth quarter. The LIBOR-OIS 3-month spread widened from 10.6 bps at end-3Q'10 to nearly 12 bps at end-2010, and the TED spread expanded over 10 bps quarter-over-quarter (impacted mainly by the change in the 3-month T-bill yields).

Total CP Outstanding Continues to Fall

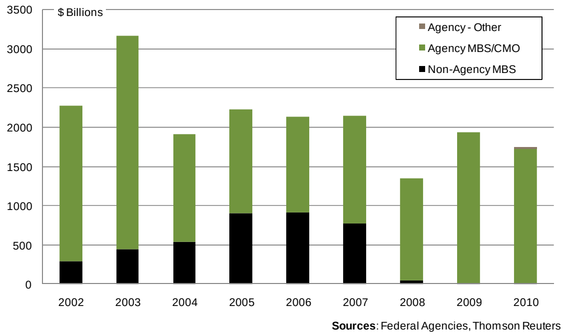
The total outstanding volume of money market instruments (MMI), including commercial paper (CP) and large time deposits, rested at a little under $2.9 trillion at the end of the fourth quarter, over 8 percent below the $3.13 trillion a year ago. CP outstanding totaled $1.03 trillion and was 9 percent below the nearly $1.14 trillion at end-2009.

Financial CP outstanding fell by 3.1 percent q-o-q to rest at $524 billion at end-4Q'10, and non-financial CP outstanding fell 8.6 percent over the same period to rest at $1.33 trillion at end-4Q'10. While financial CP outstanding has fallen over 9 percent y-o-y, non-financial CP has soared 34 percent over the same time period.

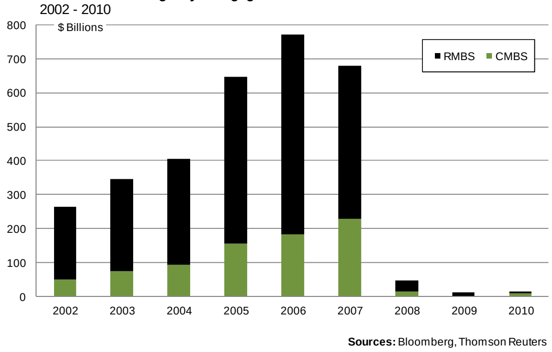
[9] As a reminder, repo data is that provided by the primary dealers only: http://www.newyorkfed.org/markets/gsds/search.cfm. For a breakdown of tri-party repo data, please refer to the Federal Reserve Bank of New York's Tri-party Repo Reform website here: http://www.newyorkfed.org/tripartyrepo/margin_data.html.
[10] SIFMA Government Forecast, January 28, 2011

MORTGAGE-RELATED SECURITIES

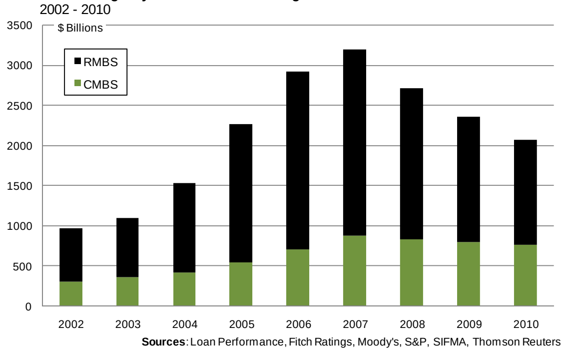
Issuance of Mortgage-Related Securities
2002 - 2010



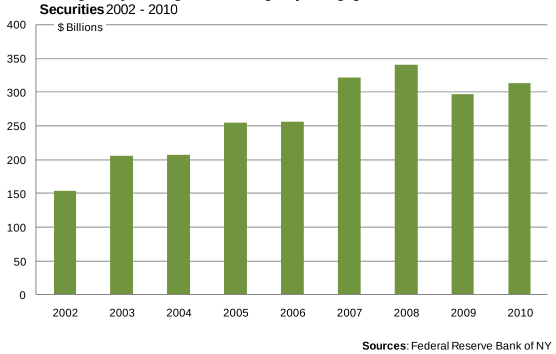
Issuance of Non-Agency Mortgage-Backed Securities
2002 - 2010



U.S. Non-Agency Securities Outstanding
2002 - 2010



Average Daily Trading Volume of Agency Mortgage-Backed Securities 2002 - 2010



Mortgage-Related Market

Issuance of mortgage-related securities, including agency- and non-agency pass throughs and collateralized mortgage obligations (CMOs), totaled $560.6 billion in the fourth quarter of 2010, a 27.4 and 44.4 percent increase, respectively, from 3Q'10 ($441.2 billion) and 4Q'09 ($389.2 billion). The pickup in the commercial mortgage backed securities (CMBS) space in the final quarter of 2010 led to a slight drop in agency share in 4Q'10 (98.2 percent, down from 99.5 percent in 3Q'10), while the non-agency residential mortgage market remains moribund. For the full year 2010, $1.7 trillion of mortgage-related debt was issued, 99.2 percent from the agencies.

Agency Issuance

Agency mortgage-related issuance in 4Q'10, including issues from non-traditional one-off transactions (e.g., FDIC, NCUA) transactions, totaled $551.6 billion, an increase of 25.7 percent and 39.7 percent, respectively, from 3Q'10 and 4Q'09. Among the non-traditional transactions, a relatively large set of transactions were done in 4Q'10 from the liquidation of a credit union; similar to the FDIC transactions, the issues were guaranteed the timely payment of principal and interest (in this case, by the National Credit Union Administration) and is backed by the full faith and credit of U.S. government.

Non-Agency Issuance and Outstanding

Non-agency issuance totaled $10.4 billion in 4Q'10, a threefold and fourfold increase, respectively, from 3Q'10 and 4Q'10. Issuance was predominantly in the CMBS space, with several deals coming to market during the fourth quarter. CMBS outstanding continued to shrink, however, standing at approximately $757.7 billion at year end. As noted by Realpoint, CMBS loan delinquencies, transfers to special servicing, and liquidation activity picked up considerably in the commercial real estate loan market in 2010, particularly among those from the 2005-2007 vintages.[11]

Outside of non-agency CMBS, the non-agency residential mortgage-backed security (RMBS) market remains moribund, with nearly all transactions in the form of re-Real Estate Mortgage Investment Conduit (REMIC) transactions.

Regulatory Update

In October, the Federal Reserve issued a report on risk retention requirements and its potential impact on the securitization markets, as mandated by the Dodd-Frank Act.[12] Shortly after the end of 2010, the Financial Stability and Oversight Council released its Dodd-Frank mandated study on risk retention requirements.[13] After a delay, the U.S. Treasury, as mandated by the Dodd-Frank Act, published its recommendations for the GSEs to the Senate Banking Committee and House Financial Services Committee on February 11.The report made several recommendations, including the overall aim to reduce the government's role in the mortgage marketplace. Specific recommendations were made in regard to the two GSEs, including: reducing its investment portfolio (an orderly winddown of 10 percent a year); increasing the guaranty fee; and raising qualifications for mortgage loans (e.g., reducing conforming loan limits, raising down payment, etc). Beyond specific recommendations

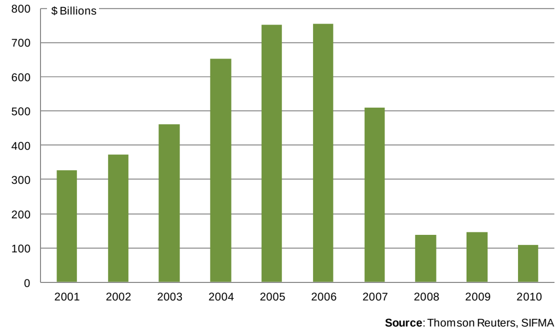
[11] Realpoint Monthly Delinquency Report, January 2011.
[12] Federal Reserve. Report to Congress on Risk Retention, October 19, 2010.
[13] FSOC, "Macroeconomic Effects of Risk Retention," January 18, 2011.

made to Fannie Mae and Freddie Mac, the paper addressed general housing concerns, including the Federal Home Loan Banks (FHLB), the role of FHA and Ginnie Mae, the private label market, alternatives to homeownership, etc.[14]

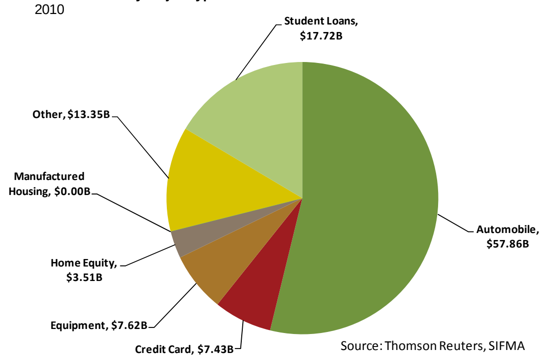
In 4Q'10, the Securities and Exchange Commission (SEC) proposed rules regarding ABS disclosure and issuer review; these were approved shortly after the end of 2010.[15] The rules require: a review of assets securitized (and disclosure findings) by issuers; public disclosure of repurchase history, and rating agencies to describe and compare representations and enforcement mechanisms in each rated ABS transaction.

[14] U.S. Treasury, "Reforming America's Housing Finance Market: A Report to Congress", February 11, 2011.
[15] SEC, "SEC Approves New Rules Regulating Asset Backed Securities," January 20, 2011.

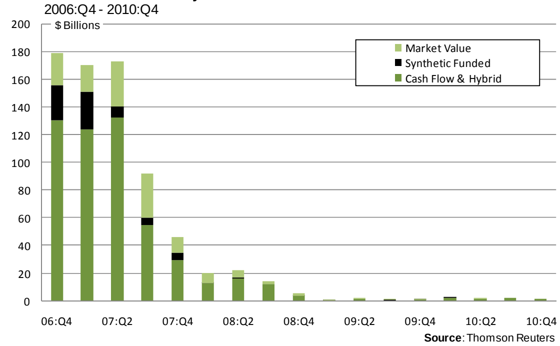
Issuance of Asset-Backed Securities
2001 - 2010



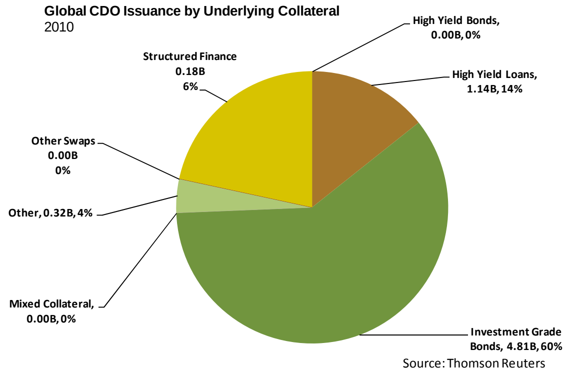
ABS Issuance by Major Types of Credit
2010



Global CDO Issuance by Transaction Structure
2006:Q4 - 2010:Q4



Global CDO Issuance by Underlying Collateral
2010



ASSET-BACKED SECURITIES AND CDOS

Asset-Backed Market & CDO

Asset-backed securities (ABS) issuance totaled $20.4 billion in the fourth quarter of 2010, a decline of 24.2 and 29.0 percent, respectively, from 3Q'10 and 4Q'09. Issuance continued to be led by the auto ($10.6 billion, or 52.1 percent), student loan ($3.0 billion), and "other" sectors ($2.8 billion, dominated by telecommunications and vacation timeshare deals). For the full year, issuance totaled $107.5 billion, a decline of 26.5 percent from 2009 ($146.1 billion), and the lowest one-year total since the 1995 ($112.8 billion).

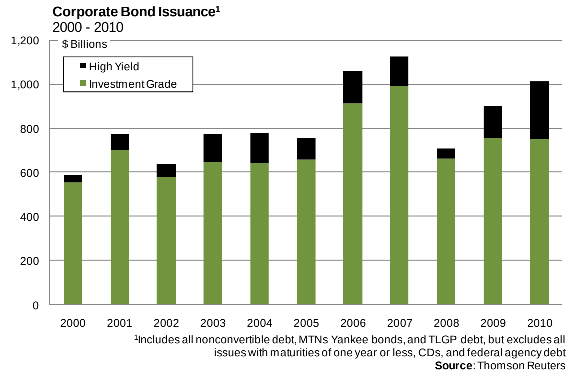
ABS issuance declined was due to a number of factors, which include: generally muted consumer activity; the phase-out of FFELP student loans in July 2010, now an outstanding orphan asset class; the passage of the Dodd-Frank Act; and the still handicapped mortgage market, which has translated to a lack of activity in the home equity and manufactured market space. Combined, those two asset classes climbed from a 15 percent market share in all ABS issuance in 1990 to 65 percent in 2006 before vanishing after the crisis.

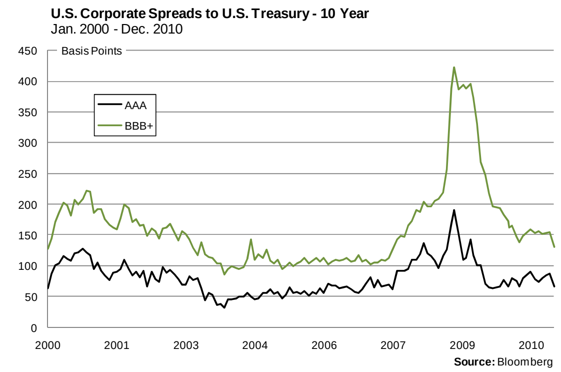
On net, however, issuance continues to remain negative, with outstanding amounts shrinking approximately 2.5 percent end-December from end-September; year-over-year, outstandings have declined by 11.5 percent, with the greatest declines in credit cards, equipment, and home equity. Although a clear trend in the pickup in consumer spending, especially towards the end of the second half of 2010 bodes well for future ABS issuance, more generally aggregates will likely be below pre-2001 norms, although certain sectors (e.g., auto, credit cards) may see an uptick.

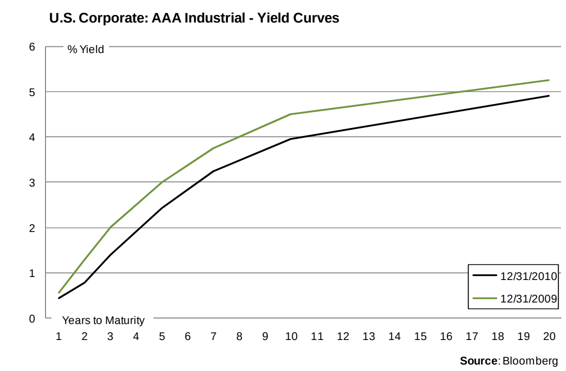
Collateralized Debt Obligations

Global funded collateralized debt obligation (CDO) issuance totaled $1.6 billion in 4Q'10, a decline of 20.9 percent from 3Q'10 but an increase of 41.5 percent from 4Q'09. For the full year 2010, CDO issuance totaled $8.0 billion, approximately twice the amount in 2009 ($4.3 billion). Notably, issuance has been generally targeted for the European market, with the euro as the leading currency denomination, followed by the US dollar. These totals, however, do not include certain securitizations of small and medium enterprise loans (SME), of which approximately $50 billion have been issued in Europe, nor do they include certain CDOs issued for purposes of repo.

CORPORATE BOND MARKET







Corporate Bond Issuance Increases in 2010; High Yield Issuance Breaks All-Time Record

Total corporate bond issuance stood at $1.0 trillion in 2010, a 12.6 percent increase from $901.8 billion in 2009. While issuance in 4Q'10 ($252.2 billion) declined 19.4 percent from 3Q'10 ($312.7 billion), it was an 18.4 percent improvement from $213.1 billion issued in the same year-earlier period.

In contrast to the previous quarter, corporate issuance in 4Q'10 was driven by issuance of high yield (HY) bonds. Corporate HY debt volume reached a single quarter high of $85.3 billion, a 21.9 percent increase from $70 billion in previous quarter and a 77.7 percent increase from $48 billion in 4Q'09. Investors looking for yield in a near-zero benchmark interest rate environment and companies needing to repay and refinance[16] existing debt led to record HY issuance in three out of four quarters of 2010: $85.3 billion (4Q'10), $70 billion (3Q'10), and $63.2 billion (1Q'10). Total issuance of HY debt in 2010 also reached a new record, with $263 billion issued, a 77.9 percent increase over $147.8 billion issued in 2009.

Investment grade (IG) issuance decreased in 4Q'10 to $166.9 billion, 31.2 percent below the $242.7 billion issued in 3Q'10 but a modest 1.1 percent improvement from $165.1 billion in 4Q'09. Overall IG issuance in 2010 was almost unchanged in volume from 2009; however, according to Thomson Reuters almost half of the $752 billion of IG debt in 2010 was issued by financial companies, up from 34 percent of the market in 2009.[17]

Spreads Continue to Tighten; Default Rates Slow

According to Standard & Poor's (S&P) composite spreads for both IG and speculative-grade (HY) bonds tightened in the 4Q'10. IG bonds spreads compressed to 178 bps, from 203 bps in 3Q'10 and 193 bps at the beginning of the year. HY bonds spreads tightened even more significantly to 540 bps, from 641 bps in 3Q'10 and from 616 at the beginning of 2010. Composite spreads reached their two-year lows at the end of April 2010 with IG bonds spreads at 159 bps and HY bonds spreads at 537 bps.[18] After widening in July due to the European sovereign debt turmoil, both IG and HY spreads gradually narrowed again, and at the end of 2010 stood at levels close to their two-year lows.

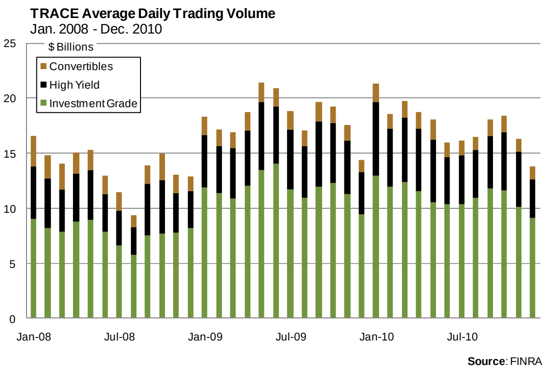
S&P's Global Fixed Income Research reported 20 issuers defaulted worldwide in 4Q'10, raising the 2010 global default number to 77 (significantly down from the 265 in 2009). U.S. companies accounted for 54 defaults in 2010, over 70 percent fewer than in 2009. The substantial decline in the number of defaults in 2010 can be attributed to the improvement in corporate balance sheets but also to issuers extending their maturities and negotiating for more favorable headroom against their covenants. The main reasons for defaults, each accounting for about 25 percent, have been: missed interest or principal payments, bankruptcies (either Chapter 11 or foreign filings), and distressed exchanges.

[16] Many companies face the refinancing risk associated with the pending high volume of debt maturities expected between 2011 and 2014, and issue HY debt as part of the bond-for-loan refinancing strategy, in which issuers target a significant portion of HY proceeds to repay bank debt.
[17] Thomson Reuters, Debt Capital Markets Review. January 4, 2011.
[18] Standard & Poor's. Credit Trends: U.S. Composite Credit Spreads Daily. January 3, 2011.

S&P US Corporate Rating Actions

	2010:Q4	2010:Q3	2009:Q4	2010	2009
Upgrades	77	82	70	309	172
Downgrades	64	60	75	239	788

Source: S&P Fixed Income Research

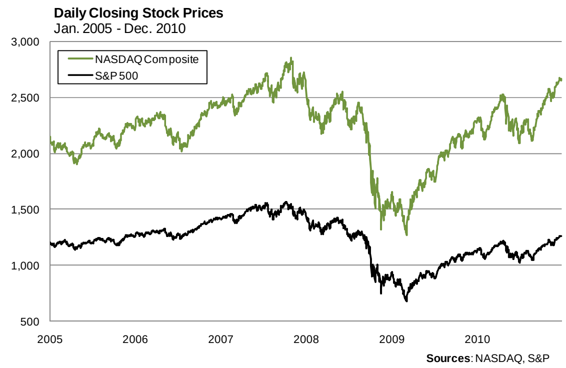


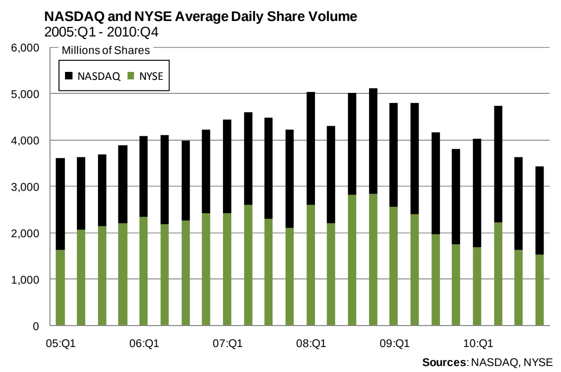
In 4Q'10, S&P Ratings Services downgraded 64 and upgraded 77 U.S. issuers, a worsening in the downgrade ratio from 60/82 in the previous quarter but an improvement from the 75/70 ratio in 4Q'09. During the full year 2010, S&P downgraded 239 U.S. issuers and upgraded 309, a significant improvement over 2009's 788 downgrades and 172 upgrades.

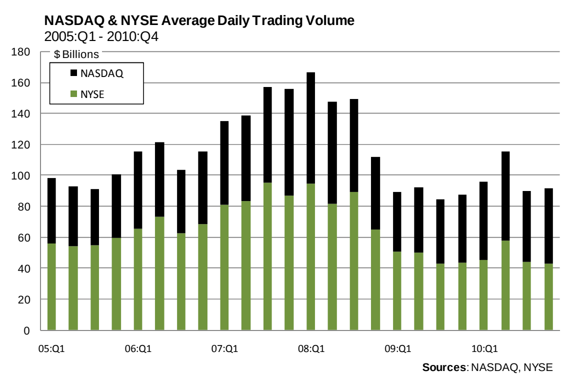
Trading Volume Declines in 4Q'10

According to the NASD's TRACE data, trading volume in all three bond categories (IG, HY, and convertibles (CV)) fell in 4Q'10 compared to both the previous quarter and 4Q'09. IG average daily trading volume totaled $9.13 billion in 4Q'10, down 22.4 percent q-o-q and 3.3 percent y-o-y; HY average daily trading volume was $3.5 billion, down 27.2 percent q-o-q and by 8.9 percent y-o-y; CV average daily trading volume fell to $1.2 billion, a 3.1 percent decrease q-o-q and 3.9 percent lower y-o-y.

EQUITY AND OTHER MARKETS







Equity markets closed the year over 22 percent above their early July lows. The S&P500 rebounded to 1,257.64, a 23.0 percent increase from year low on July 6 and up 9.9 percent y-o-y. The NASDAQ composite index finished at 2,652.87, a 26.8 percent improvement over the year low on July 2 and 12 percent above the 2009 year-end level. The Dow Jones Industrial Average (DJIA) increased to 11,577.51, 19.5 percent up from its low on July 2 and up 7.3 percent year-over-year.

The stock market gains have mostly come on heels of the first rumors of the FOMC's decision to embark on a second round of quantitative easing, which began circulating in early August. The strong quarterly earnings reported after the third quarter, positive economic signs like increased consumer spending, as well as the result of the mid-term elections had also a large positive impact on the stock prices in 4Q'10.

NYSE & NASDAQ Daily Share Volume Decreases

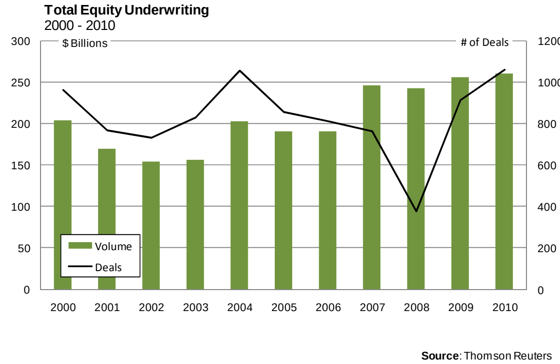
The New York Stock Exchange's (NYSE) 4Q'10 average daily share volume decreased to 1.5 billion shares, 5 percent below from previous quarter's 1.6 billion and 12 percent below the 4Q'09 level, and the lowest quarterly level since 4Q'04. The NYSE's average daily dollar volume decreased modestly to $43.1 billion, a 1.9 percent decrease from the previous quarter's $43.9 billion and a 1.5 percent decrease from $43.7 billion in 4Q'09.

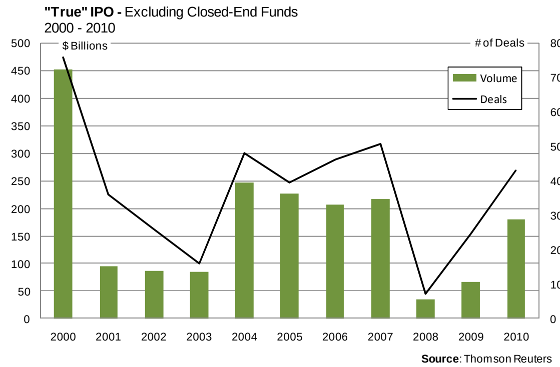
NASDAQ's average daily share volume also fell, hitting 1.9 billion shares at the end of 4Q'10 from 2 billion shares in the previous quarter and 2.1 billion in 4Q'09. Although NASDAQ's average daily share volume decreased, dollar volume increased to $48.4 billion in 4Q'10, up 10.7 percent from $45.8 billion in the previous quarter and 5.6 percent above the 4Q'09 figure of $43.7 billion, a 10.7 percent improvement y-o-y.

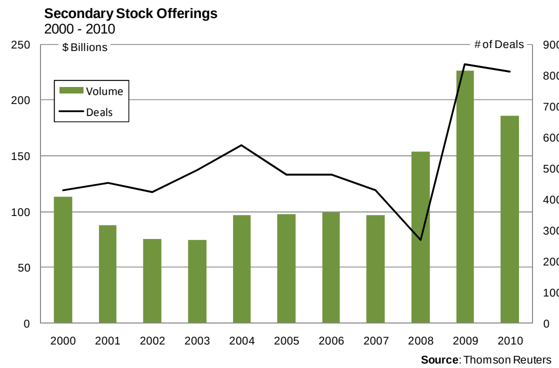
Short Interest Falls; SEC Postpones Short Sale Compliance Date to Feb. 28, 2011

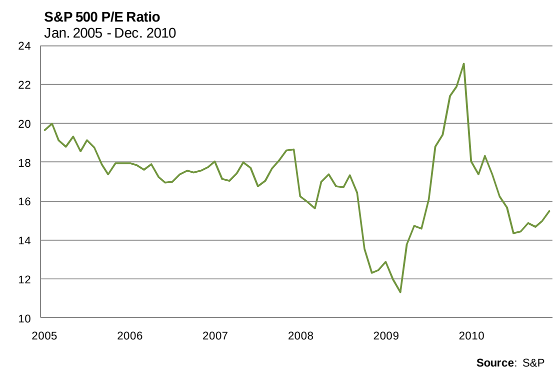
NYSE short interest stood at 12.6 billion shares at the end of 4Q'10, 12.3 percent below from the end-3Q'10 14.3 billion and 3.3 percent below the end of 4Q'09 level. The decline in short interest levels indicates the market is slowly recovering from the turmoil of the financial crisis.

On November 4, the SEC extended the deadline for compliance with its new short sale rule to February 28, 2011 from November 10, 2010. The new rule restricts the ability to sell the stock short after the stock's price drops 10 percent or more in one day (short sales would then only be allowed at prices above the best bid for a stock). The extension was granted to give sufficient time for exchanges to modify their procedures and for market participants to implementation necessary system programming changes.









Equity Underwriting Breaks $100 Billion

Total equity underwriting increased to $104.9 billion on 337 deals in 4Q'10 marking the second highest quarter on record (after 2Q'09 with $114.8 billion); dollar volume rose by 70.3 percent from $61.6 billion in 3Q'10 while the number of deals grew 73.7 percent from 194. The average deal size decreased slightly to $311 million from $317 million in 3Q'10 and remains below the 5-year average of $354 million. Compared to 4Q'09, equity underwriting increased by 14.7 percent in volume and by 16.6 percent in number of deals. Both volume and number of deals ended the year above the 5-year quarterly averages of $60.2 billion and 201 deals.

IPO Volume Posts All-Time High in 4Q

"True" initial public offerings (IPOs), which exclude closed-end mutual funds, increased almost by 400 percent to $27.4 billion on 68 deals (from $5.5 billion on 40 deals in 3Q'10). Overall, in 2010 the number of IPOs nearly tripled, reaching 180 deals from 67 deals, but the average deal size fell significantly, leading to a more modest but still notable 76 percent increase in full year dollar volume to $43.0 billion from $24.5 billion In 2010, the volume and number of IPOs returned to levels from before the financial crisis.

This increase in dollar volume was driven by the General Motors Company IPO on November 17. The company raised $15.8 billion in common shares and $4.35 billion in preferred shares for the total of $20.1 billion - the largest initial public offering in the U.S. history.

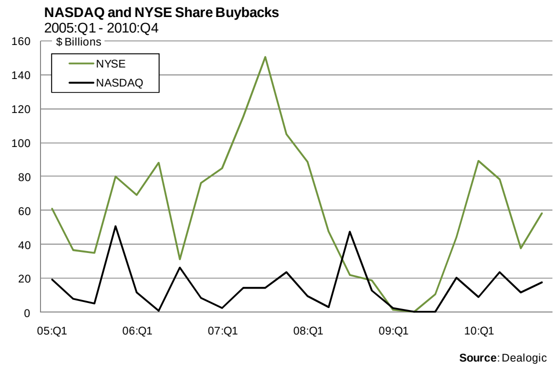
Secondary Offerings Increase

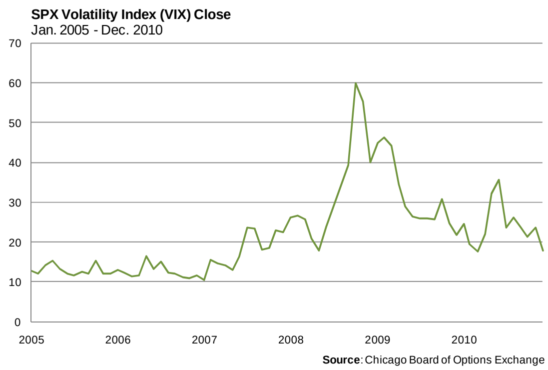
Secondary market issuance increased in 4Q'10 to $67.9 billion from $49 billion in 3Q'10 (a 38.7 percent increase). The average deal value for the quarter fell by 18 percent to $284 million as the number of deals increased relatively more than the volume, up 69.5 percent to 239 deals. Compared to 4Q'09, secondary issuances fell 5.8 percent in dollar volume and 1.2 percent in number of deals.

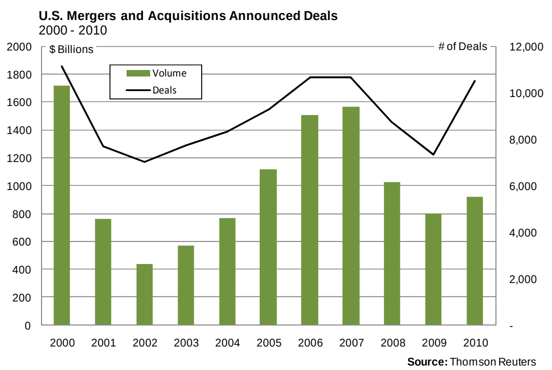
Secondary stock offerings have been on the rise since 2008; the $189.1 billion yearly average over the last three years (2008-2010) was more than double that of the past 10 years (1998-2007). This increase is largely due to post-financial crisis secondary issuance from the financial sector. In 2010 alone, the financial sector accounted for $85 billion in secondary offerings, 45.7 percent of the total $186.1 issued.

P/E Ratios Rise Slightly, But Remain Low

The S&P 500's P/E ratio averaged 15.03 in 4Q'10, up 3.3 percent from the previous quarter's average of 14.55, but remains below the 5-year average of 16.7. Although the P/E ratio increased in 4Q'10, it is still 32.1 percent below the 4Q'09 level. The low P/E ratios are mostly the result of stronger than expected earnings per share reported by the S&P 500 companies and the uptrend in the fourth quarter reflects the raising prices of stocks as the investors started to become more bullish.







Buybacks Increase by 50 Percent

The volume of corporate share repurchases on the NYSE totaled $58.3 billion on 82 deals in 4Q'10, compared to $37.7 billion on 102 deals in 3Q'10. While the volume of buybacks rose by 54.7 percent, the number of deals decreased by 19.6 percent, resulting in a near doubling of average deal size. Compared to the last quarter of 2009, NYSE share buybacks increased by 32.6 percent in volume and by 74.5 percent in number of deals. Similarly the number of share repurchases on NASDAQ fell to 61 in 4Q'10 from 92 in the previous quarter. The dollar volume in fourth quarter increased to $17.8 billion, a 53.45 percent increase from $11.6 billion in 3Q'10. Compared to 4Q'09, NASDAQ share buybacks decreased by 11.8 percent although the number of deals increased by 29.8 percent y-o-y. Both NYSE and NASDAQ saw significant increases in stock buybacks in 2010 overall as the need to hoard cash abated. For the full year 2010, share buybacks totaled $263.3 billion on NYSE and $62 billion on NASDAQ, 368 and 173 percent improvement from $56.3 billion and $22.7 billion in full year 2009, respectively.

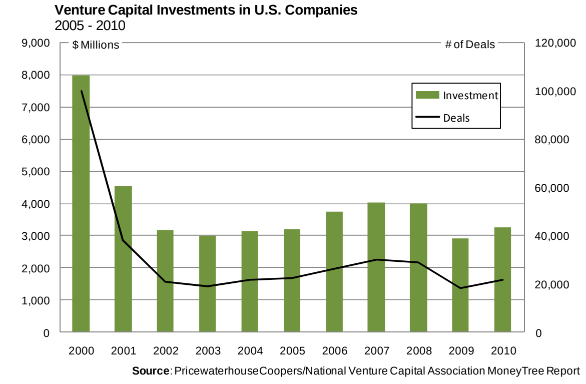
CBOE VIX Index Falls

The Chicago Board Options Exchange Volatility Index (VIX) fell in 4Q'10 to end the year at 17.75, a more than 25 percent decline from the end of the previous quarter, 18 percent below the end-2009 level, and the second lowest month-end value since June 2007. The average VIX level over the fourth quarter was 20.83, almost 15 percent lower than 3Q'10 average of 24.3. Since the May 6 "Flash Crash," the index has been trending downwards as the markets worldwide showed signs of stabilization. According to Zacks Investment Research, the trend of low VIX levels should continue in 2011 as the fears of double-dip recession, deflation, and instability in Europe are slowly fading, which should keep the VIX in a narrower range around the 20 level.

M&A Volume Decreases

Announced U.S. mergers and acquisitions (M&A) volume in 4Q'10 stood at $224.6 billion, a 17 percent decline from the previous quarter's $270.5 billion. The number of deals, however, increased to 2,722 in 4Q'10 from 2,343 in 3Q'10, causing the average deal size to fall to $82.5 million from $115.5 million. M&A dollar volume in the fourth quarter was roughly unchanged from the 4Q'09 level, while the number of deals increased by 36.3 percent from 1,997.

According to Dealogic, the amount of money invested in U.S. companies by foreign investors through M&A deals almost doubled in 2010: the "U.S. inbound" M&A volume rose to $208.6 billion from $106.6 billion in 2009. The dollar amount U.S. companies invested in other countries, or "outbound" M&A rose as well: American firms invested $176.3 billion in deals outside of the U.S. in 2010 compared with $116.4 billion in 2009. The increase in M&A activity suggests that U.S. firms are again looking to allocate cash they have accumulated over the last couple of years.



Venture Capital Increases in 2010

Venture capital (VC) investments increased in volume to $5.0 billion in 4Q'10 from $4.9 billion in the previous quarter, but was 6.6 percent below the 4Q'09 $5.4 billion total. The number of deals decreased by 3 percent to 765 from the previous quarter's 789 and by over 10 percent from 4Q'09 level. Although the last quarter of 2010 wasn't particularly strong, the full year 2010 total represents the first annual increase since 2007[19]. The 2010 VC investment total rose to $21.8 billion on 3,277 deals from $18.3 billion on 2,927 deals in the previous year, a 19 percent and 12 percent increase, respectively. The top industries for VC investments this year were software, biotechnology, and industrial/energy, a little change from 2009 when biotechnology, software, and mediacal devices and equipment held the top three spots.

[19] PriceWaterhouseCoopers. Money Tree Report. Fourth Quarter 2010 Press Release. January 21, 2011.

DERIVATIVES

Derivatives Gross Notional Value Rises

In the U.S, according to the Comptroller of the Currency (OCC) and the Federal Reserve, the gross notional value of derivatives outstanding, both over-the-counter (OTC) and exchange-traded, held by the top 25 U.S. financial holding companies, was $305.0 trillion in the third quarter of 2010 (the most recent data available), although on a net credit exposure basis, was $1.8 trillion. On a gross notional basis, it represents an increase of 3.5 percent and 4.0 percent, respectively from the previous quarter and 4Q'09; on a net credit exposure basis, it represents a decreaseof 0.8 percent and 1.1 percent , respectively, from the previous quarter and 4Q'09.

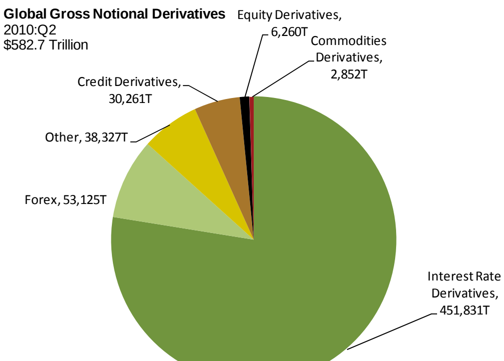
Interest Rate Swaps

According to TriOptima data, the gross notional value outstanding of interest rate swaps (IRS) declined slightly to $463.1 trillion at end-December [20], a 1.3 percent decline from $469.2 trillion in end-September; however, by number of trades, IRS increased by 2.4 percent to 3.8 million contracts (from 3.7 million). Net decreases, both in dollar value and number of contract bases, were concentrated in the short-end of the maturity curve (0-2 years).

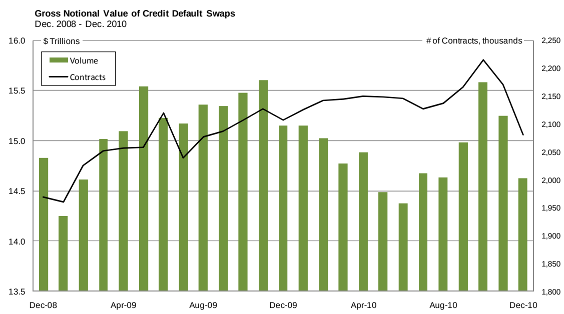
Credit Default Swaps

According to DTCC, the gross notional value outstanding of credit default swaps (CDS) fell by 2.4 percent in 4Q'10 to $14.6 at the end of December and the number of contracts decreased by 3.9 percent to 2.1 million. December 2010 recorded the second lowest CDS outstanding month-end level this year after the $14.4 trillion recorded at end-June. The net notional value outstanding, however, ended unchanged q-o-q at $1.2 trillion.

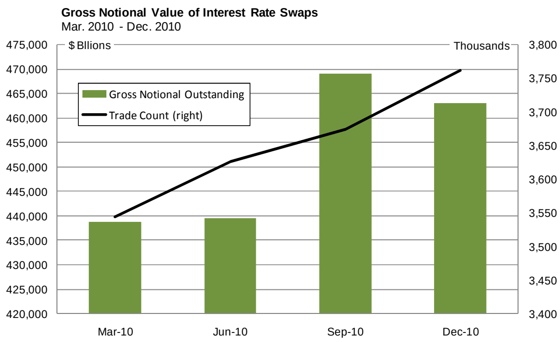
Taking a more granular look, however, while corporate CDS outsstanding declined by 3.8 and 2.0 percent respectively on a gross and net notional basis in 4Q'10, sovereign CDS, both sovereign and subsovereign entities, saw upticks of 5.6 and 5.5 percent, respectively, in gross and net notionals. In particular, municipal credit concerns spurred the increase in the municipal CDS in 4Q'10, with outstandings in the state government category up by 14.0 percent (gross) and 6.0 percent (net) from the prior quarter's levels.



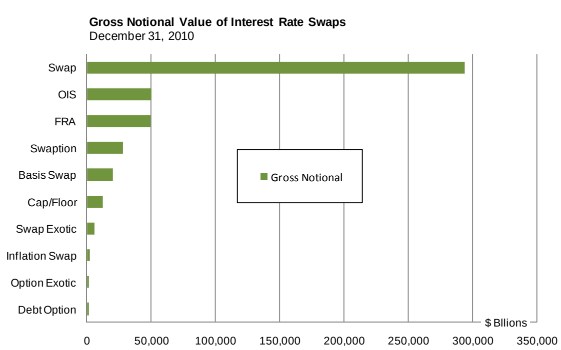
Source: BIS



Source: DTCC



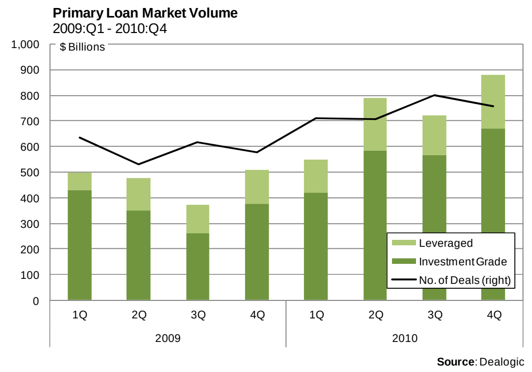
Source: TriOptima

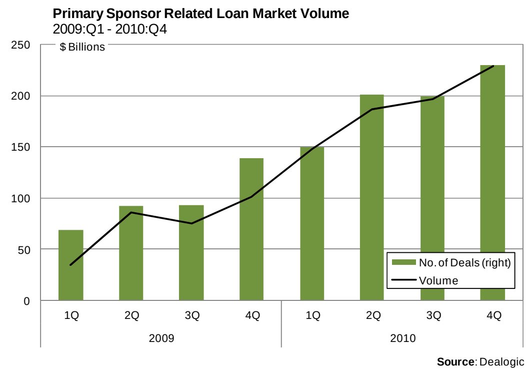


Source: TriOptima

[20] These data are global and are provided by G14 dealers, a group of 14 dealer institutions and hence not inclusive of the entire universe of interest rate swaps. Both cleared and uncleared OTC derivative interest rate transactions are included. Data does not include cross-currency transactions from TriOptima's rates repository.

PRIMARY LOAN MARKET[21]





Primary Loan Market: Fourth Quarter & Full Year 2010 Review

In 2010 global primary loan market volume reached $2.9 trillion, up 58 percent from $1.9 trillion in 2009. The Americas region represented 44 percent of global syndicated loan volume in 2010 with $1.3 trillion, up 73 percent from 2009. EMEA and Asia-Pacific also experienced annual volume increases of 62 percent and 20 percent respectively. Utility & Energy was the leading sector with $304.2 billion borrowed in 2010, followed by Oil & Gas with $294.2 billion.

Global syndicated loan volume was $878.5 billion in 4Q'10, up 22 percent from 3Q'10 and was the highest quarterly volume since 4Q'07. 4Q'10 volume was up 73 percent on the $508.8 billion raised in 4Q'09. Primary loan market volume out of the United States reached $363.3 billion in the final quarter of 2010, an increase of 52 percent from the previous quarter and the highest quarterly volume since 2Q'08.

Global investment grade loan volume reached $2.2 trillion in full year 2010, up 58 percent from the $1.4 trillion raised in 2009, while leveraged loan volume reached $696.5 billion globally, up 57 percent from the $442.5 billion seen in 2009. These increases were the first year–on-year increases since 2007. Global leveraged loan growth outpaced investment grade facilities quarter-over-quarter with leveraged increasing 33 percent in 4Q'10 compared with only an 19 percent increase for investment grade facilities. 4Q'10 global investment grade financing was $670.4 billion, the highest quarterly investment grade volume since 4Q'07. Global leveraged loan volume reached $208.5 billion in 4Q'10, the highest quarterly leveraged volume since 3Q'08.

Syndicated loans for dividend recapitalizations increased 124 percent in 4Q'10 to $13.4 billion. Dividend recapitalization volume reached $30.1 billion for 2010, the third highest annual volume on record ($106.2 billion in 2007 and $60.2 billion in 2006). Refinancing volume also surged in 4Q'10 with $311.5 billion, a 76 percent increase from the $176.7 billion seen in 3Q'10.

Global financial sponsor related syndicated loan volume increased for the fifth consecutive quarter to $91.4 billion in 4Q'10, the highest quarterly volume since 2Q'08. 4Q'10 financial sponsor related volume from the United States increased 53 percent to $71.8 billion from the previous quarter and 188 percent from 4Q'09.

Average tenor checked back to 5.0 years in 4Q'10, down from 6.2 years in 3Q'10. The Americas region saw average tenor decrease to 4.4 years from 7.8 years in the prior quarter. Average tenor in Asia-Pacific reached 5.1 years in 4Q'10, the highest quarterly average tenor for the region since 4Q'08. Average pricing on both leveraged and investment grade loans decreased in 4Q'10. Leveraged loans decreased 13bps from 3Q'10 to 407bps. Average pricing on investment grade loans fell to 193bps, down 4bps from 3Q'10.

As of the end of 2010, and excluding revolving credit facilities, there is an expected $859.3 billion in syndicated primary market loans due to mature by the end of 2011, with $219.1 billion expected to mature in 1Q'11. Volume for maturing loans is expected to peak in 2013 at a level of $966.3 billion.

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