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RESEARCH QUARTERLY
1Q 2011

RESEARCH REPORT

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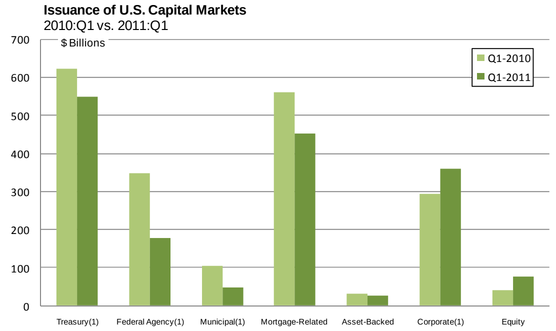
CAPITAL MARKETS OVERVIEW



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

Issuance Highlights - Year-Over-Year

$ Billions	2011:Q1	2010:Q1	Y-o-Y % Change*	2011 YTD
Treasury (1)	550.2	623.1	-11.7%	550.2
Federal Agency (1)	177.0	347.2	-49.0%	177.0
Municipal (1)	46.8	104.0	-55.0%	47.3
Mortgage-Related	452.6	562.0	-19.5%	421.1
Asset-Backed	26.5	31.9	-17.1%	26.5
Global CDO	1.4	2.4	-43.0%	1.4
Corporate (1)	361.0	293.1	23.2%	361.0
Equity	75.4	41.2	83.2%	75.4

* Percent change between 2011:Q1 and 2010:Q1

Quarter-Over-Quarter

$ Billions	2011:Q1	2010:Q4	Q-o-Q % Change*
Treasury (1)	550.2	519.2	6.0%
Federal Agency (1)	177.0	240.1	-26.3%
Municipal (1)	46.8	132.3	-64.6%
Mortgage-Related	452.6	413.3	9.5%
Asset-Backed	26.5	20.4	30.0%
Global CDO	1.4	1.6	-12.8%
Corporate (1)	361.0	252.2	43.1%
Equity	75.4	104.9	-28.1%

* Percent change between 2011:Q1 and 2010:Q4
(1) Includes long-term issuance only

Total Capital Markets Issuance Decreased to $1.66 Trillion in First Quarter 2011

In the first quarter of 2011, $1.66 trillion in securities were issued, a 9.4 percent decline from the last quarter's $1.83 trillion and also a 9.4 percent decrease year-over-year (y-o-y). While issuance of corporate debt, asset backed securities, mortgage-related securities, and Treasuries increased quarter-over quarter (q-o-q), it was not enough to outweigh decreases in all other asset classes: federal agency debt, municipal securities, global collateralized debt obligations (CDOs), and equities.

Total first quarter gross issuance of U.S. Treasury securities, including all cash management balances (CMBs) increased to $550.2 billion, up 6.0 percent from 4Q'10's $519.2 billion. Net issuance, however, decreased by 26.0 percent to $265.2 billion from 4Q'10's $362.9 billion. Excluding CMBs, net issuance stood at $110.2 billion, over four times the $19.9 billion issued in the previous quarter.

Federal agency long-term debt issuance was $177.0 billion in the first quarter, a decrease of 26.3 percent and 49.0 percent respectively from 4Q'10 ($240.1 billion) and 1Q'10 ($347.2 billion).

Long-term municipal issuance volume totaled $46.8 billion in the first quarter of 2011, a decline of 64.6 percent and 55.0 percent from 4Q'10 ($132.3 billion) and 1Q'10 ($31.9 billion), respectively. The large decrease in issuance was primarily due to the expiration of the Build America Bonds (BABs) program in 4Q'10, but light supply and a weak investor interest also contributed to lower issuance.

Issuance of mortgage-related securities totaled $452.6 billion in the first quarter, a 9.5 percent increase from 4Q'10 ($413.3 billion) but a 19.5 percent decrease from 1Q'10 ($562.0 billion). The pickup in commercial mortgage securities (CMBS) issuance in the prior quarter continued throughout the first quarter.

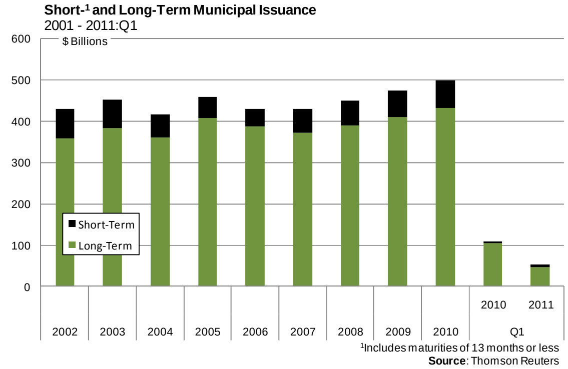
Asset-backed securities (ABS) issuance totaled $26.5 billion in 1Q'11, an increase of 30.0 percent from 4Q'10 but a decline of 17.1 percent from 1Q'10. Auto issuance continues to lead ABS totals, with $17.3 billion (65.4 percent of all issuance in 1Q'11), followed by student loans ($3.6 billion, or 13.5 percent).

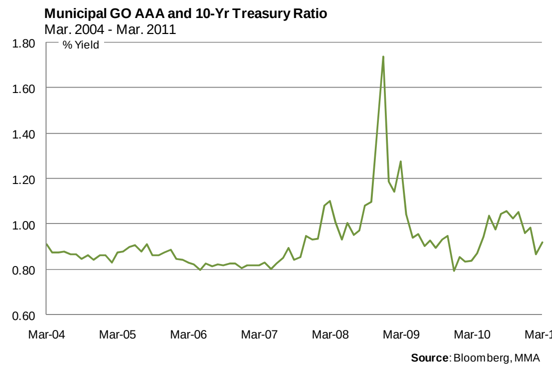
Global funded collateralized debt obligation (CDO) issuance totaled $1.4 billion in 1Q'11, a decline of 12.8 and 43.0 percent respectively from 4Q'10 ($1.6 billion) and 1Q'10 ($2.4 billion). The collateralized loan obligation (CLO) market has begun to pick up, albeit modestly.

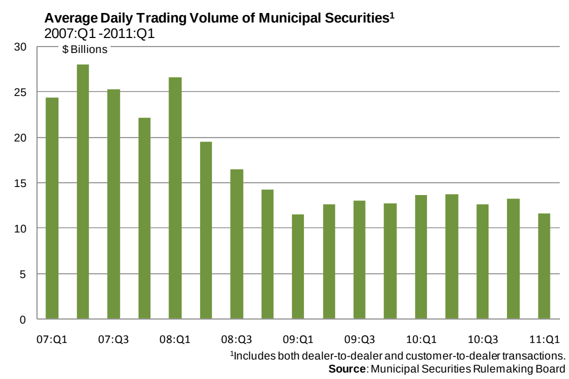
Total corporate bond issuance totaled $361.0 billion in 1Q'11, a 32.8 percent increase from $271.9 billion during the previous quarter and 23.2 percent improvement y-o-y. Investment grade bond issuance increased in 1Q'11 to $279.5 billion, up 49.9 percent from $186.5 billion in 4Q'10. Issuance of high yield bonds declined by 4.6 percent q-o-q to $81.5 billion.

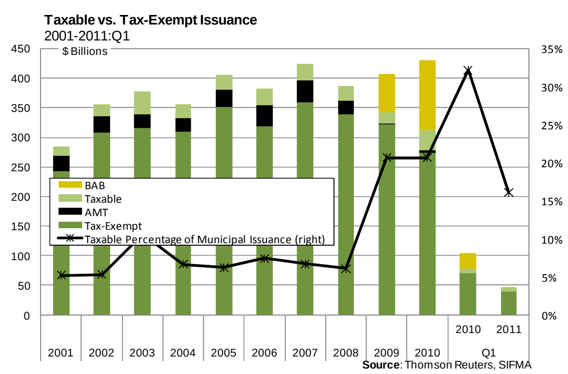
Equity issuance decreased to $75.4 billion in 1Q'11, a decline of 28.1 percent from $104.9 billion in 4Q'10, but an 83.2 percent improvement from the $41.2 billion issued in 1Q'10. Initial public offierings (IPOs) decreased after very high activity in 4Q'10; "true" IPOs volume dropped to $16.4 billion on 45 deals in 1Q'11 from $27.4 billion on 68 deals in 4Q'10. Announced U.S. mergers and acquisitions (M&A) volume in 1Q'11 stood at $333.9 billion, the highest quarterly volume since $378.1 billion in 2Q'08.

MUNICIPAL BOND MARKET









According to Thomson Reuters, long-term municipal issuance volume, including taxable and tax-exempt issuance, totaled $46.8 billion in the first quarter of 2011, less than a third of the issuance in the prior quarter ($132.3 billion in 4Q'10) and less than half of the issuance of the first quarter of 2010 ($104.4 billion). The increase in issuance in 4Q'10 partly contributed to weak supply in 1Q'11, but weak demand from the traditional retail investor base, high yields and a certain level of fiscal austerity stemming from negative headlines also contributed to light supply. At the current pace, full year issuance could fall short of $200 billion, a level not seen since 1996. However, a seasonal spike in issuance this summer could boost issuance for the year.

First quarter outflows from long-term municipal funds generally continued at the same pace as in 4Q'10, although the outflows began slowing at the end of the quarter. According to Investment Company Institute (ICI) data, on net about $19.8 billion was withdrawn from municipal funds in 1Q'11, compared to outflows of $19.1 billion in 4Q'10 and inflows of $13.6 billion in 1Q'10. Continued headlines of state fiscal distress and the threat of government shutdown in 1Q'11 most likely contributed to the exit by the traditional investor base.

Tax-exempt municipal issuance totaled $38.6 billion in 1Q'11, a decline of 47.6 percent and 44.6 percent, respectively, from 4Q'10 ($73.6 billion) and 1Q'10 ($69.6 billion). Weak demand for tax-exempt bonds and flight to safety prompted by the European debt crisis and the earthquake in Japan drove ratios between the 30-year tax-exempt AAA G.O. yield and 30-year Treasury back above 100 percent. The yield curve steepened considerably in 1Q'11; the difference between 1- and 30-year yields stood at 461 basis points (bps) at quarter end, 20 bps wider than at end 4Q'10 and 53 bps wider than at end-1Q'10.

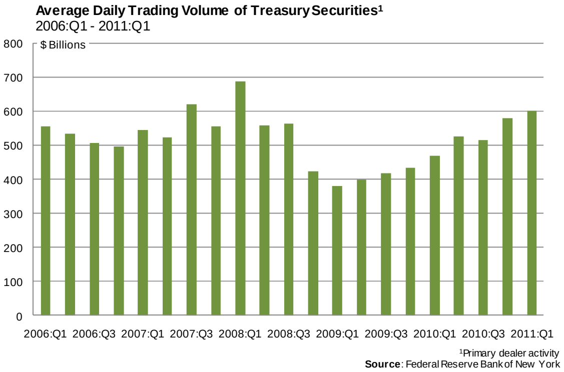
Taxable Issuance

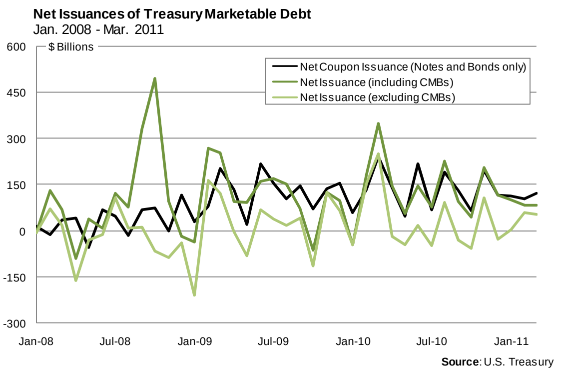
Due to the expiration of the BAB program, taxable issuance fell sharply in the first quarter of 2011 to $7.5 billion, down 86.7 percent from 4Q'10 ($56.4 billion, inclusive of BABs) and 77.6 percent from 1Q'10 ($33.5 billion, inclusive of BABs). Despite the expiration of BABs, taxable issuance continues to represent a relatively high share of issuance (16.1 percent in 1Q'11, compared to 10-year non-BAB average of 7 percent (1999 to 2008). While a few Congress-authorized programs have continued (e.g., New CREBs, QECBs, QSCBs, and QZABS[1]), the high taxable share of issuance was due to a single $3.7 billion taxable issue from the state of Illinois, issued primarily to fund its pension obligations

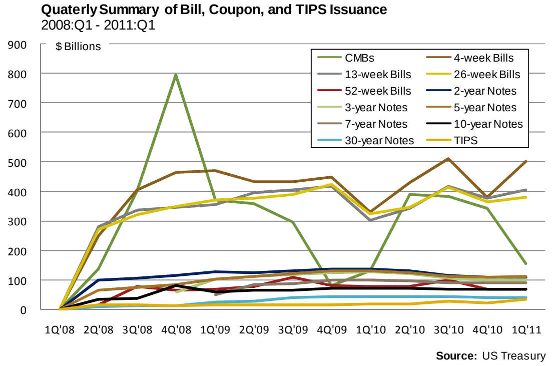
While tax-exempt bond yields have drifted upward in 1Q'11, yields on existing BABa have declined since end-December 2010. According to the Wells Fargo BABs yield index, BAB yields fell 12 bps over 1Q'11, ending at 6.16 percent on March 31 versus 6.27 percent on December 31.

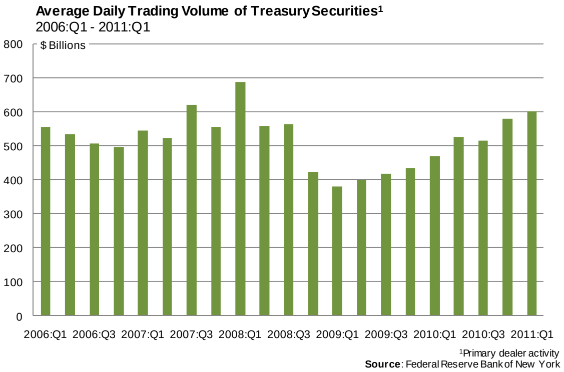
[1] CREB – Clean Renewable Energy Bonds; QECB – Qualified Energy Conservation Bonds; QSCB – Qualified School Construction Bonds; QZABs – Qualified Zone Academy Bonds.

TREASURY MARKET









Net Issuance Falls as Economic Recovery Stays the Course

U.S. Treasury securities gross issuance was $550.2 billion in 1Q'11, down 11.7 percent from $623.1 billion issued in 1Q'10. On net, first quarter issuance of Treasury securities, including all cash management balances, was $265.2 billion, down 26.9 percent from 4Q'10 and 45.1 percent below that in 1Q'10, though slightly higher than the Treasury's February borrowing estimate[2] of $237 billion for the first three months of 2011.

Excluding cash management bills (CMBs), net issuance was $110.2 billion, more than five times the $19.9 billion issued in the prior quarter. The use of short-term CMBs dropped significantly from being consistently over $100 billion in previous months to $25 billion and $30 billion in February and March 2011, respectively, partially as a result of the roll off of the SPF program.

Treasury announced recently that it would reduce the size of the Supplementary Financing Program (SFP) from $200 billion to $5 billion. This action was taken to provide flexibility to debt management, given the proximity of the statutory debt limit.

Approximately $554.5 billion in Treasury coupons plus TIPS were issued in the first quarter, 3.1 percent above the $537.6 billion issued in the prior quarter but 11.2 percent below year-ago issuance of $624.4 billion. Treasury expects to issue over $100 billion in TIPS in 201, with no further changes to the TIPS program expected in the near future.

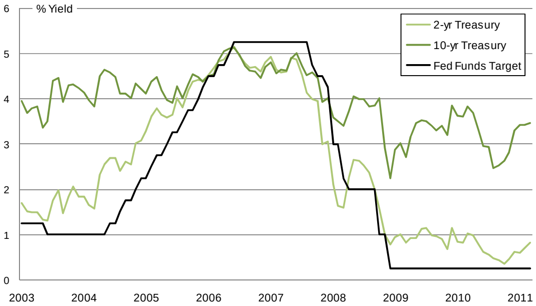
Net coupon issuance for the first quarter 2011 was $339.2 billion, 10.5 percent below 4Q'10's $378.9 billion. Net coupon issuance has been declining steadily since 1Q'10 when it stood at $433.2 billion. Gross coupon issuance was $550.2 billion in the first quarter, 2.7 percent above 4Q'10's $535.6 billion but nearly 12 percent below the $623.1 billion from the same year-ago period.

Gross issuance of bills, including CMBs, was $1.51 trillion in 1Q'11, almost unchanged from last quarter's $1.54 trillion but over a 30 percent increase from $1.2 trillion issued during the same year-ago period

The economy saw some signs of recovery during 1Q'11 as unemployment levels dipped slightly, consumer spending and confidence grew, and the housing market showed some stabilization. With the Dodd-Frank Act passed into law over nine months ago, the rulemaking process is well underway. Prolonged uncertainties over just how final rules will be implemented, however, remain headwinds for the economic recovery.

[2] See US Treasury's first quarter 2011 marketable borrowing estimates.

Treasury Yields and Target Fed Fund Rate
Jan. 2003 - Mar. 2010



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

As both employment and inflation are below levels consistent with the Fed's monetary policy mandate, the Fed has reiterated its intent to complete its $600 billion purchase of Treasury securities ("QE2") by the end of June 2011.

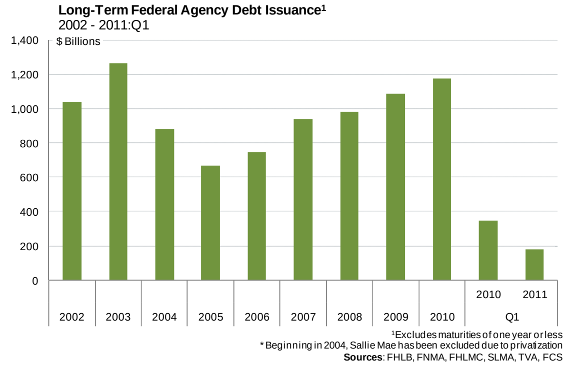
In addition, debt outstanding subject to the statutory debt ceiling currently totals slightly over $14 trillion. The Treasury has announced that it can implement measures that will allow the debt outstanding to remain under the statutory limit of $14.3 trillion through August 2011. As investor confidence grows in a sustained economic recovery, priorities in Congress have swung to controlling the deficit and reducing national spending.

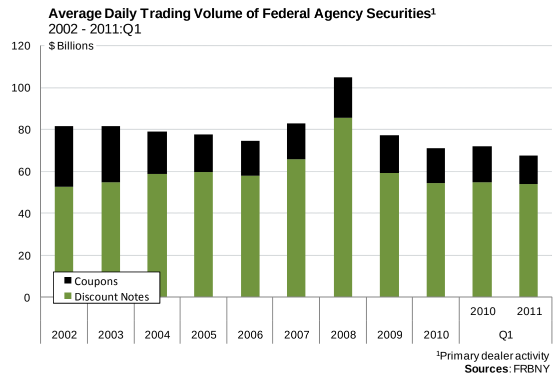
Daily trading volume of Treasury securities by the primary dealers averaged $603.3 billion in the first quarter, compared to $581.1 billion in the prior quarter and $471.5 billion in 1Q'10 (increases of 3.8 percent and 28.0 percent, respectively). Daily trading activity in the first three months of 2011 was the highest observed since $688.7 billion in the first quarter of 2008.

Rates continued to increase in 1Q'11 due to the strengthening economy, positive economic outlook, and expectations that the Fed will follow through with the $600 billion purchase of longer-term Treasury securities by the end of the second quarter of 2011. Two-year rates increased to 0.79 percent in 1Q'11 from 0.59 percent in 4Q'10, while 10-year rates rose to 4.51 percent from 4.35 percent. Looking ahead, primary dealers polled by SIFMA in the April Government Forecast survey expect yield rates to slightly increase going forward through the third quarter of 2011[3].

[3] SIFMA US Government Forecast for 2Q 2011

FEDERAL AGENCY DEBT MARKET





Agency LT Debt Issuance Continues to Decline

Federal agency long-term debt (LTD) issuance was $177.0 billion in the first quarter, a 37.0 and 49.0 percent decline, respectively, from 4Q'10 ($281 billion) and 1Q'10 ($347.2 billion). Overall, average daily trading volume of agency securities (coupons and discount notes) declined modestly in the first quarter to $67.4 billion, compared to the $71.8 billion daily average traded in the same year-earlier period.

The twelve Federal Home Loan Banks (FHLBs) issued $49.4 billion in long-term debt in the first quarter, a decline of 50.1 and 62.4 percent, respectively, from 4Q'10 ($99.4 billion) and 1Q'10 ($131.2 billion). A little over $1.7 trillion in short-term debt (STD) was issued in 1Q'11, generally in the form of discount notes.

Total FHLB bonds outstanding were $581.6 billion as of March 31, 3.4 percent below the $601.9 billion outstanding at the end of the fourth quarter and down nearly 15 percent y-o-y from end-March 2010's $682.7 billion. Discount notes outstanding also saw a similar decline, declining to $184.4 billion at end-March 2011 from end-December 2010 ($194.5 billion) and end-March 2010 ($188.2 billion).

Fannie Mae's gross debt issuance, both STD and LTD, totaled $139.5 billion ($87.7 billion STD, $51.9 billion LTD), a 20.7 percent and 42.1 percent decline, respectively, from 4Q'10 ($175.9 billion) and 1Q'10 ($241.1 billion). Short-term issuance rose q-o-q by 61.9 percent but was down 36.0 percent y-o-y, whereas LTD issuance was down 54.7 percent q-o-q and down 50.2 percent y-o-y. As of March 31, Fannie Mae had $147.2 billion STD outstanding and $626.8 billion LTD outstanding.

Freddie Mac's first quarter gross debt issuance, both STD and LTD, totaled $189.1 billion, up 15.8 percent from 4Q'10 ($159.3 billion) but down 26.9 percent from 1Q'10 ($258.8 billion).

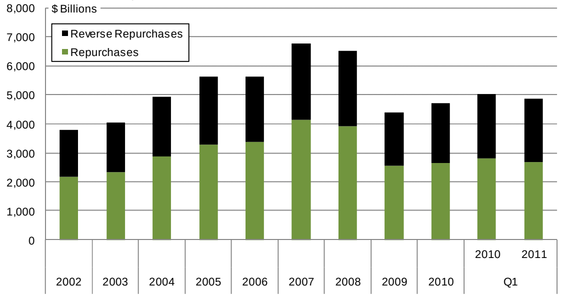
Total Farm Credit System bond issuance, both STD and LTD, totaled $101.8 billion in 1Q'11. Total debt outstanding, both STD and LTD, ended March at $188.6 billion.

Primary dealers polled by SIFMA in the April Government Forecast survey expect gross coupon issuance for the four largest Federal agencies (FHLB, Fannie Mae, Freddie Mac, and Farm Credit Systems) to be $227.4 billion for the second quarter of 2011.[4] By agency, gross coupon issuance was expected to be $55.8 billion for Fannie Mae, $67.8 billion for Freddie Mac, $83.8 billion for the FHLBs, and $20 billion for the Farm Credit System.

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

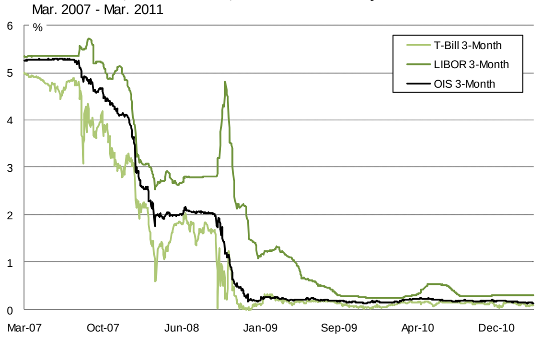
FUNDING AND MONEY MARKET INSTRUMENTS

Financing by U.S. Government Securities Dealers
Average Daily Amount Outstanding
2002 - 2011:Q1



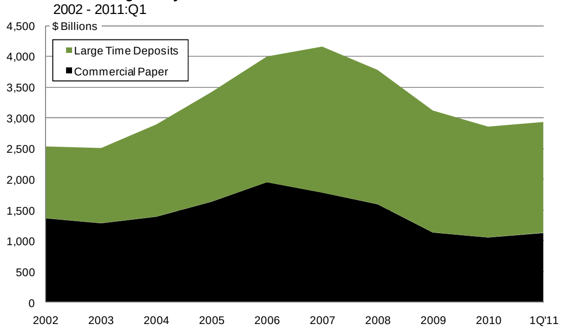
Note: Data include corporate securities.
Source: Federal Reserve Bank of NY

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



Sources: Federal Reserve, Bloomberg

Outstanding Money Market Instruments
2002 - 2011:Q1



Sources: Federal Reserve, SIFMA estimates

Repurchase Activity Declines[5]; Rates Continue to Rise

The average daily amount of total outstanding repurchase (repo) and reverse repo agreement contracts declined in 1Q'11 to $4.9 trillion (3.3 percent below 1Q'10's average of $5.0 trillion).

Daily average outstanding repo transactions totaled $2.7 trillion in 1Q'11, down 3.9 percent from 1Q'10's $2.8 trillion, while reverse repo transactions averaged nearly $2.2 trillion for the first quarter, a 2.6 percent decline y-o-y.

Rates continued to increase in 1Q'11 due to the strengthening economy, positive economic outlook, and expectations that the Fed will follow through with the $600 billion purchase of longer-term Treasury securities by the end of the second quarter of 2011. Two-year rates increased to 0.8 percent in 1Q'11 from 0.6 percent in 4Q'10 and 10-year rates rose to 4.5 percent from 4.4 percent during the same period.

The short-term Treasury rates increased as well. After plummeting in 4Q'10, the 3-month Treasury bill yield recovered slightly to 0.09 percent from 0.07 percent during the 1Q'11.

3-month LIBOR remained approximately the same q-o-q at 30.3 basis points (bps) with some slight movement during the quarter. The rate rose steadily until mid-February when it reached 31.2 bps and then declined back to 30.3 bpsm where it began the quarter. The over-night indexed swaps (OIS) rate, used often to measure marketplace liquidity and stress, decreased in 1Q'11 by 5.1 bps to 12.9 bps at the end of first quarter from 18 bps at the end of 2010.

The LIBOR-OIS 3-month spread widened by 5.4 bps during the 1Q'11 to 17.4 bps at the end of 1Q'11 from 12 bps at the end of 2010. The TED spread compressed by 2 bps in 1Q'11 to 21.3 at the end of 1Q'11 from 23.3 bps at the end of 2010.

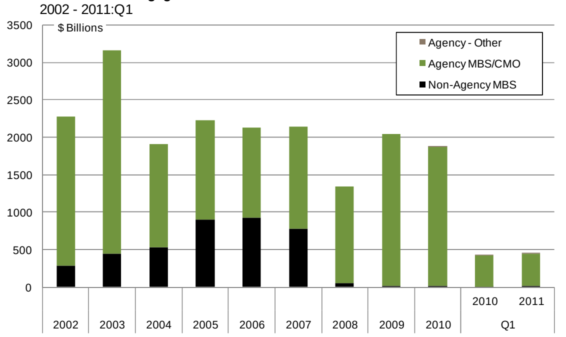
Total CP Outstanding Rises

The outstanding volume of total money market instruments (MMI), including commercial paper (CP) and large time deposits, stood at $2.9 trillion at the end of the first quarter 2011, 4.8 percent above the $3.08 trillion a year ago. CP outstanding totaled $1.13 trillion and was 3.7 percent above the $1.1 trillion in 1Q'10.

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

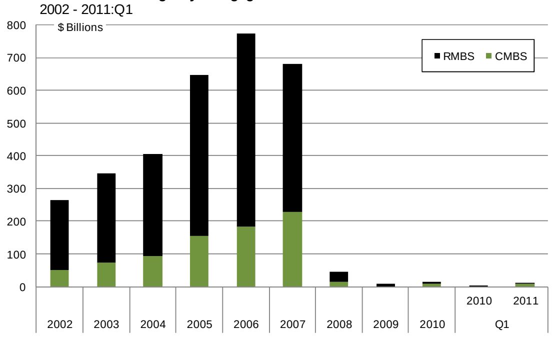
MORTGAGE-RELATED SECURITIES

Issuance of Mortgage-Related Securities
2002 - 2011:Q1



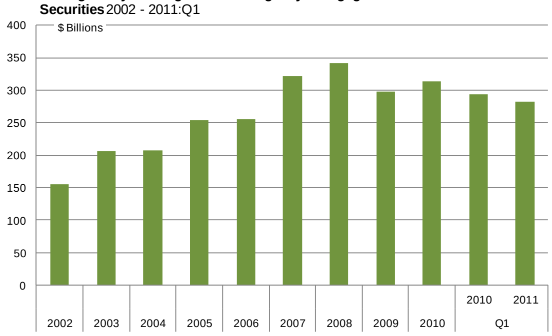
Sources: Federal Agencies, Thomson Reuters

Issuance of Non-Agency Mortgage-Backed Securities
2002 - 2011:Q1



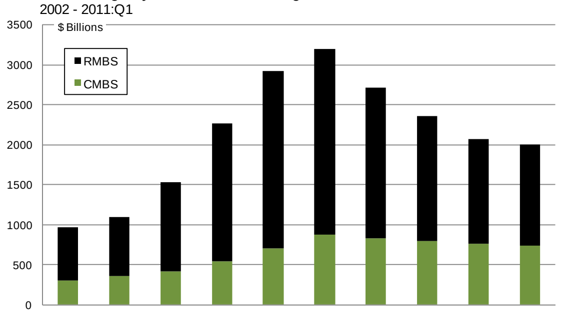
Sources: Bloomberg, Thomson Reuters

Average Daily Trading Volume of Agency Mortgage-Backed Securities 2002 - 2011:Q1



Source: Federal Reserve Bank of NY

U.S. Non-Agency Securities Outstanding
2002 - 2011:Q1



Sources: Loan Performance, Fitch Ratings, Moody's, S&P, SIFMA, Thomson Reuters

Mortgage-Related Market

Issuance of mortgage-related securities, including agency- and non-agency pass throughs and collateralized mortgage obligations (CMOs), totaled $452.6 billion in the first quarter of 2011, a decline of 19.5 percent from 4Q'10 ($562 billion) but an increase of 9.5 percent from 1Q'10. The pickup in the non-agency space in 1Q'11 is primarily due to the recovery of the the commercial mortgage-backed securities (CMBS) space since the fourth quarter.

Agency Issuance

Agency mortgage-related issuance in 1Q'11, including issues from non-traditinoal oneoff transactions (e.g., the National Credit Union Administration (NCUA)), totaled $445.1 billion. Agency share of issuance remained approximately the same in 1Q'11, ending at 98.3 percent, up slightly from 4Q'10 (98.2 percent) but down from 1Q'10 (99.9 percent).

Non-Agency Issuance and Outstanding

Non-agency issuanced totaled $7.6 billion in 1Q'11, a decline of 27.0 percent from 4Q'10 ($10.4 billion) but a significant increase compared to 1Q'10 ($0.1 billion). CMBS issuance continued to be the primary source of new issuance in the non-agency category.

Outside of CMBS, Redwood Trust, which priced the first jumbo non-agency RMBS security in 2010, priced another $290.4 million jumbo RMBS in the first quarter 2011 (Sequoia Mortgage Trust 2011-1).

Regulatory and Government Update

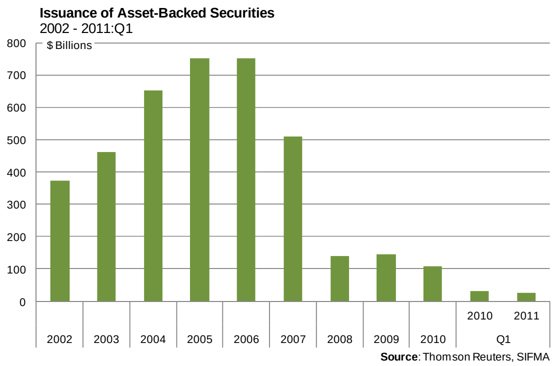
Midway through the first quarter, the U.S. Treasury, as mandated by the Dodd-Frank Act, published recommendations for reform of the U.S. housing finance system, including Fannie Mae and Freddie Mac (GSEs), to the Senate Banking Committee and House Financial Services Committee on February 11. The report made several recommendations, including the overall aim to reduce, and possibly eliminate, the government's role in the mortgage marketplace. Specific recommendations were made in regard to the GSEs, including: reducing their investment portfolios (an orderly winddown of 10 percent per year); increasing the guaranty fee; and raising qualifications for mortgage loans (e.g., reducing conforming loan limits, raising down payment requirements, etc). Beyond specific recommendations made to the GSEs, the paper addressed general housing concerns, including the Federal Home Loan Banks (FHLB), the role of FHA and Ginnie Mae, the private label market, and alternatives to homeownership,for example.[6]

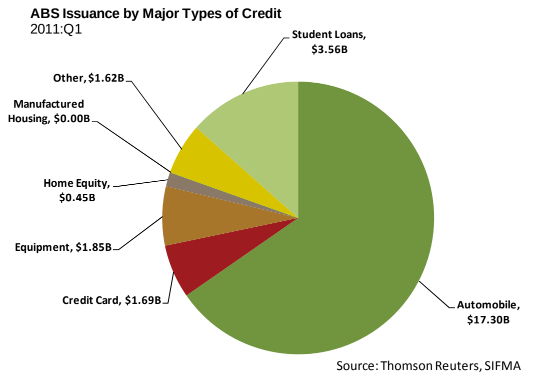
On March 21, the U.S. Treasury announced an orderly winddown (at a rate of $10 billion per month) of its $142 billion agency MBS portfolio, acquired from its actions taken under the Housing and Economic Recovery Act of 2008.

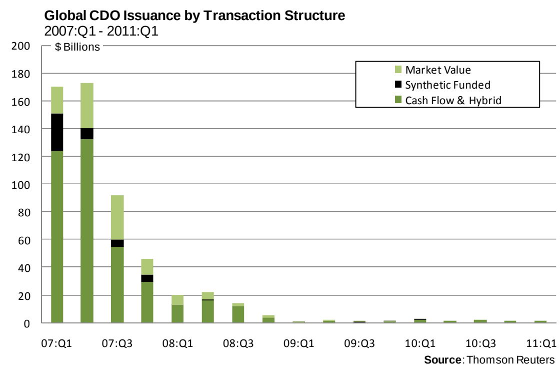
At the end of the first quarter, the agencies (SEC, FDIC, OCC, Federal Reserve, FHFA, and HUD) sought public comment on a proposed rule requiring a minimum of 5 percent risk retention of assets underlying securitizations.[7] A similar risk retention rule has been in place in Europe since the beginning of 2011 (CRD 122a), but implementation of these two rules

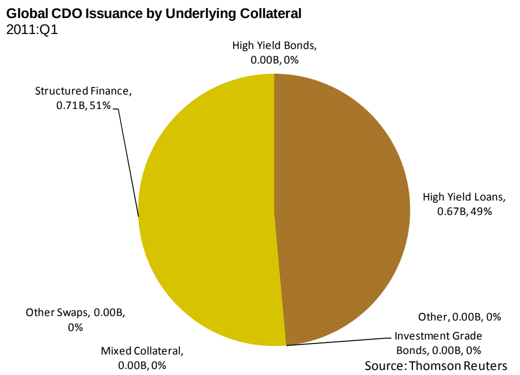
[6] U.S. Treasury, "Reforming America's Housing Finance Market: A Report to Congress", February 11, 2011.
[7] SEC, "Agencies Seek Public Comment on Risk Retention Proposal", March 31, 2011.
http://sec.gov/news/press/2011/2011-79.htm

may diverge.









ASSET-BACKED SECURITIES AND CDOS

Asset-Backed Market & CDO

Asset- backed securities (ABS) issuance totaled $26.5 billion in the first quarter of 2011, an increase of 30.0 percent from 4Q'10 but a decline of 17.1 percent from 1Q'10. Auto issuance continues to lead ABS totals, with $17.3 billion sold (65.4 percent of total issuance in 1Q'11), followed by student loans ($3.6 billion, or 13.5 percent).

Net Issuance remains negative, with outstanding ending 1Q'11 at $2.1 trillion, shrinking 8.9 percent on an annualized basis from 4Q'10 ($2.2 trillion). Although auto issuance and student loans outstanding picked up slightly (1.9 percent and 2.1 percent on an annualized basis), all other categories declined, with credit cards shrinking 27.0 percent on an annualized basis.

Exotic Asset Backed Securities On the Rise

The "Other" category of ABS ($1.6 billion) continued to see a spate of exotic and/or unusual securitizations in the first quarter of 2011. In the first quarter, the ABS market priced securitizations of timeshares ($400 million), franchise loans ($220 million), timberland leases ($220 million), broadcasting tower leases ($188 million), container leases ($230 million), and cellular towers leases ($70 million).

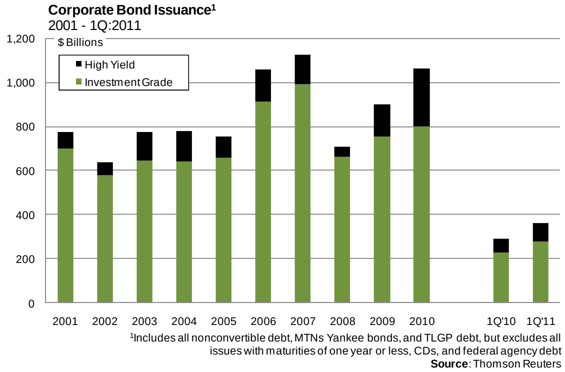
Collateralized Debt Obligations

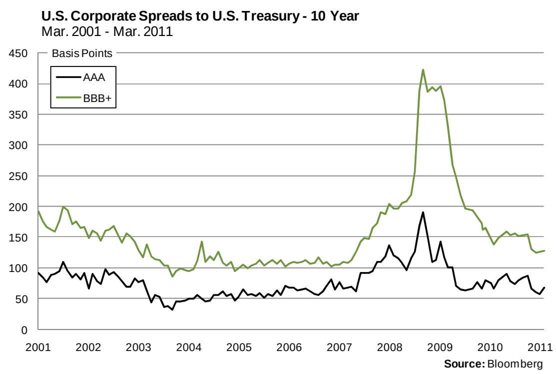
Global funded collateralized debt obligations (CDO) issuance totaled $1.4 billion in 1Q'11, a decline of 12.9 percent and 43 percent, respectively from 4Q'10 and 1Q'10. The collateralized loan obligation (CLO) market continued to pick up in the 1Q'11 with $670 million issued, the only issue in the first quarter. CDO issuance in aggregate, however, was down 5.6 percent from 4Q'10 ($709.8 million).

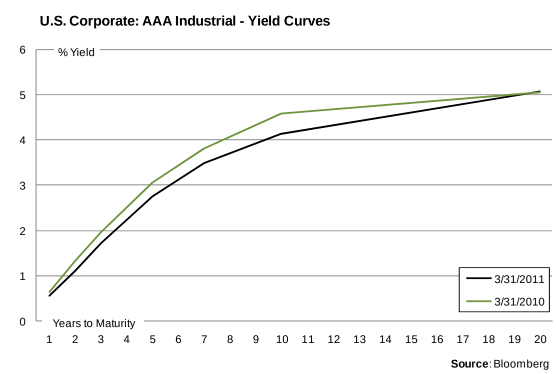
Government and Regulatory Update

In January, the U.S. Securities and Exchange Commission approved new rules relating to disclosure of repurchase requests from ABS issuers. Like the mortgage-related market, the ABS market is also affected by the risk retention rule proposed at the end of the first quarter.

CORPORATE BOND MARKET







Corporate Bond Issuance Rises in 1Q'11; IG Leading

Total corporate bond issuance reached $361.0 billion in 1Q'11, a 32.8 percent increase from $271.9 billion in 4Q'10 and a 23.2 percent improvement y-o-y. The leap in corporate bonds issuance this quarter was solely the result of an increase in investment grade (IG) bonds issuance, while the volume of high yield (HY) bond issuance decreased slightly.

IG bond issuance increased to $279.5 billion in 1Q'11, up 49.9 percent from $186.5 billion in 4Q'10 and a 21.7 percent improvement from $229.7 billion in 1Q'10. The number of issuances totaled 238, the highest quarterly number since 2Q'08. According to Thomson Reuters, almost 58.3 percent of IG debt in 1Q'11 was issued by financial companies, down slightly from 59.5 percent of the market a year ago[8].

The issuance of HY bonds stood at $81.5 billion in 1Q'11 – the highest first quarter total on record and second highest quarterly issuance overall. Although the 1Q'11 total is a 4.6 percent decline from the record high 4Q'10's $85.3 billion, it is a 28.5 percent improvement over $63.4 billion issued in 1Q'10. Demand for HY bonds continued to be exceptionally high due to search for yield in a near-zero benchmark interest rate environment and improving fundamentals of a recovering economy. As a result, the last three quarters, 4Q'10, 1Q'11, and 3Q'10, were the three largest HY issuance quarters on record with $85.3, $81.5, and $70 billion respectively.

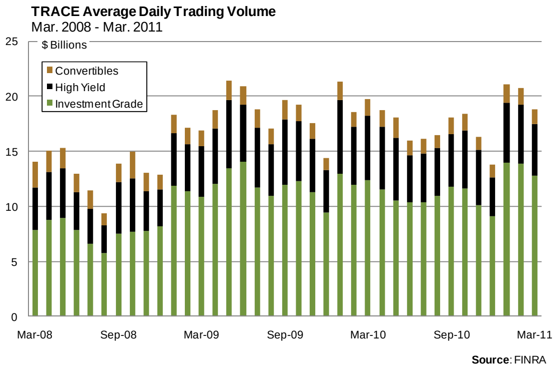
Spreads Continue to Tighten; Default Rates Slow

According to S&P, composite spreads for both investment-grade and speculative-grade bonds continued to tighten in 1Q'11. IG bonds spreads compressed to 165 basis points (bps) from 177 bps at the end of 2010 and are 27 percent below their 5-year moving average of 226 bps. HY bonds spreads tightened even more significantly to 478 bps from 538 bps at the end of 2010 and are 28 percent below their 5-year moving average of 662 bps. Since widening in July 2010, mostly due to the sovereign debt turmoil in Europe, both IG and HY spreads have gradually compressed to finish 1Q'11 near the two-year low of 159 bps for IG bonds and at the tightest levels since late 2007 for HY bonds.

S&P's Global Fixed Income Research reported three issuers defaulted worldwide in 1Q'11, two of which were based in the U.S. This small number of defaults is a significant improvement from both 4Q'10, when 20 issuers defaulted worldwide (13 in the U.S.) and 1Q'10 when there were 29 defaults worldwide (20 in the U.S.).

In 1Q'11, S&P Ratings Services downgraded 49 and upgraded 81 U.S. issuers, an improvement from from 64/77 downgrade ratio in the previous quarter and also an improvement from the 62 downgrades to 57 upgrades in 1Q'10.

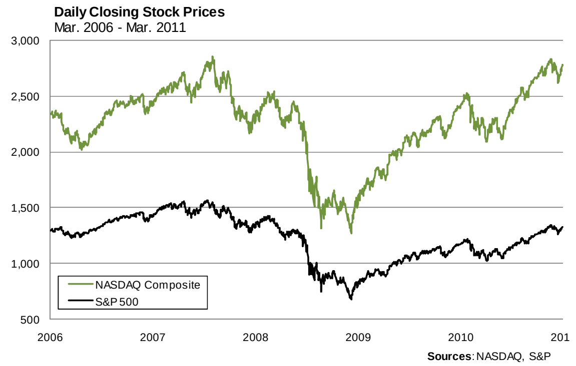
[8] Thomson Reuters, Debt Capital Markets Review. March 31, 2011.

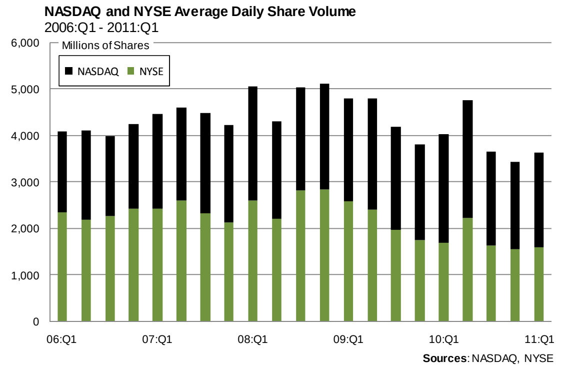


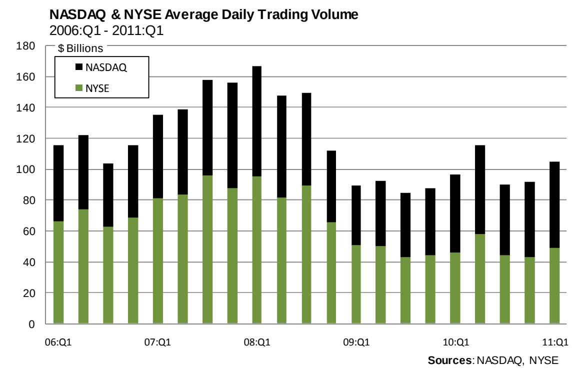
Trading Volume Increases in 1Q'11

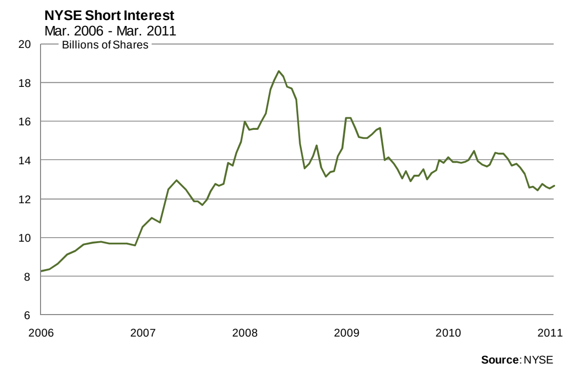
According to the NASD's TRACE data, trading volume for all three bond categories: IG, HY, and convertibles (CVs) rose significantly in 1Q'11 compared with the previous quarter. IG average daily trading volume increased to $12.8 billion in March 2011, up 40.0 percent from $9.1 billion in December 2010 and up 3.0 percent y-o-y. HY average daily trading volume increased by 34.2 percent to $4.7 billion in March 2011 from $3.5 billion in December 2010 but decreased by 19.3 percent from $5.9 billion in the same year-earlier period. CVs' average daily trading volume rose in 1Q'11 to end the quarter at $1.4 billion, 19.1 percent increase from the end of last quarter but 8.7 percent lower than the average trading volume in March 2010.

EQUITY AND OTHER MARKETS









Equity market indices climbed about 5.0 percent during the first quarter of 2011. The S&P 500 closed 1Q'11 at 1,325.83, a 5.4 percent increase from the prior quarter and a 13.4 percent gain y-o-y. The NASDAQ composite index finished at 2,781.07, a 4.4 percent improvement from 4Q'10 and 16.0 percent increase y-o-y. The Dow Jones Industrial Average (DJIA) increased as well, posting a 6.4 percent gain q-o-q and 13.5 percent improvement from 1Q'10. U.S. equity markets recorded quarterly gains, but the quarter was weaker than expected as ongoing international worries over the natural disaster in in Japan, political unrest in North Africa and the Middle East, and continued sovereign debt issues in Europe, as well as rising commodity prices suppressed the market gains.

Daily Share & Trading Volume Increases

The New York Stock Exchange's (NYSE) 1Q'11 average daily share volume increased to 1.6 billion shares, up 2.7 percent from the last quarter's 1.5 billion, the lowest average daily share volume on NYSE since 4Q'04, but 6.4 percent below the 1.7 billion average in 1Q'10. The NYSE's average daily trading volume increased to $48.9 billion, 13.6 percent improvement from the previous quarter's $43.1 billion and 7.6 percent increase y-o-y.

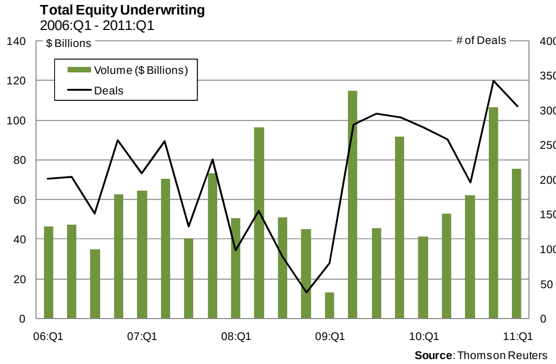
NASDAQ's average daily share volume increased by 8.4 percent to 2.1 billion shares at the end of 1Q'11 from 1.9 billion shares in the previous quarter, but was down 12.4 percent from 2.3 billion in 1Q'10. The dollar trading volume increased to $55.7 billion in 1Q'11, up 15.2 percent from $48.4 billion in the previous quarter and 10.1 percent above the 1Q'10's figure of $50.6 billion.

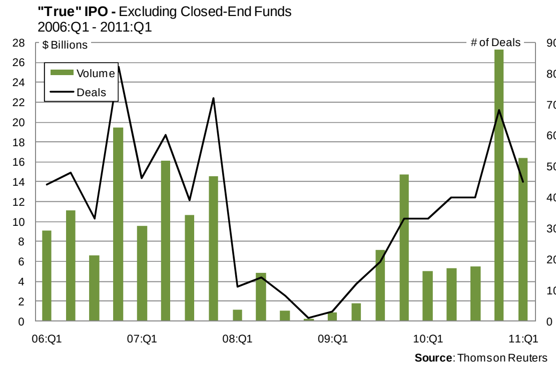
Short Interest Stays Flat

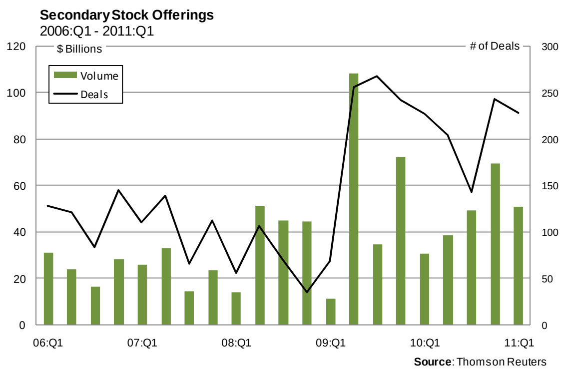
The number of shares sold short on the NYSE remained at the level not seen since the early 2008. NYSE short interest stood at 12.6 billion shares at the end of 1Q'11, unchanged from the end of last quarter and a 9.0 percent decrease from 13.9 billion at the end of 1Q'10.

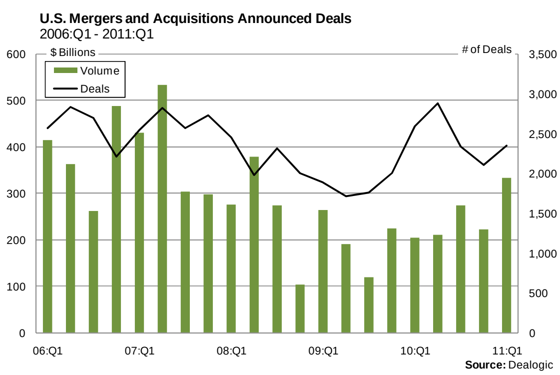
Strong Recovery Signs Boost Equity Market

Positive economic news drove the equity markets in the first quarter of 2011. U.S. GDP rose for the sixth consecutive quarter in 4Q'10 and the estimates for 1Q'11 have been revised higher (to 3.1 percent annualized rate in first quarter from 2.6 percent at the end of 2010). Although the rate of economic expansion stayed moderate, both consumer and business investments continued to post solid gains and pointed to the economy strengthening further. The FOMC confirmed that the economy shows stronger signs of recovery and that the labor markets are improving slowly. The Committee, however, didn't make any adjustments to the "QE2" program, indicating that the Fed will follow through on the entire $600 billion plan scheduled to be completed in June.









Equity Underwriting Declines After Very High 4Q'10

Total equity underwriting volume decreased to $75.4 billion in 1Q'11, down 29.1 percent from the 4Q'10's $106.3 billion but an 83.2 percent improvement over 1Q'10's $41.2 billion. The number of deals declined as well; in 1Q'11 there were 305 equity underwriting deals, down 10.8 percent from 342 deals in 4Q'10 but 10.9 percent higher than 275 deals in 1Q'10. Despite this slowdown during the first quarter of 2011, equity underwriting remained 22.1 percent above the five-year average in volume of $61.8 billion and 65.2 percent above the five-year average in deal size.

IPO Volume Decreases, But Remains Above Five-Year Average

After posting a all-time one-quarter high in 4Q'10, "true" initial public offerings (IPOs), which exclude closed-end mutual funds, declined to $16.4 billion on 45 deals in 1Q'11 (40.4 percent decrease in volume and 33.8 percent decrease in number of deals). Even though IPO volume declined significantly this quarter, it was the second highest (after last quarter's $27.5 billion) quarterly value since $19.4 billion was recorded in 4Q'06. The average deal size fell by 10.0 percent in the first quarter to $363.8 million; however, there have already been three IPOs in the first quarter of over $1 billion in size compared with only one $1 billion+ IPO in the full year 2010. The number of IPOs has been rising during recent years; in 2010 the number of IPOs more than doubled the total for 2009 and was more than four times the total in 2008. In 2011, first quarter volume was already 37.9 percent of the total issuance from 2010.

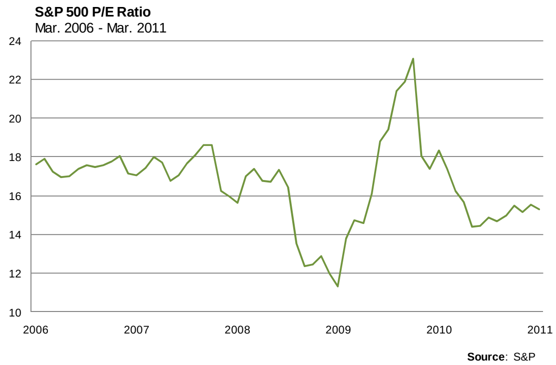
Secondary Offerings Decrease

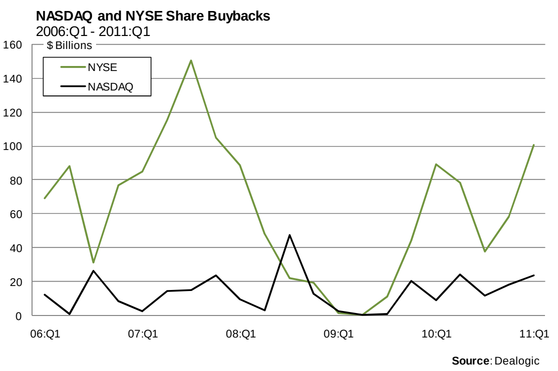
Secondary market issuance decreased in 1Q'11 to $50.7 billion from $67.9 billion in 4Q'10 (a 26.7 percent decline). The average deal value for the quarter fell by 21.9 percent to $222.3 million as the volume decreased much more than the number of deals (6.2 percent decrease to 228 deals in 1Q'11from 243 deals in 4Q'10). Year-over-year, secondary issuance rose 65.3 percent from 1Q'10 in dollar volume but only 0.4 percent in number of deals.

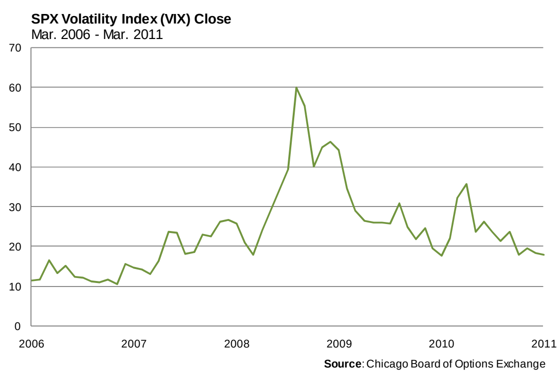
M&A Volume Up 50 Percent

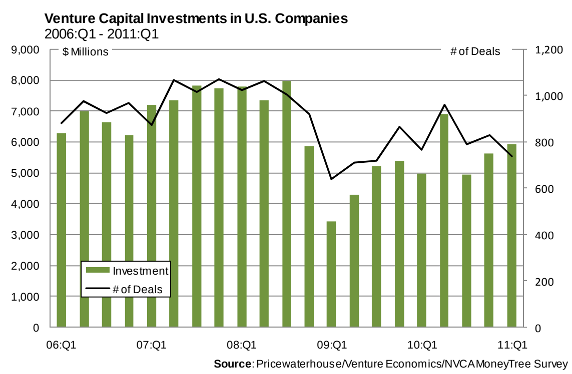
Announced U.S. mergers and acquisitions (M&A) volume in 1Q'11 stood at $333.9 billion, a 50.2 percent jump from the previous quarter's $222.4 billion and the highest level in three years, recording the highest quarterly volume since $378.1 billion on 1,974 deals in 2Q'08. The number of deals increased only by 11.6 percent, reaching 2,351 in the first quarter from 2,106 in 4Q'10, while the average deal size rose to $142.0 million from $105.6 million. M&A activity is predicted to pick up even more during 2011 due to the large amount of cash companies currently hold on their balance sheets.

According to data from Dealogic, the amount of money invested in the U.S. companies from other countries through M&A deals increased by 30.0 percent in 1Q'11; the "U.S. inbound" M&A quarterly volume rose to $55.4 billion from $42.7 billion in the previous quarter. The dollar amount U.S. companies invested in other countries rose as well: American firms invested $63.6 billion in deals outside of the U.S. in 1Q'11, a 37.0 percent increase from $46.4 billion in 4Q'11.









P/E Ratio Rises Slightly, Remains Low

The S&P 500's P/E ratio averaged 15.3 in 1Q'11, up 1.9 percent from the previous quarter's average of 15.0, and remains 7.6 percent below the 5-year average of 16.6. The P/E ratio's q/q rise reflects a more stable market and more optimistic economic outlook in 2011, as well as the expectation of the Fed competing the $600 billion bond-buying program, all of which drove stock prices up. Even though the P/E ratio increased in 1Q'11, it is 14.6 percent lower that the ratio in 1Q'10 reflecting that the earnings of S&P 500 firms rose more over the last year than the price of their stock.

NYSE Buybacks Increase by 73 Percent

The volume of corporate share repurchases on NYSE totaled $100.7 billion on 86 deals in 1Q'11, compared to $58.3 billion on 82 deals in 4Q'10. While the dollar value of buybacks rose by 72.3 percent, the number of deals increased only by 4.9 percent resulting in a 64.5 percent increase in the average deal size. Compared to 1Q'10, NYSE share buybacks increased by 13.0 percent in volume but decreased by 19.6 percent in number.

NASDAQ buyback volume reached $23.3 billion, a 31.4 percent rise from 4Q'10's $17.8 billion, while the number of deals increased to 63 (up 3.3 percent). Compared to 1Q'10, NASDAQ share repurchases increased by 161.1 percent in value, though the number of deals decreased by 32.3 percent y-o-y.

Both NYSE and NASDAQ have seen significant increases in buybacks as many companies hold excess cash on their balance sheets.

CBOE VIX Index Stays Flat Quarter-On-Quarter

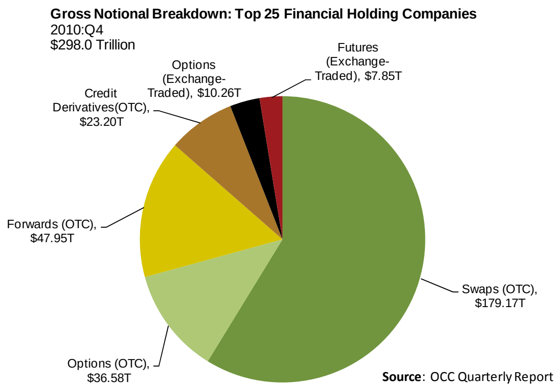
The Chicago Board Options Exchange Volatility Index (VIX) was virtually unchanged q/q, declining slightly to 17.74 in 1Q'11 from 17.75 in 4Q'10, reaching the second lowest month-end value since June 2007. The index has been generally trending downward since the Flash Crash (May 6, 2010). During the quarter, however, the VIX index first jumped to 19.5 at the end of January following the political unrest in Egypt and later during the quarter after the news of Japan's disaster, although the index quickly fell back to the low, year-opening level. The low VIX level suggests that investors are more optimistic about the shape of financial markets and, according to Zacks Investment Research, the VIX is expected to remain the 15 to 20 range for the remainder of the year, with only occasional spikes to reflect exogenous events.

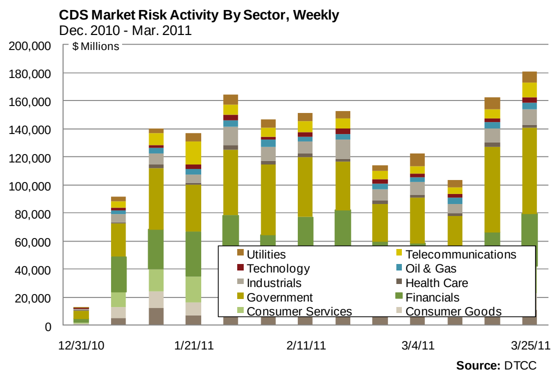
Venture Capital Continues to Increase in 1Q'11

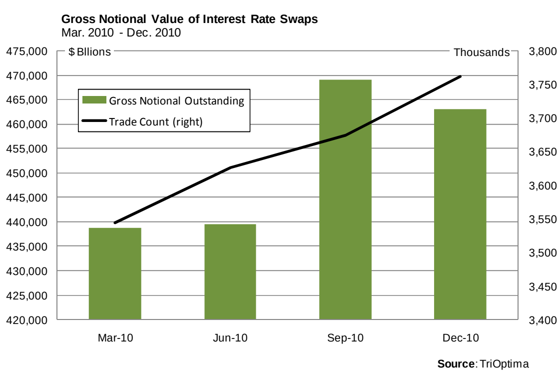
Venture capitalists invested $5.9 billion in 736 deals in the first quarter of 2011, according to the MoneyTree™ Report from PricewaterhouseCoopers LLP (PwC) and the National Venture Capital Association (NVCA). Quarterly investment activity increased 5.4 percent in dollar terms but fell 11.0 percent in number of deals compared to the fourth quarter of 2010 when $5.6 billion was invested in 827 deals.[9] Year-over-year, the dollar volume of venture capital investments rose by 18.9 percent, but decreased in number of deals by 3.5 percent. The top three industries for VC investments in U.S. companies remained unchanged from the previous quarter: software, industrial/energy, and biotechnology.

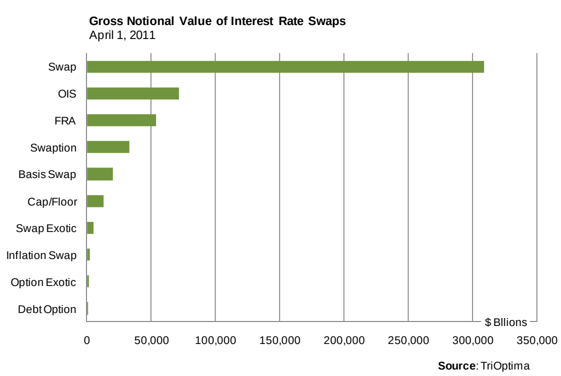
[9] PriceWaterhouseCoopers. Money Tree Report. First Quarter 2011 Press Release. April 15, 2011.

DERIVATIVES









Derivatives Gross Notional Value

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 $298.0 trillion in the fourth quarter of 2010 ($1.7 trillion on a net credit exposure basis). On a gross notional basis, this represents a decrease of 2.3 percent q-o-q, but an increase of 1.7 percent y-o-y. The increase was concentrated among OTC swaps, forwards, and options.

Interest Rate Swaps

According to TriOptima data, the gross notional value outstanding of interest rate swaps (IRS) at the end of March was $519.7 trillion, up 10.0 percent from end-December's $472.4 trillion. The q-o-q increases were largely in overnight indexed swaps (OIS) (41.8 percent), swaptions (19.3 percent), and exotic options (18.8 percent). By maturity, increases in outstanding trades in the zero to two-year maturity curve (relating to OIS trades), both by dollar amount (15.1 percent q-o-q) and trade count (5.7 percent q-o-q).

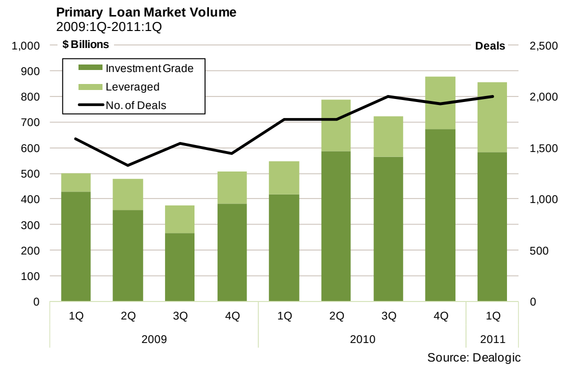
Credit Default Swaps

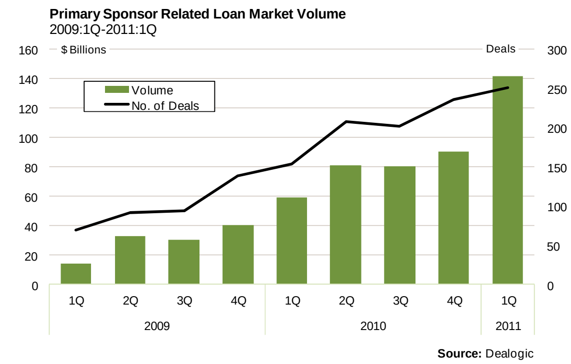
According to DTCC, the gross notional value outstanding of credit default swaps (CDS), including single names, tranches, and indices, increased by 7.2 percent to $27.4 trillion end-March from $25.5 trillion end-December, with most of the pickup from indices (15.3 percent).

Single name CDS increased in outstanding by 3.5 percent and 2.3 percent respectively end-March from end-December on a gross and net notional basis. As of April 1, the gross and net notional outstanding were $15.1 trillion and $1.2 trillion, respectively.

The bulk of new market risk activity in the first quarter of 2011 was concentrated in government and financial entities ($485.7 billion and $354.9 billion, respectively). The most widely referenced entities were concentrated among Eurozone sovereigns: Spain ($59.6 million), Italy ($49.5 million), Portugal ($22.4 million), France ($30.7 million), and Germany ($19.6 million). Outside of sovereigns and financials, activity picked up in consumer services ($193.4 million) and consumer goods ($152 million).

PRIMARY LOAN MARKET[10]





Global primary loan market volume was $854.9 billion in 1Q'11, up 57 percent from $546.8 billion raised in 1Q'10. This was the highest first quarter global loan volume since the first quarter of 2008. The Americas region saw the largest increase, with loan volume more than doubling to $424.3 billion in the first quarter of 2011 from $196.6 billion in the same period in 2010. EMEA and Asia-Pacific also experienced annual volume increases of 35 percent and 9 percent respectively, with Asia-Pacific leading the way in deal count with 830 facilities.

Global investment grade loan volume reached $582.9 billion in 1Q'11, up 40 percent over the previous first quarter volume of $418.0 billion. First quarter volume for 2011 global investment grade was the highest first quarter volume since 1Q'08 when $661.7 billion was borrowed. The Utility & Energy sector led all other corporate sectors in investment grade volume with $69.7 billion in 1Q'11, followed by Telecommunications with $55.9 billion.

Leveraged loan volume saw a dramatic first quarter increase of 112 percent in 2011 to $272.0 billion, marking the highest first quarter volume since 1Q'07 when leveraged loan volume hit a first quarter high of $447.9 billion. The U.S. led all other nations in leveraged loan volume during 1Q'11 with $206.3 billion, the highest quarterly volume since 4Q'07. Global leveraged buy out (LBO) volume reached $34.2 billion in 1Q'11, the highest first quarter volume since 1Q'08.

Global financial sponsor-related syndicated loan volume increased 56 percent from the prior quarter to $141.8 billion in 1Q'11, the highest quarterly volume since 4Q'07. 1Q'11 financial sponsor-related volume from the U.S. increased 42 percent to $104.7 billion from the previous quarter and 190 percent from 1Q'10.

Average tenor decreased to 4.8 years in 1Q'11, down from 5.1 years in 4Q'10. The Americas region saw average tenor remain flat from the prior quarter at 4.3 years. Average tenor in Asia-Pacific fell to 4.63 years in 1Q'11, with EMEA also decreasing to 6.0 years from 6.5 years from the previous quarter. Average pricing on both leveraged and investment grade loans decreased in 1Q'11. Leveraged loans decreased 22 bps from 4Q'10 to 384 bps. Average pricing on investment grade loans fell 5 bps to 187 bps.

As of the end 1Q'11, and excluding revolving credit facilities, there is an expected $643.6 billion in syndicated primary market loans due to mature by the end of 2011. Volume for maturing loans is expected to peak in 2013 at a level of $944.9 billion.

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

Kyle Brandon
Managing Director, Director of Research

SIFMA RESEARCH

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

General Research Contact: research@sifma.org