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RESEARCH QUARTERLY
3Q 2011

RESEARCH REPORT

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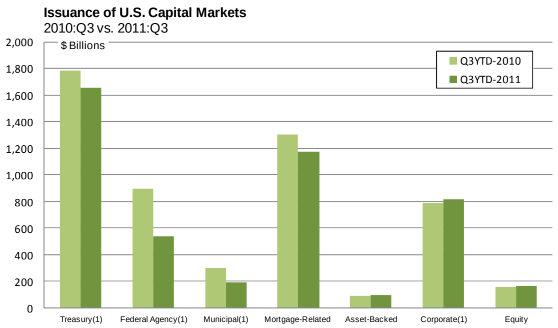
CAPITAL MARKETS OVERVIEW



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

Issuance Highlights - Year-Over-Year

$ Billions	2011:Q3	2010:Q3	Y-o-Y % Change*	2011 YTD
Treasury (1)	549.0	560.0	-2.0%	1,654.3
Federal Agency (1)	215.3	284.3	-24.3%	539.9
Municipal (1)	75.2	94.5	-20.4%	193.5
Mortgage-Related	357.1	477.3	-25.2%	1,292.6
Asset-Backed	25.5	26.9	-5.2%	95.5
Global CDO	2.0	2.0	1.4%	7.5
Corporate (1)	178.9	339.3	-47.3%	813.1
Equity	21.4	61.7	-65.3%	166.3

* Percent change between 2011:Q3 and 2010:Q3

Quarter-Over-Quarter

$ Billions	2011:Q3	2011:Q2	Q-o-Q % Change*
Treasury (1)	549.0	555.2	-1.1%
Federal Agency (1)	215.3	147.7	45.8%
Municipal (1)	75.2	70.7	6.4%
Mortgage-Related	357.1	357.5	-0.1%
Asset-Backed	25.5	37.1	-31.3%
Global CDO	2.0	3.8	-47.0%
Corporate (1)	178.9	274.3	-34.8%
Equity	21.4	68.6	-68.8%

* Percent change between 2011:Q3 and 2011:Q2
(1) Includes long-term issuance only

Total Issuance Decreased to $1.46 Trillion in Third Quarter 2011

Securities issuance totaled $1.46 trillion in the third quarter of 2011, a 0.6 percent decrease quarter-over-quarter (q-o-q) from $1.47 trillion in 2Q'11, and a 15.5 percent decrease year-over-year (y-o-y) from $1.74 trillion in 3Q'10. While issuance of federal agency and municipal debt increased q-o-q, it was not enough to compensate for the decreases in other categories.

The economy as a whole continued to struggle during 3Q'11. In early August, the debt ceiling was raised by $2.1 trillion in a last minute deal to prevent the possibility of U.S. default on obligations. However, Standard & Poors downgraded the credit rating of the U.S. for the first time in history. Further, as economic indicators continued to suggest a very slow pace of recovery, the Federal Reserve downgraded its near-term economic outlook, announcing steps to help support growth, targeting to keep Fed Funds rate at 0.025 percent through the middle of 2013, and extending the average maturity of its security holdings. In addition, sovereign debt and other issues within the Eurozone continued to have a negative impact on markets. However, towards the end of the third quarter, there were positive signs. Through stronger consumer and business spending, the nation's gross domestic product (GDP) picked up in 3Q'11 to an annualized, inflation-adjusted rate of 2.5 percent (advance estimate), up from 1.3 percent growth in 2Q'11.

Total third quarter gross issuance of U.S. Treasury securities, including cash management bills (CMBs) decreased to $1.77 trillion, a slight decrease from 2Q'11's $1.79 trillion. On a net basis, issuance increased by 23.5 percent to $234.3 billion from 2Q'11's $189.7 billion. S&P's downgrade of U.S. Treasuries to AA-plus did not have an impact on the demand for Treasury securities or rates, as 3-year and 10-year auctions were met with strong demand and sold at the lowest yields on record following the S&P's actions.

Federal agency long-term debt issuance was $215.3 billion in the third quarter, a increase of 45.9 percent from 2Q'11 ($147.6 billion), however decreasing y-o-y by 14.4 percent from 3Q'10 ($251.6 billion).

Long-term municipal issuance volume totaled $72.7 billion in the third quarter, an increase of 6.0 percent from 2Q'11 ($68.6 billion), but a decrease of 22.4 percent from 3Q'10 ($93.7 billion). Issuance remained light due to seasonality and issuer concern regarding U.S. debt ceiling negotiations.

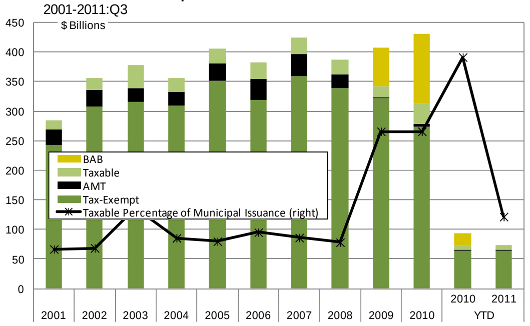
Issuance of mortgage-related securities totaled $357.1 billion in the third quarter of 2011, a decrease of 0.1 percent and 25.2 percent from 2Q'11 ($357.5 billion) and 3Q'10 ($477.3 billion), respectively. The large y-o-y decrease came primarily from agency issuance. Asset-backed securities (ABS) issuance totaled $26.6 billion in the third quarter of 2011, a decrease of 28.4 percent from 2Q'11 and 1.1 percent from 3Q'10, led by auto and credit cards. Global funded collateralized debt obligation (CDO) issuance totaled $2.0 billion in 3Q'11, a decrease of 47.0 from 2Q'11 ($3.8 billion), although 1.4 percent above that in 3Q'10.

Total corporate bond issuance totaled $178.9 billion in 3Q'11, a 34.8 percent decline from $274.3 billion in 2Q'11 and 47.3 percent below 3Q'10 ($339.3 billion). Investment grade bond issuance fell to $155.9 billion, down 18.6 percent q-o-q.

Equity issuance totaled $21.4 billion in 3Q'11, a decline of 68.8 percent from $68.7 billion last quarter and 65.3 percent from the $61.7 billion issued in 3Q'10. True IPO issuance declined to $4.7 billion on 29 deals in 3Q'11, a 71.2 percent decrease in volume from $16.4 billion and a 57.4 percent decline in the number of deals.

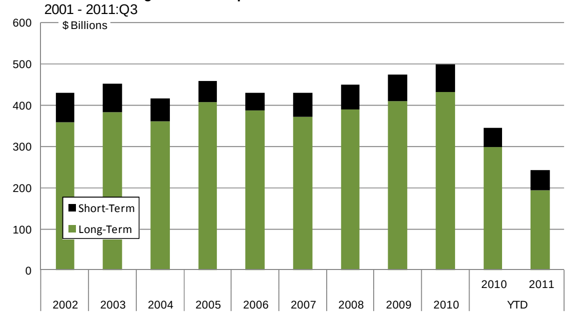
MUNICIPAL BOND MARKET

Taxable vs. Tax-Exempt Issuance
2001-2011:Q3



Source: Thomson Reuters, SIFMA

Short-[1] and Long-Term Municipal Issuance
2001 - 2011:Q3

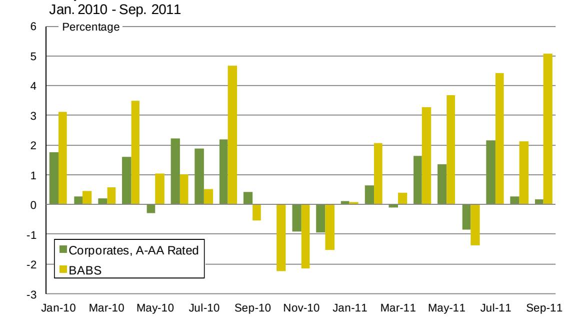


[1]Includes maturities of 13 months or less
Source: Thomson Reuters

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

Source: Bloomberg, MMA

Corporate versus Build America BondsTotal Return
Jan. 2010 - Sep. 2011



Source: Bank of America-Merrill Lynch

According to Thomson Reuters, long-term municipal issuance volume, including taxable and tax-exempt issuance, totaled $72.7 billion in the third quarter of 2011, a 6 percent increase from the prior quarter ($68.6 billion), but a decline of 22.4 percent from 3Q'10 ($93.7 billion). Issuance remained light in part due to seasonality, but also in part due to issuers avoiding the volatile period in early August around last-minute U.S. debt ceiling negotiations. A contributing factor was a spike this year in bank lending and direct bond placements, which cannibalized issuance in the public markets. Year-to-date issuance totaled $188.0 billion, remaining on course at issuance levels of the 2000-2001 period and well below the 20-year average ($220.3 billion); however, given the exceptionally low rates in the fourth quarter, issuance may tick up slightly as issuers take advantage of the rate environment through refundings.

Tax-exempt issuance totaled $63.2 billion in 3Q'11, an increase of 8.3 percent from 2Q'11 ($58.3 billion), but a decline of 0.4 percent from 3Q'10 ($63.4 billion). Ratios of tax-exempt AAA GOs and similar-maturity Treasuries moved upward in the third quarter, especially on the short end of the maturity curve as Treasury yields plummeted.

Taxable issuance was $6.9 billion in 3Q'11, down by 13.3 percent from 2Q'11 ($7.9 billion). Issuance was led by a $1 billion issue from New York by the Port Authority for the expenditures on the World Trade Center[1] and a $1.2 billion issue from the Regents of the University of California. Taxable issuance continues to remain above historical norms as remaining Congress-authorized programs e.g., New CREBs, CREBs, QECBs, QSCBs, and QZABS[2], continue to run their course. Year-over-year, taxable issuance was down by 5.7 percent from $7.3 billion in 3Q'10, excluding Build America Bonds (BABs).

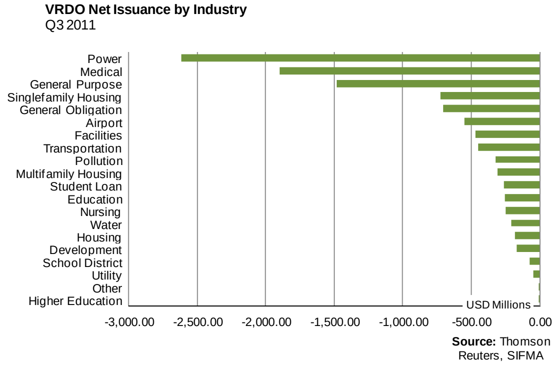
BABs enjoyed an exceptionally strong quarter as yields continued to plummet. The sector ended the third quarter at sub-5 percent yields, a decline of 85 basis points in the three-month period ending September 30. According to Bank of America-Merrill Lynch indices, BABs returned 12.03 percent on a total return basis in 3Q'11 (21.3 percent year-to-date), compared to 3.9 percent for municipals generally and 2.6 percent for A- to AAA-rated corporates.

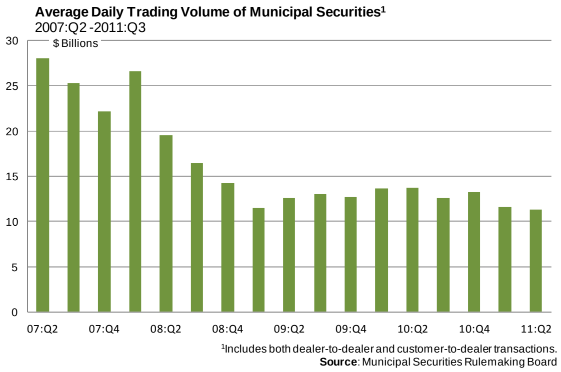
According to the Investment Company Institute, the third-quarter recorded the first positive quarterly inflow in long-term municipal mutual funds in 2011, with a total of $706 million. The net positive result was largely due to greater inflows in September, after $1 billion was withdrawn in the tumultuous August period.

Trading Activity

While primary issuance has remained relatively flat in the third quarter, trading activity increased slightly q-o-q to average $11.6 billion daily, a 2.6 percent increase from 2Q'11 ($11.3 billion traded daily), but remained 7.9 percent below activity a year ago ($12.6 billion average in 3Q'10). While dollar trading totals increased by all trade types (customer bought, customer sold, and inter-dealer), the number of trades declined q-o-q, suggesting a larger institutional element in trading volume.

[1] The Port Authority of New York and New Jersey Consolidated Bonds, 168th Series.
[2] CREB – Clean Renewable Energy Bonds; QECB – Qualified Energy Conservation Bonds; QSCB – Qualified School Construction Bonds; QZABs – Qualified Zone Academy Bonds.





VRDO Issuance and Update; Direct Placement Trend?

Issuance of variable-rate demand obligations (VRDOs), long-term municipal bonds with a floating interest rate that resets periodically and a put feature, remained flat from the prior quarter. For 3Q'11, $3.9 billion were issued, unchanged from 2Q'11 but 29.7 percent below that in 3Q'10. Of the $3.9 billion issued in 3Q'11, $21.1 million was reported to have been directly placed with a bank. To date, according to Thomson Reuters, $264.6 million out of the total $9.5 billion VRDOs issued in 2011 have been issued through direct placements. Other direct bank placements also also affected activity in the VRDO sector due to expiring liquidity facilities.

On net, VRDO outstandings continue to decline, with $332.3 billion outstanding end-September, a decline of 13.9 percent y-o-y. The decline in outstandings has slowed slightly, with an annualized 10.4 percent decline q-o-q in 3Q'11.[3] Declines in outstandings were led by the power (26.0 percent), student loans (10.0 percent) and airport (7.9 percent) sectors.

Revenue Gains in State, But Not Local, Tax Collections

According to the Nelson A. Rockefeller Institute of Government, total state tax collections showed growth in the second quarter of 2011, increasing 10.8 percent in 2Q'11 from 2Q'10, or 8.6 percent after adjusting for inflation.[4] All three categories – personal, sales, and corporate income taxes – showed growth, especially personal income tax collections (16.5 percent y-o-y). Growth was especially pronounced in states with oil and natural gas industries (Alaska, North Dakota).

On the other hand, local government tax collections declined 1.7 percent y-o-y, reflecting a heavy reliance on property tax collections, which have been impacted by declines in housing values. Although home prices have come up from their lows in March 2011, home prices have fallen 30 percent from their peak as of August data, 22.5 percent of all mortgages were in negative equity and a shadow inventory of about 1.6 million units are still remaining as of 2Q'11.[5] These factors will serve to depress local government tax collections in the near- and medium-term.

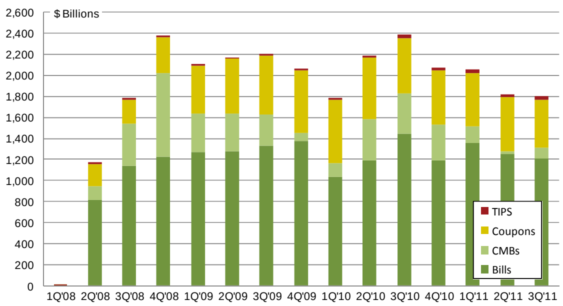
[3] Numbers are par amounts at issuance and do not reflect amortization factors such as sinking funds, partial calls, etc.

[4] The Nelson A. Rockefeller Institute of Government, "State Revenue Report: PIT, Overall Tax Revenues Show Strong Growth in Second Quarter", October 2011.

[5] American Corelogic LoanPerformance data.

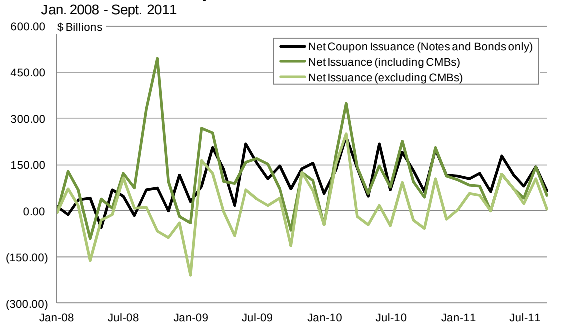
TREASURY MARKET

Quaterly Gross Issuance of U.S. Treasury Securities
2008:Q1 - 2011:Q3



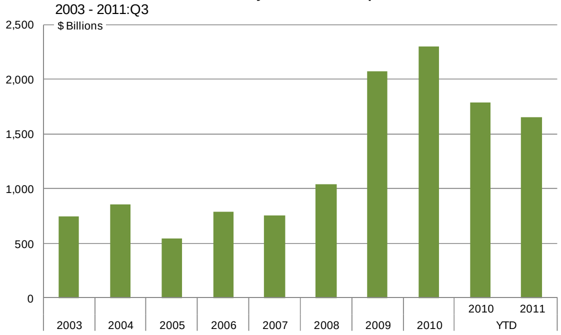
Source: U.S. Treasury

Net Issuances of Treasury Marketable Debt
Jan. 2008 - Sept. 2011



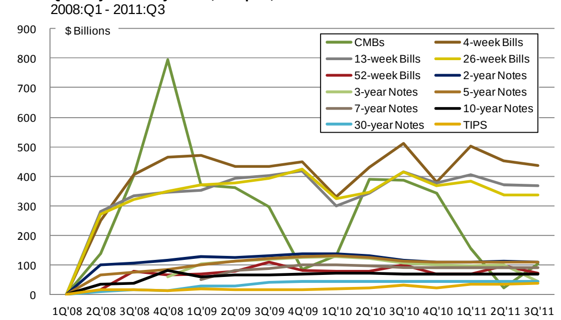
Source: U.S. Treasury

Gross Issuance of U.S. Treasury Marketable Coupon Securities
2003 - 2011:Q3



Source: U.S. Treasury

Quaterly Summary of Bill, Coupon, and TIPS Issuance
2008:Q1 - 2011:Q3



Source: U.S. Treasury

Net Issuance of U.S. Treasury Securities Increases

Total gross issuance of Treasury securities, including cash management bills (CMBs) was $1.77 trillion in 3Q'11, slightly below the $1.79 trillion issued in 2Q'11 but a 24.3 percent decrease from 3Q'10's issuance of $2.4 trillion.

Total net issuance of Treasury securities, including all CMBs, rebounded to $234.3 billion, up 23.5 percent from previous quarter's $189.7 billion, down 40.8 percent from $395.8 billion in 3Q'10 and was significantly lower than Treasury's August third quarter borrowing estimate[6] of $331 billion.

Excluding CMBs, net issuance was $132.3 billion in 3Q'11, a 22.1 percent decrease from $169.7 billion in the prior quarter and an over tenfold increase from $10.8 billion issued in the same year-earlier period.

After a significant drop in CMBs issuance to a post-crisis low of $20.0 billion in 2Q'11, the use of short-term CMBs increased fourfold in 3Q'11. Despite the large increase, the CMBs issuance remains low. The $102.0 billion of CMBs issued during the third quarter is the second-lowest quarterly issuance since $82.0 billion in 4Q'09.

Approximately $439.0 billion in Treasury coupons and TIPS were issued in the third quarter, 22.9 percent below the $569.1 billion issued in the prior quarter and 21.6 percent below year-ago issuance of $559.6 billion. In line with its goal of gradually increasing TIPS supply, Treasury expects to issue $125 billion in TIPS for the calendar year 2011.

Excluding TIPS, total gross issuance of Treasury marketable coupon securities was $435.5 billion in 3Q'11, down 21.5 percent from $555.2 billion issued in 2Q'11 and 22.2 percent lower than the $559.5 billion issued in 3Q'10.

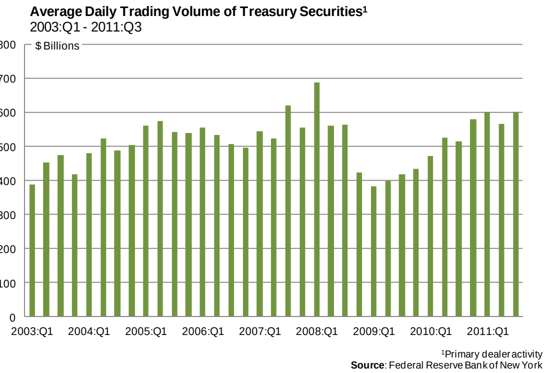
Net coupon issuance for the third quarter 2011 was $288.3 billion, 19.2 percent below 2Q'11's $356.7 billion and 26.1 percent down y-o-y. The net coupon issuance has been declining steadily since 1Q'10 when it stood at $433.2 billion for a total decline of 33.5 percent over this period.

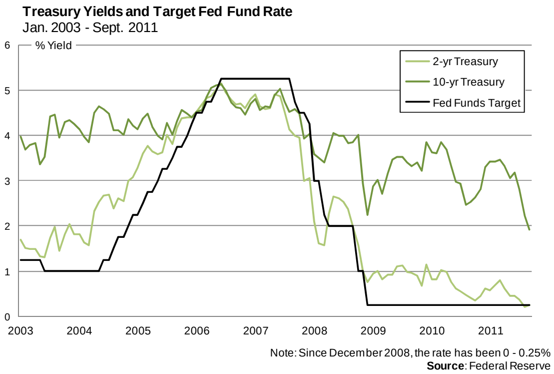
Gross issuance of Treasury bills, including CMBs, was $1.31 trillion in 3Q'11, a 2.9 percent increase from last quarter's $1.27 trillion but a 28.2 percent decline from $1.83 trillion issued during the same year-ago period. This is consistent with the Treasury's goal to extend the average maturity of its portfolio. As of now, this measure stands at 61.9 months, above the long-term average of 58 months.

In August, Treasury suspended the Supplementary Financing Program (SFP) due to the debt limit negotiations and since announced that due to the implementation of the debt limit increase over the next few months, it would be difficult to bring the SFP program back in the near term.

The economy continued to struggle during the third quarter of 2011. On September 20, 2011 the Federal Reserve downgraded its near-term economic outlook once again and announced steps to support economic recovery including, reiterating the intention to keep the target Fed Funds rate at 0 to 0.25 percent through mid-2013 and extending the average maturity of its securities holdings. Additionally, the FOMC announced it would now reinvest principal

[6] See US Treasury's third quarter 2011 marketable borrowing estimates.





payments from its agency and agency MBS holdings to support conditions in the mortgage market.

Daily trading volume of Treasury securities by the primary dealers averaged $601.8 billion in the third quarter, compared to $567.3 billion in the prior quarter and $515.3 billion in 3Q'10. Trading activity in 3Q'11 was the second highest observed since the first quarter of 2008 (behind 1Q'11's $603.3).

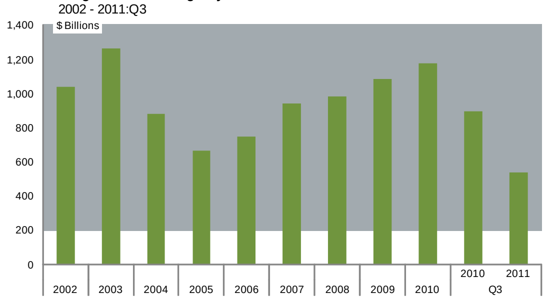
After months of deliberations, the debt ceiling was raised by $2.1 trillion at the beginning of August to $16.4 trillion from $14.3 trillion. As part of the agreement, the federal budget deficit is expected to be lowered by $2.5 trillion over the next decade. Despite the increase in the debt ceiling, the credit rating agency Standard & Poor's downgraded the United States' credit rating for the first time in history, and by one notch to AA-plus. The downgrade, however, did not have an impact on rates or the demand for Treasury securities. Just a few days after the S&P stripped the U.S. of its triple-A rating, both 3-year and 10-year auctions were sold at the lowest yields on record and were met with strong demand as Eurozone crisis intensified and investors fled to less risky securities.

Treasury yields have decreased sharply in 3Q'11 both in the short and long end of the curve. Two-year rates decreased from 0.45 percent in 2Q'11 to 0.25 percent in 3Q'11 and 10-year rates declined to 1.92 percent from 3.18 percent during the same period. Following significant yield increases since November 2010 (and following the QE2 announcement), yields have been declining since the beginning of 2011 due to continued sovereign crisis in Europe and speculation that the agreement to curb U.S. budget deficit may impede economic growth. Looking ahead, primary dealers polled by SIFMA in the October Government Forecast survey[7] expect yield rates to slightly increase through March of 2012.

[7] See SIFMA's 4Q'11 Government Forecast Survey results.

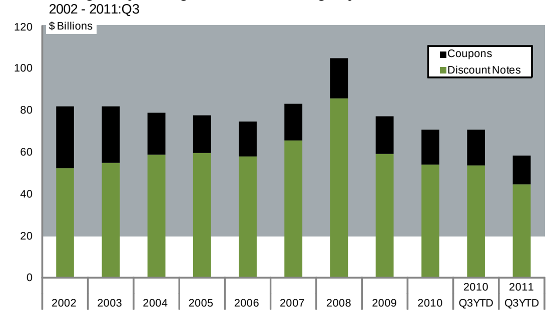
FEDERAL AGENCY DEBT MARKET

Long-Term Federal Agency Debt Issuance[1]
2002 - 2011:Q3



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

Average Daily Trading Volume of Federal Agency Securities[1]
2002 - 2011:Q3



[1]Primary dealer activity
Sources: FRBNY

Agency LT Debt Issuance Continues to Decline

Federal agency long-term debt (LTD) issuance was $215.3 billion in the third quarter, a 45.9 percent increase and 14.4 percent decline, respectively, from 2Q'11 ($147.6 billion) and 3Q'10 ($251.6 billion). Overall, average daily trading volume of agency securities (coupons and discount notes) declined in the third quarter to $58.3 billion, compared to the $70.7 billion daily average traded in the same year-earlier period.

The twelve Federal Home Loan Banks (FHLBs) issued $78.8 billion in LTD in the second quarter, an increase of 29.3 percent and a decline of 6.3 percent, respectively, from 2Q'11 ($60.9 billion) and 3Q'10 ($84.1 billion). A little over $566.5 billion in short-term debt (STD) was issued in 3Q'11, generally in the form of discount notes.

Total FHLB bonds outstanding was $524.3 billion as of September 30, 4 percent below the $546.5 billion outstanding at the end of the second quarter and down nearly 15.7 percent y-o-y from end-September 2010's $621.7 billion. Discount notes outstanding also saw a similar decline, falling to $172.3 billion at end-September 2011 from end-June 2011 ($181.0 billion) and end-September 2010 ($184.4 billion).

Fannie Mae's gross debt issuance, both STD and LTD, totaled $220.5 billion ($133.4 billion STD, $87.1 billion LTD), a 35 percent increase and 10.4 percent decrease, respectively, from 2Q'11 ($163 billion) and 3Q'10 ($247.2 billion). STD issuance declined q-o-q by 4 percent and was down 8.8 percent y-o-y, whereas LTD issuance was up significantly by 262 percent q-o-q but down 10.8 percent y-o-y. As of September, Fannie Mae had $193.8 billion STD outstanding and $561.4 billion LTD outstanding.

Freddie Mac's first quarter gross debt issuance, both STD and LTD, totaled $205.2 billion, a 24 percent increase from 2Q'11 ($165.4 billion) and a 4.5 percent increase from 3Q'10 ($196.3 billion).

Total Farm Credit System bond issuance, both STD and LTD, totaled $315.3 billion as of October 31, 2011. Total debt outstanding, both STD and LTD, ended October at $179.6 billion.

Primary dealers polled by SIFMA in the Fourth Quarter Government Forecast survey expect gross coupon issuance for the four largest Federal agencies (FHLB, Fannie Mae, Freddie Mac, and Farm Credit Systems) to be $274.0 billion for the fourth quarter of 2011.[8] By agency, gross coupon issuance was expected to be $69.9 billion for Fannie Mae, $81.0 billion for Freddie Mac, $100.0 billion for the FHLBs, and $23.0 billion for the Farm Credit System.

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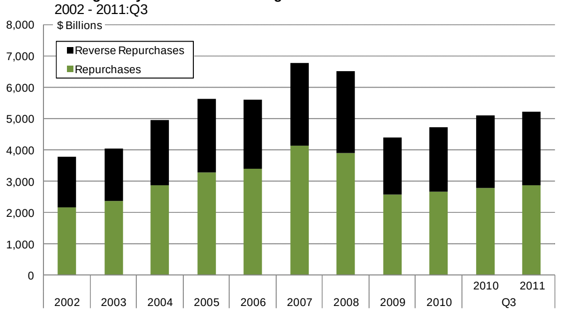
[8] SIFMA U.S. Government Forecast Survey, 4Q'11

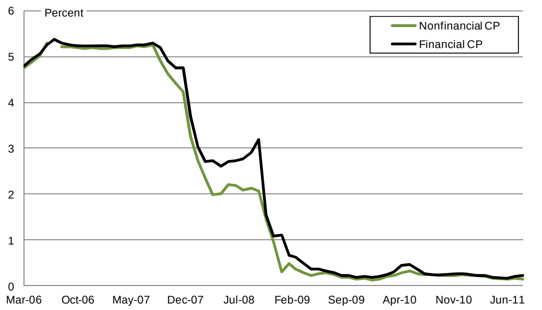
FUNDING AND MONEY MARKET INSTRUMENTS

Financing by U.S. Government Securities Dealers
Average Daily Amount Outstanding
2002 - 2011:Q3



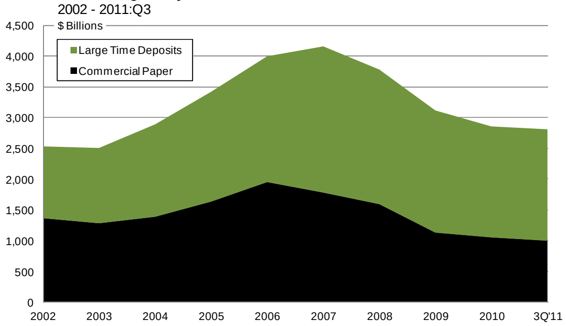
Note: Data include corporate securities.
Source: Federal Reserve Bank of NY

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



Sources: Federal Reserve

Outstanding Money Market Instruments
2002 - 2011:Q3



Sources: Federal Reserve, SIFMA estimates

Repurchase Activity Increases[9]

The average daily amount of total outstanding repurchase (repo) and reverse repo agreement contracts increased in 3Q'11 to $5.2 trillion (2.5 percent above 3Q'10's average of $5.1 trillion).

Daily average outstanding repo transactions totaled $2.85 trillion in 3Q'11, up 2.29 percent from 3Q'10's $2.79 trillion. Reverse repo transactions averaged nearly $2.36 trillion in the third quarter, a 2.7 percent increase y-o-y.

Treasuries and Agency Repo Rates Rise; MBS Repo Rates Fall

In 3Q'11 the DTCC GCF Repo Index increased for Treasuries and agency debt, and fell for MBS. The repo rate for Treasuries (30-year and less) increased to 0.11 from 0.05 percent in 2Q'11, while the agency repo rate rose to 0.13 percent from 0.08 percent during 2Q'11. The MBS repo rate declined to 0.09 percent from 0.11 percent last quarter.

Total CP Outstanding Decreases

The outstanding volume of total money market instruments (MMI), including commercial paper (CP) and large time deposits, stood at $2.80 trillion at the end of the third quarter, 4.7 percent below the $2.94 trillion in 3Q'10. CP outstanding totaled approximately $1 trillion, a decrease of approximately 8.9 percent from 3Q'10. Large time deposits totaled $1.81 trillion in 3Q'11, a decrease of 1.3 percent from $1.83 trillion in 3Q'10.[10]

Financial CP 3-Month Rates Rise; Nonfinancial Rates Fall

The interest rate for financial commercial paper rose in the third quarter of 2011, whereas the nonfinancial rates continued to fall. The financial CP's rate was 0.22 percent at the end of 3Q'11, 5 bps higher than 0.17 percent in 2Q'11, yet 3 bps lower than the 25bps in 3Q'10. The rate for nonfinancial CP fell to 0.14 percent, a 1 bps decrease from 0.15 percent in 2Q'11, and 10 bps lower than 3Q'10's 0.24 percent.

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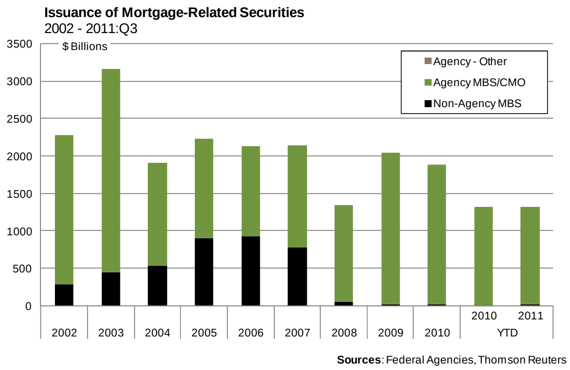
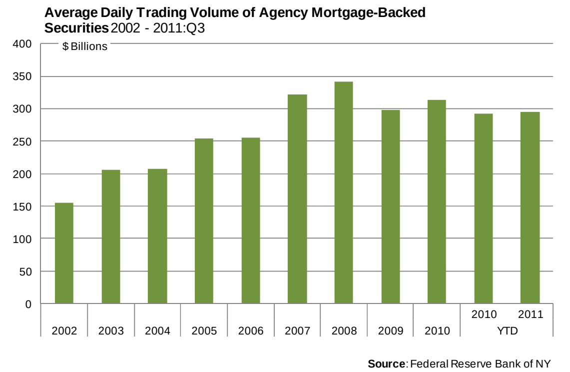
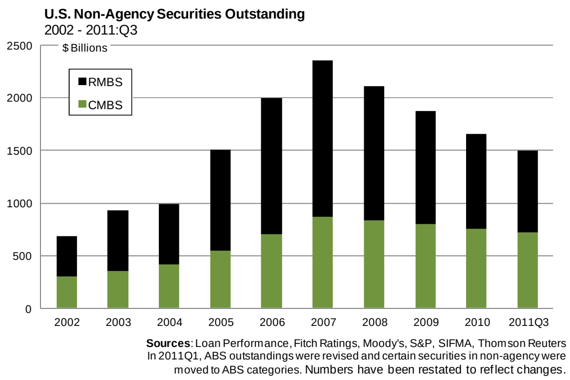
[9] As a reminder, repo data is that provided by the primary dealers only: http://www.newyorkfed.org/markets/gsds/search.cfm. For a breakdown of tri-party repo data, please refer to the Federal Reserve Bank of New York's Tri-party Repo Reform website here: http://www.newyorkfed.org/tripartyrepo/margin_data.html.

[10] As of 9/16/2011.

MORTGAGE-RELATED SECURITIES







Mortgage-Related Market

Issuance of mortgage-related securities, including agency and non-agency pass-throughs and collateralized mortgage obligations (CMOs), totaled $357.1 billion in the third quarter of 2011, flat from the prior quarter ($357.5 billion) and a decline of 25.2 percent from 3Q'11 ($477.3 billion). Declines y-o-y were primarily from a fall in agency issuance (FHLMC: 20.9 percent decline; FNMA: 28.4 percent decline; and GNMA, 27.3 percent decline), but primary activity for non-agency commercial real estate mortgage securities (CMBS) issuance also suffered from a particularly volatile third quarter.

Agency Issuance

Agency mortgage-related issuance, including issues from non-traditional one-off transactions (e.g., National Credit Union Administration, Federal Deposit Insurance Corporation), totaled $350.8 billion in 3Q'11, compared to $350.5 billion in 2Q'11 and $474.8 billion in 3Q'10. The agency share of issuance increased slightly to 98.2 percent in the third quarter, up from a 98 percent share in 2Q'11.

Non-Agency Issuance and Outstanding

Primary issuance from the non-agency market totaled $6.3 billion in 3Q'11, a decline of 6.3 percent from 2Q'11, but an increase of 162.8 percent from 3Q'10. CMBS issuance continued to be the primary source of new non-agency issuance (82.3 percent of all non-agency issuance by dollar amount) with $6.3 billion issued in 3Q'11.

Regulatory and Government Update

Several new rules were proposed in the third quarter. On July 26, the SEC voted unanimously to repropose rules regarding shelf registration for ABS.[11] On August 31, the SEC additionally issued an advance notice of proposed rulemaking on the amendments to the Investment Company Act for the treatment of asset-backed issuers and real estate investment trusts (REITs).[12] Finally, on September 19, the SEC proposed to prohibit certain material conflicts of interest between issuers of asset-backed securities and investors[13]; the proposed rule would prohibit securitization paticipants from engaging in certain transactions for at least one year after closing the sale of the ABS that would involve any material conflict of interest.

Shortly after the end of the third quarter, the OCC, Board of Governors of the Federal Reserve, FDIC, and SEC, released the proposed regulation to implement the "Volcker Rule," which pertains to prohibitions on proprietary trading and restrictions on the investment of hedge/private equity funds by insured banking entities.[14]

The Federal Reserve announced at the end of September that principal repayments from its

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[11] SEC, SEC Reproposes New Shelf Eligibility Requirements for Asset-Backed Securities, July 26, 2011.

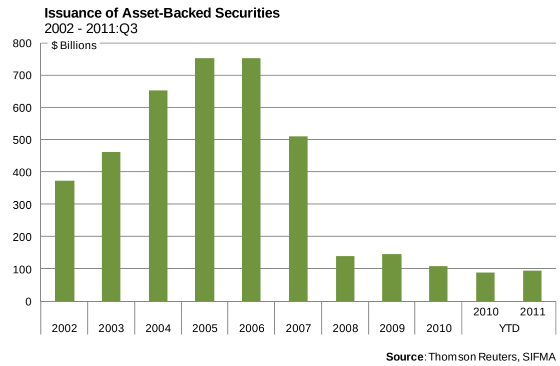
[12] SEC, SEC Seeks Public Comment on Asset-Backed Issuers and Mortgage-Related Pools Under Investment Company Act, August 31, 2011.

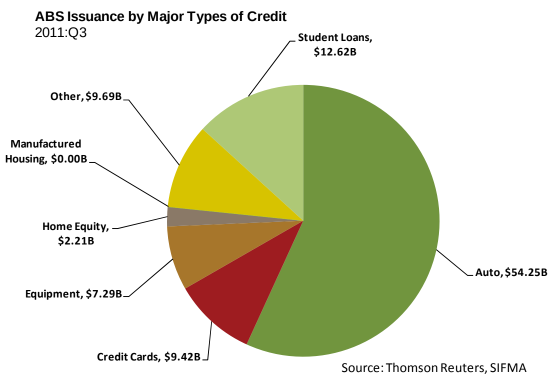
[13] SEC, SEC Proposes Rule to Prohibit Conflicts of Interest in Certain Asset-Backed Securities Transactions, September 19, 2011.

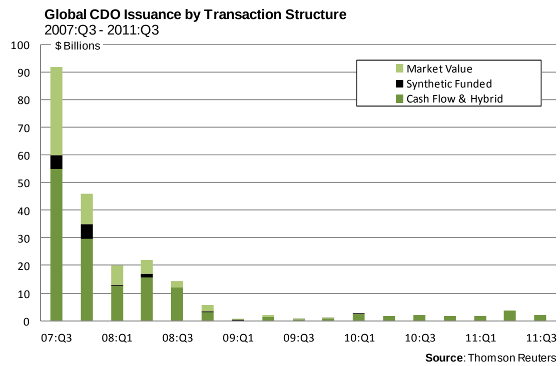
[14] October 11, 2011, "Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds."

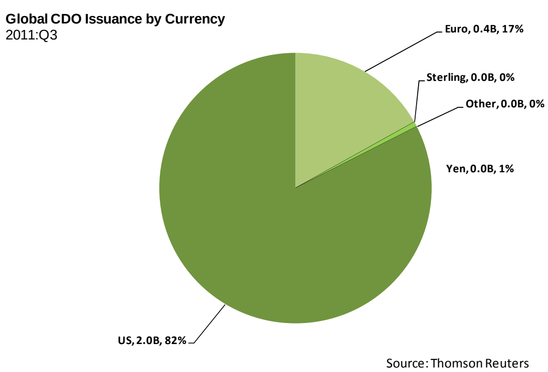
holdings of agency debt and agency MBS would be reinvested in agency MBS.[15]

ASSET-BACKED SECURITIES AND CDOS









Asset-Backed Market & CDOs

Asset-backed securities (ABS) issuance totaled $26.6 billion in the third quarter of 2011, a decline of 28.4 and 1.1 percent, respectively, from 2Q'11 ($37.1 billion) and 3Q'10 ($26.9 billion). Auto ABS issuance continues to lead totals, with $16.9 billion sold (63.6 percent of all issuance in 3Q'11), followed by credit cards ($1.9 billion, or 7.0 percent).

Net issuance remains negative, with outstandings ending at $1.86 trillion in 3Q'11, shrinking by 3.0 percent on an annualized basis from 2Q'11 ($1.91 trillion). The only sector to see positive net issuance was the auto sector (1.9 percent). Declines were steepest in credit cards (6.2 percent), followed by home equity (3.8 percent).

Relatively few esoteric ABS was sold in the third quarter: $330.9 million in time share ABS; $150.0 million catastrophe bonds linked to California earthquakes; and $207.2 million in a stranded asset ABS.

Collateralized Debt Obligations

Global funded collateralized debt obligations (CDO) issuance totaled $2.0 billion in 3Q'11, a decline of 47.0 percent from 2Q'11 ($3.8 billion) and an increase of 1.4 percent from 3Q'10 ($572.2 million). Cash CLO primary volumes were halved in the third quarter to $1.6 billion, in part due to the market volatility in the third quarter and seasonal lull.

Regulatory and Government Update

Several new proposed rules were issued in the third quarter regarding shelf registration, amendments to the Investment Company Act for ABS and real estate investment trusts (REITs), conflicts of interest between issuers of ABS and investors.[16] The Volcker rule was also proposed, which may have an impact on the ABS sector.

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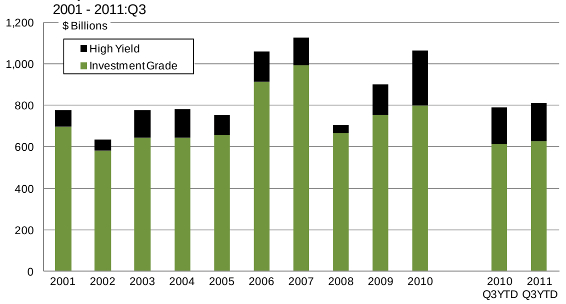
[15] FRBNY, "Statement Regarding Maturity Extension Program and Agency Security Reinvestments," September 21, 2011.
[16] See Mortgage-Related Securities section for more information.

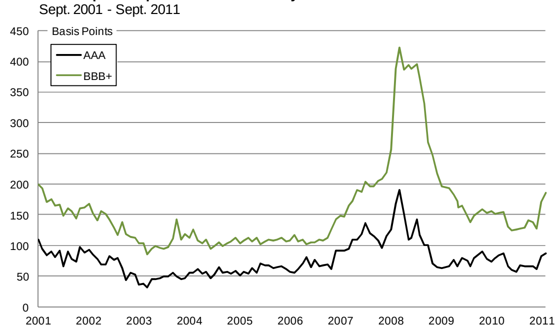
CORPORATE BOND MARKET

Corporate Bond Issuance[1]
2001 - 2011:Q3



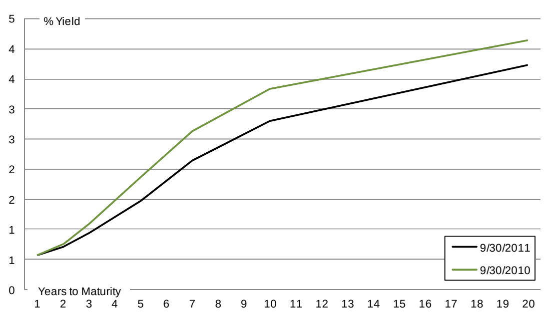
[1]Includes all nonconvertible debt, MTNs Yankee bonds, and TLGP debt, but excludes all issues with maturities of one year or less, CDs, and federal agency debt
Source: Thomson Reuters

U.S. Corporate Spreads to U.S. Treasury - 10 Year
Sept. 2001 - Sept. 2011



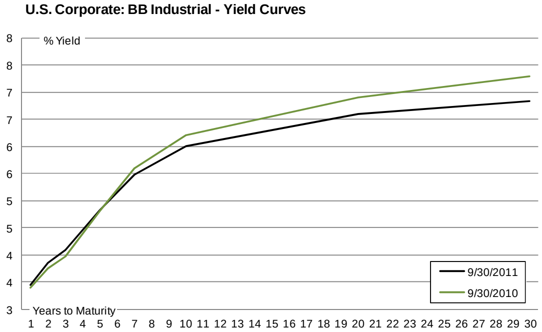
Source: Bloomberg

U.S. Corporate: AAA Industrial - Yield Curves



Source: Bloomberg

U.S. Corporate: BB Industrial - Yield Curves



Source: Bloomberg

Corporate Bond Issuance Falls; IG Issuance Down 72 Percent

Corporate bond issuance totaled $178.9 billion in 3Q'11, down 34.8 percent from $274.3 billion during last quarter and 47.3 percent y-o-y. It was the second consecutive significant quarterly decline; in 2Q'11, corporate bond issuance fell by 23.8 percent q-o-q. The third quarter drop in corporate bonds issuance was mostly due to the sharp drop in high yield (HY) bond issuance, which decreased by 72.2 percent, while investment-grade (IG) issuance decreased by 18.6 percent.

IG bond issuance declined to $155.9 billion, 18.6 percent down from $191.4 billion in 2Q'11 and a 42.0 percent fall from $268.8 billion in 3Q'10. The number of issues totaled 166, the lowest quarterly number since 2Q'10. By volume, financial companies issued 44.7 percent of IG debt in 3Q'11, down slightly from 47.9 percent in 2Q'11 and 51.2 percent 3Q'10.

The issuance of HY bonds stood at $23.1 billion in 3Q'11, the lowest quarterly total since $10.8 billion in 1Q'09 and down 72.2 percent and 67.3 percent, respectively, from 2Q'11 and 3Q'10 levels. Demand for HY bonds was very strong in the first half of 2011 due to the improving economy and near-zero benchmark interest rates but as investor sentiment soured, concerns over European crisis intensified and economic recovery slowed, demand for HY bonds fell dramatically in a flight to quality.

Spreads Widen in 3Q'11; Default Rates Slow

According to S&P, composite spreads for both investment-grade and speculative-grade bonds continued to widen in 3Q'11. IG bond spreads widened to 226 bps from 171 bps at the end of 2Q'11 but remained slightly below (2.2 percent) the five-year moving average of 231 bps. HY bond spreads widened even more significantly, finishing 3Q'11 at 768 bps, 42.5 percent higher than the 539 bps recorded in 2Q'11 and 12.1 percent above the five-year moving average of 685 bps. Much of the widening in investment-grade and speculative-grade spreads was due to falling yields on Treasury bonds, a result of investors' flight to quality from continued worries over the European debt crisis and slower-than-expected U.S. economic recovery.

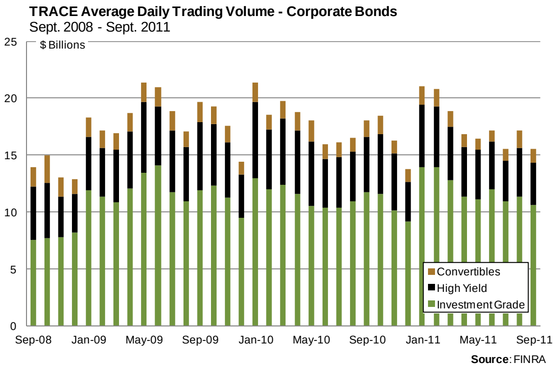
S&P's Global Fixed Income Research reported nine issuers defaulted worldwide in 3Q'11, seven of which were based in the U.S. This small number of defaults in 3Q'11 was a significant improvement from both 2Q'11, when 14 issuers defaulted worldwide (seven in the U.S.) and 3Q'10 when there were 19 defaults worldwide (13 in the U.S.).

In 3Q'11 S&P Ratings Services downgraded 64 and upgraded 60 U.S. issuers, a worsening of the downgrade/upgrade ratio from 57/98 in the previous quarter and 60/82 in 3Q'10. Year-to-date, S&P downgraded 170 and upgraded 239 U.S. issuers, a slightly better outcome than 175 downgrades and 232 downgrades in the first three quarters of 2010.

S&P US Corporate Rating Actions

	2011:Q3	2011:Q2	2010:Q3	2011YTD	2010YTD
Upgrades	60	98	82	239	232
Downgrades	64	57	60	170	175

Source: S&P Fixed Income Research

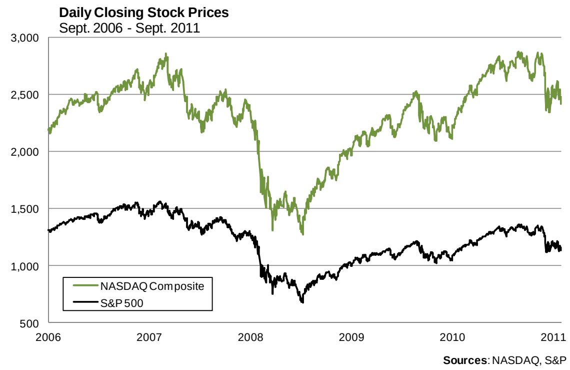


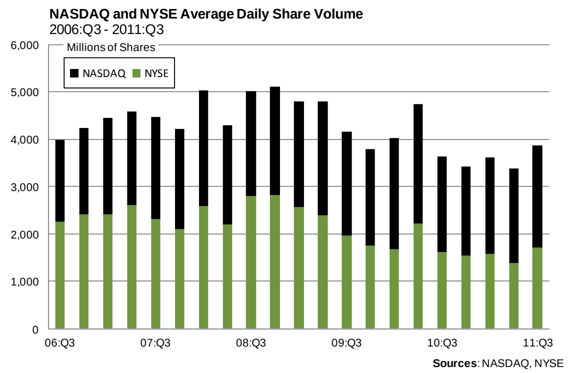
Trading Volume Decreases in 3Q'11

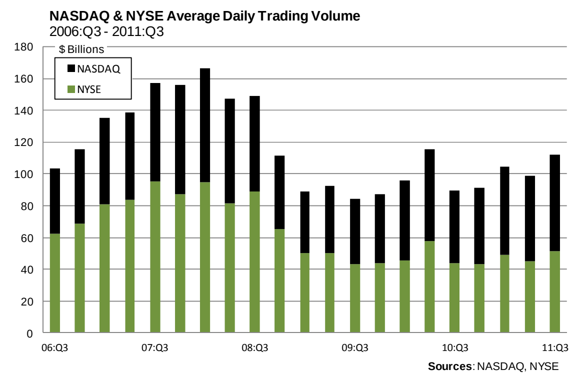
According to the NASD's TRACE data, dollar trading volume for IG bonds and HY bonds decreased, while trading of convertibles (CVs) rose significantly in 3Q'11. IG average daily trading volume decreased to $10.9 billion in 3Q'11, down 4.5 percent from $11.5 billion in 2Q'11 and 0.7 percent lower than $11.0 billion in 3Q'10. HY average daily trading volume declined more than twice as more (10.2 percent) to $3.9 billion from $4.4 billion in 2Q'11 and was 14.2 percent lower than the $4.6 billion in the same year-earlier period. The average daily trading volume of CVs rose in 3Q'11 to $1.2 billion, 20.9 percent increase from 2Q'11 but 7.8 percent lower than the average trading volume a year ago.

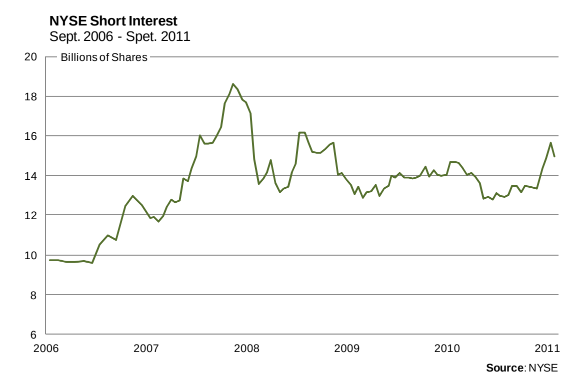
September 2011 was a particularly slow month in corporate bond trading with the average daily trading volume of IG bonds declining to $10.6 billion, 3.3 percent below the quarter's average and 6.7 percent below the $11.4 billion average in August. Similarly, the average trading volume of HY fell in September to $3.8 billion, 5.1 percent below the quarter's average and 12.1 percent below Augusts' $4.3 billion average.

EQUITY AND RELATED









Equity markets indexes fell roughly 13.0 percent during 3Q'11. The S&P 500 closed at 1,131.42, a 14.3 percent decrease q-o-q and down 1.2 percent y-o-y. The NASDAQ composite index finished at 2,415.40, a 12.9 percent decline from 2Q'11 but a modest 2.0 percent increase y-o-y. The Dow Jones Industrial Average (DJIA) decreased as well, finishing the third quarter at 10,913.38, a 12.1 percent drop q-o-q but flat from 3Q'10. U.S. equity markets recorded quarterly losses as investor sentiment soured due to continuing anemic U.S. economic growth, U.S. debt ceiling debate, S&P's U.S. sovereign downgrade, and the European sovereign debt crisis.

The instability in both U.S. and European markets led to one of the most unstable quarters in the equity markets since the financial crisis. Companies continued to hold elevated amounts of cash on their balance sheets, which negatively affected secondary issuance, equity underwriting, and M&A activity. The volatility of the market increased significantly with average daily swings of S&P 500 index of 1.5 percent in September (see VIX discussion below).

NYSE & NASDAQ Daily Share & Trading Volume Increases

The New York Stock Exchange's (NYSE) 3Q'11 average daily share volume increased to 1.7 billion shares, up 24.0 percent from the prior quarter's 1.3 billion (the lowest average daily share volume on NYSE since 4Q'03) and 6.0 percent above 1.6 billion in 3Q'10. The NYSE's average daily dollar trading volume increased to $51.3 billion, a 13.6 percent improvement from the previous quarter's $45.1 billion and a 16.8 percent increase y-o-y.

NASDAQ's average daily share volume increased by 7.7 percent to 2.2 billion shares in 3Q'11 from 2.0 billion shares in the previous quarter and by 6.7 percent y-o-y. The average daily dollar trading volume increased to $60.5 billion in 3Q'11, up 13.4 percent from $53.4 billion in the previous quarter and 32.1 percent above the 3Q'10's figure of $45.8 billion.

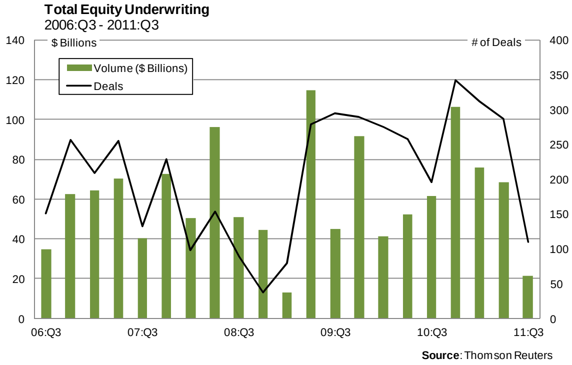
August 2011 was a month of exceptionally high activity as both the NYSE and NASDAQ recorded their highest average share volumes since May 2010, a result of high volatility in the market. The average daily share volume stood at $2.1 billion on NYSE and at $2.5 billion on NASDAQ in August, 35.6 percent and 22.4 percent above the September year-to-date average, respectively.

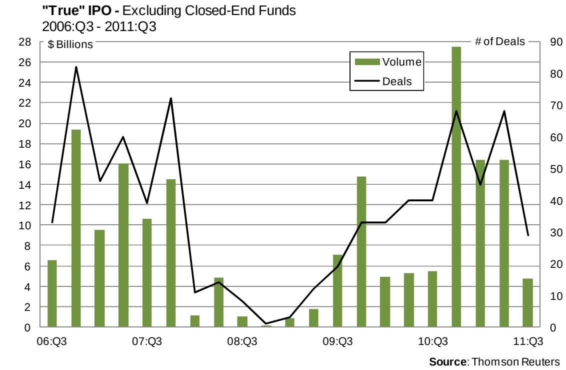
Short Interest Jumps Over 10 Percent

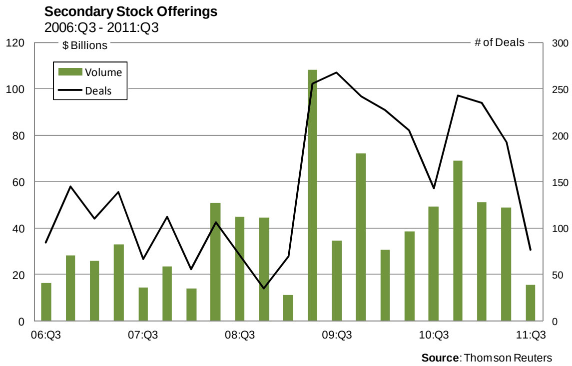
Short interest on the NYSE stood at 15.0 billion shares (3.9 percent of total shares outstanding) at the end of 3Q'11, 11.3 percent up from the end of last quarter and a 2.0 percent increase from 14.6 billion at the end of 3Q'10. In mid-September the short interest was 15.7 billion shares, the highest level since March 2009 ($16.2 billion). The high level of short interest indicates more bearish sentiment on the market and can also be a sign that share prices may be nearing a bottom.

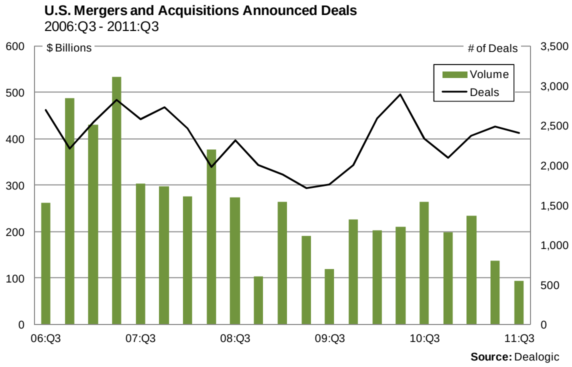
Weak Economic Indicators Hinder Equity Market Growth

The third quarter was turbulent for the U.S. economy: the debt ceiling was raised by $2.1 trillion at the beginning of August to $16.4 trillion, coming uncomfortably close to defaulting on some of its obligations; Standard & Poor's downgraded the United States' credit rating for the first time in history; and economic indicators continued to suggest a very slow pace of recovery. There have been some positive signs since the end of the third quarter. The nation's gross domestic product (GDP) picked up in 3Q'11, growing at an annual









rate of 2.5 percent, up from 1.3 percent in 2Q'11, driven by strong consumer and business spending.

Equity Underwriting Declines By 69 Percent

The total volume of equity underwriting decreased sharply in 3Q'11, down 68.8 percent q-o-q and 65.3 percent y-o-y to $21.4 billion, the second lowest quarterly underwriting volume in the last 48 quarters. The number of deals declined as well; there were 110 equity underwriting deals in 3Q'11, 61.7 percent below the 287 deals in 2Q'11 and 43.9 percent lower than 196 deals in 3Q'10. The low volume of equity underwriting was felt in all areas - IPOs, follow-ons and convertibles - as the turbulence in financial markets intensified in the third quarter and the uncertainty led companies to put off stock offerings. Equity underwriting fell to 64.8 percent below the five-year average in volume of $60.9 billion and to 44.0 percent below the five-year average in deal size.

IPO Volume Falls Below Five-Year Average

After a very strong first half, "true" initial public offerings (IPOs), which exclude closed-end mutual funds, declined to $4.7 billion on 29 deals in 3Q'11, a 71.2 percent decrease in volume from $16.4 billion and 57.4 percent decline in number of deals. There is a very strong correlation between market volatility and IPO issuance; high volatility in the stock market, fears of Greek sovereign default and weak U.S. economic growth hurt IPO volume in 3Q'11. Many firms cancelled or postponed their planned IPOs, which resulted in lowest quarterly IPO volume since 2Q'09, and a result 48.1 percent below the five-year average of $9.1 billion.

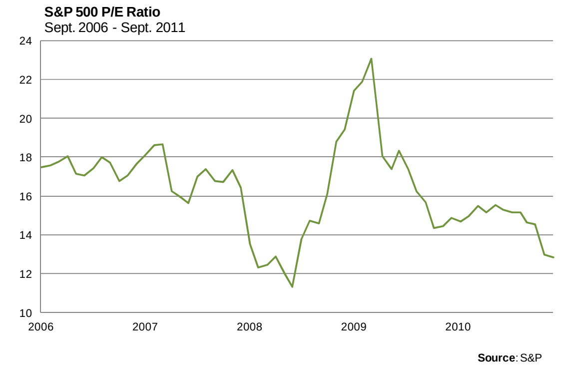
Secondary Offerings Decrease

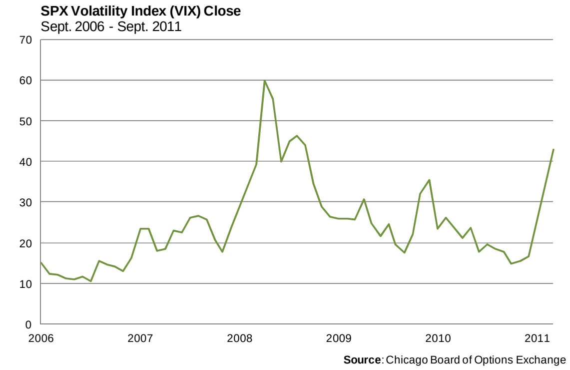
Secondary market issuance also decreased in 3Q'11, falling 68.4 percent to $15.4 billion from $48.9 billion in 2Q'11. The average deal value for the quarter fell by 20.2 percent to $203.1 million as the number of deals decreased by 60.4 percent to 76 deals from 192 deals in 2Q'11, the lowest number of deals since 1Q'09. Compared with 3Q'10, secondary issuances were down 68.6 percent in dollar volume and 46.9 percent in number of deals.

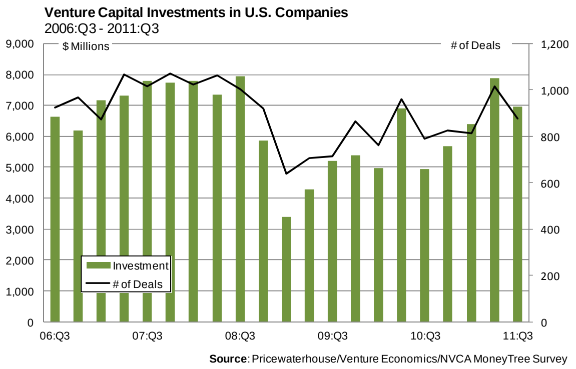
M&A Volume Down Significantly

Announced U.S. mergers and acquisitions (M&A) volume in 3Q'11 stood at $93.4 billion, 31.9 percent below the previous quarter's $137.1 billion. The number of deals decreased by only 3.7 percent to 2,401 from 2,492 in 2Q'11, causing the average deal size to fall to $38.9 million from $55.0. Third quarter M&A volume declined to the lowest level since the $70.7 billion on 1,800 deals recorded in 1Q'03. Some of the decrease in the M&A activity in 3Q'11 is seasonal as summer months of July and August tend to be slow, however, and activity is predicted to pick up in the remaining months of the year due to the availability of large amounts of cash companies hold on their balance sheets.

According to data from Dealogic, the amount of money invested in U.S. companies from other countries through M&A deals decreased by 3.1 percent in 3Q'11; this "U.S. inbound" M&A quarterly volume decreased to $42.9 billion from $44.3 billion in the previous quarter.. The dollar amount U.S. companies invested in other countries via M&A declined as well; American firms invested $50.1 billion in deals outside of the U.S. in 3Q'11, a 6.0 percent decrease from $53.2 billion in 2Q'11.







P/E Ratio Drops; Remains below Five-Year Average

The S&P 500's P/E ratio averaged 13.4 in 3Q'11, down 10.3 percent from the previous quarter's average of 15.0, and 17.3 percent below the 5-year average of 16.2. The decline of the P/E ratio was a reflection of market instability and a less optimistic outlook for the economy in 2011 and 2012, which drove stock prices down. The S&P 500's P/E ratio decreased by 7.6 percent y-o-y and is 39.3 percent below the quarterly high of 22.1 in 4Q'09.

Buybacks Decrease on NYSE, Increase on NASDAQ

The volume of corporate share repurchases on the NYSE totaled $68.9 billion on 142 deals in 3Q'11, compared to $89.6 billion on 109 deals in 2Q'11. While the volume of buybacks declined by 23.1 percent, the number of deals increased by 30.3 percent translating into a 40.9 percent decline in average deal size. Compared to 3Q'10, NYSE share buybacks increased by 82.7 percent in volume and by 39.2 percent in number of deals.

In contrast, share repurchases on NASDAQ increased in 3Q'11 reaching $23.8 billion, an 11.5 percent improvement from 2Q'11's $21.4 billion; the number of deals also increased, rising by 72.5 percent to 157. Compared with 3Q'10, NASDAQ share repurchases more than doubled (106.4 percent increase) while the number of deals increased by 70.7 percent y-o-y.

CBOE VIX Index Rises 160 Percent

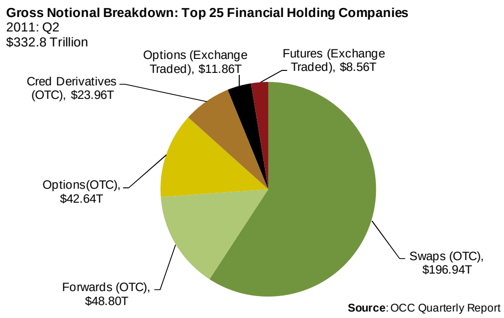
The Chicago Board Options Exchange Volatility Index (VIX) more than doubled in the third quarter, ending September at 43.0 compared to 16.5 at June month end and was the highest month-end value since 44.1 in March 2009. The index had been showing a general downward trend since the Flash Crash (May 6, 2010) as the markets worldwide showed signs of stabilization. During the quarter, however, the VIX rose as high as 48.0 (on August 8), reflecting the turmoil around the raising of the U.S. debt ceiling and S&P's historic downgrade of U.S. Treasury debt. The index continued to rise throughout the quarter reflecting continued fiscal concerns, the sovereign debt crisis in Europe and discouraging economic indicators.

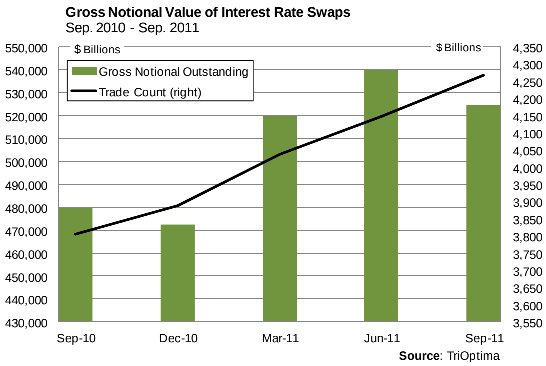
Venture Capital Decreased in 3Q'11

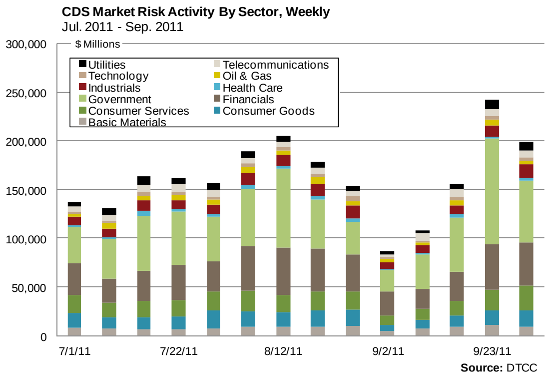
Venture capitalists invested $7.0 billion in 876 deals in the third quarter of 2011, according to the MoneyTree™ Report from PricewaterhouseCoopers LLP (PwC) and the National Venture Capital Association (NVCA). Quarterly investment activity decreased 11.8 percent in dollar terms and 13.7 percent in number of deals compared to the second quarter of 2011 when $7.9 billion was invested in 1,015 deals.[17] On a more positive note, y-o-y, the dollar volume of venture capital investments rose by 40.6 percent in volume and 11.0 percent in number of deals. The software industry continued to lead, receiving $2.0 billion in 3Q'11, a 23 percent increase from 2Q'11 and the highest quarterly funding in 10 years.

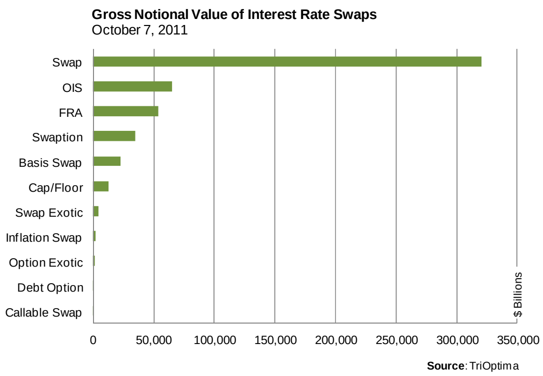
[17] PriceWaterhouseCoopers. Money Tree Report. Third Quarter 2011 Report.

DERIVATIVES









According to the Federal Reserve, the gross notional value of derivatives outstanding held by the top 25 U.S. financial holding companies, both over-the-counter (OTC) and exchange-traded, was $332.8 trillion in the second quarter of 2011 ($1.8 trillion on net credit exposure basis), and increase of 3.6 percent q-o-q and 12.9 percent y-o-y. Gross exposure increased this quarter in each product category, with the greatest changes concentrated in exchange-traded options (up 15.75 percent) and exchange-traded futures (up 6.49 percent). Net current credit exposure increased 3 percent from the first quarter of 2011, to $364 billion.

Interest Rate Swaps

According to TriOptima data, the gross notional value of outstanding interest rate swaps (IRS) at the end of September was $528.3 trillion, down 2.1 percent from end-June's $539.8 trillion. The q-o-q decrease is largely in debt options and overnight indexed swaps (OIS), down 6.2 percent and 15.7 percent, respectively. These decreases outweighed the 8.3 percent increase in exotic options. The number of contracts increased 3.7 percent to 4.3 million end-September from 4.2 million end-June. The q-o-q increase was a result of increases in cross currency swaps (up 7.9 percent), basis swaps (up 5.7 percent) and inflation swaps (up 5.4 percent).

Credit Default Swaps

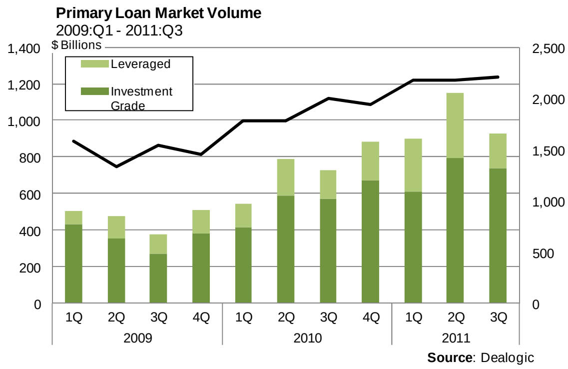
According to DTCC, the gross notional value outstanding of credit default swaps (CDS), including single names, tranches and indices decreased by 3.2 percent to $27.98 trillion end-September from $28.89 trillion end-June (up 6.2 percent y-o-y). During the same period, on a net notional basis the outstanding value decreased by 3.2 percent to $1.18 trillion.. Single name CDS decreased in outstanding value on a gross notional basis 3.1 percent to $15.2 trillion (single side of transaction) end-September from end-June.

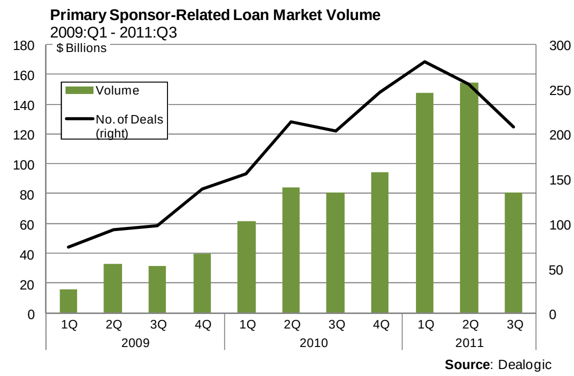
The majority of new market risk activity in the third quarter remained concentrated in government and financial reference entities ($799.4 billion and $542.1 billion, respectively). The most widely referenced entities booked in 3Q'11 by gross exposures were concentrated in European sovereigns, as was the case in 2Q'11, led by Italy ($107.9 billion), France ($107.1 billion), Spain ($73.2 billion) and Germany ($56.1 billion). On the European periphery gross exposures for Greece totaled $8.2 billion, while Portugal's gross exposures totaled $14.2 billion. Altogether, sovereign referencing CDS activity increased 37.2 percent in the third quarter.

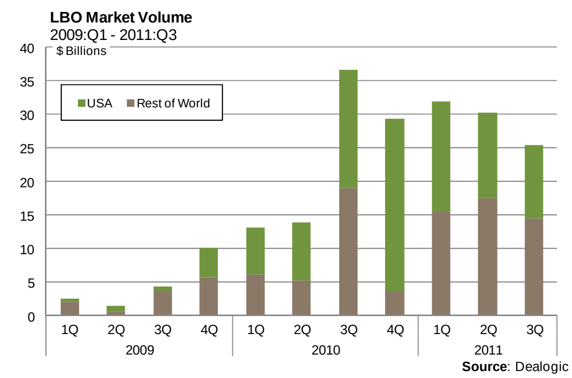
Sovereign CDS outstanding decreased on a net notional basis during 3Q for Italy, Spain Portugal, and Greece, implying some hedging on outstanding exposures. This activity in CDS markets can largely be attributed to continuing investor concerns over potential defaults or restructurings (i.e., Greece, Ireland, and Portugal), as well as for larger Eurozone countries like Italy and Spain, due to mounting fiscal pressures. However, following a voluntary haircut by the private sector on Greek sovereign debt, the situation in Europe and the impact on sovereign CDS remains uncertain.[18] Aside from sovereigns and financials, activity increased in consumer services to $259.8 billion (up 1 percent q-o-q) and consumer goods to $206.2 billion (up 4 percent q-o-q).

[18] See "ISDA Sovereign Debt Q&A" and "ISDA Statement on CDS Credit Event Process" regarding restructuring of Greek sovereign debt and application of CDS contracts.

PRIMARY LOAN MARKET[19]







Global primary syndicated loan volume totaled $907.5 billion in 3Q'11, a 25 percent increase on 3Q'10. Third quarter volume accounted for 31 percent of first nine months 2011 volume compared with 35 percent during the comparable 2010 period. Despite 3Q'11 volume being down 20 percent on 2Q'11, total deal count increased to 2,224 from 2,181, resulting in an average deal size decrease of $110 million to $418 million.

Though it continues to account for the largest share of global loan volume, the Americas region saw its share drop to 51 percent in 3Q'11 from 59 percent in 2Q'11. The Asia-Pacific region percentage share increased to 23 percent from 15 percent, and was the only region to experience a volume increase (26 percent) as the Americas and EMEA regions experienced volumes drops of 29 percent and 23 percent, respectively.

Refinance-related loans accounted for 45 percent of all loans signed in 3Q'11; General Corporate purposes and Acquisition & Merger-related loans followed with 22 percent and 14 percent, respectively. The EMEA region recorded the greatest percentage of refinance-related activity, accounting for 60 percent of the region's 3Q'11 loan volume, compared with 46 percent and 26 percent for the Americas and Asia Pacific, respectively.

Global investment grade loan volume reached $740.3 billion in 3Q'11, representing 80 percent of global loan volume and was the highest quarterly share since 1Q'09 (86 percent). Volume was up 30 percent compared with 3Q'10 and was the highest third-quarter volume since 2007 ($876.3 billion). Among investment grade borrowers, the Utility and Energy sector led with $74.9 billion, up 30 percent from $59.0 billion in 3Q'10. Of the top ten sectors, Chemicals, Food & Beverage and Technology each saw borrowed volume more than double to $36.0 billion, $34.7 billion and $42.0 billion, respectively.

Third quarter volume for global leveraged loans totaled $188.5 billion, a 20 percent increase on the same 2010 period. A 47 percent increase in pro-rata loans helped to offset a 23 percent drop in institutional loans. U.S leveraged loans volume increased 29 percent to $131.9 billion; in contrast, leveraged loan volume in Europe drop 7 percent to $30.5 billion.

Global financial sponsor-related syndicated loan volume saw a 5 percent decrease to $76.7 billion in 3Q'11 from $80.8 billion in 3Q'10, and represented the lowest quarterly volume since 1Q'10 ($61.5 billion). Leveraged buyout (LBO) loan volume was down 31 percent to $24.5 billion in 3Q'11 from $35.7 billion in 3Q'10. Institutional loans' share of financial sponsor loan volume decreased to 28 percent in 3Q'11 from 48 percent in 3Q'10

The average tenor for global syndicated loans (excluding Project Finance and Trade Finance loans) decreased by a month to four years four months. The average maturities in 3Q'11 for the Americas and Asia Pacific were four years four months and four years, respectively, and were almost on par with 2Q'11. EMEA, however, saw average tenor decrease by two months to four years eleven months. Average loan pricing decreased by 6 bps to 269 bps in 3Q'11 from the prior quarter. The decrease in pricing was due to investment grade loan pricing decreasing 2 bps to 162 bps to offset a 9 bps increase in leveraged loans pricing to 366 bps.

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

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