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RESEARCH QUARTERLY
3Q 2012

RESEARCH REPORT

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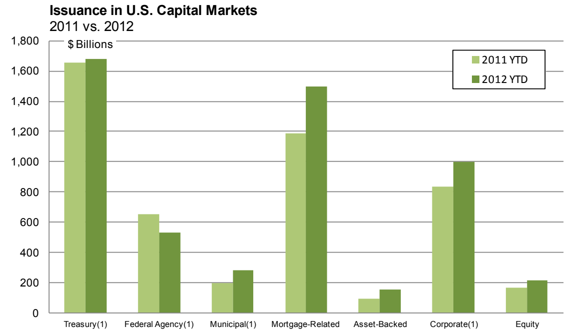
CAPITAL MARKETS OVERVIEW



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

Issuance Highlights - Year-Over-Year

$ Billions	2012:Q3	2011:Q3	Y-o-Y % Change*	2012 YTD
Treasury (1)	544.0	549.0	-0.9%	1,680.0
Federal Agency (1)	176.0	260.2	-32.4%	529.5
Municipal (1)	86.3	76.6	12.6%	279.3
Mortgage-Related	542.9	358.0	51.7%	1,497.4
Asset-Backed	48.0	26.7	79.7%	153.0
Global CDO	16.6	4.3	282.2%	39.5
Corporate (1)	346.8	182.8	89.7%	998.3
Equity	87.7	21.9	301.5%	213.2

* Percent change between 2012:Q3 and 2011:Q3

Quarter-Over-Quarter

$ Billions	2012:Q3	2012:Q2	Q-o-Q % Change*
Treasury (1)	544.0	573.0	-5.1%
Federal Agency (1)	176.0	175.8	0.1%
Municipal (1)	86.3	114.3	-24.5%
Mortgage-Related	542.9	468.6	15.9%
Asset-Backed	48.0	54.4	-11.8%
Global CDO	16.6	17.7	-6.0%
Corporate (1)	346.8	244.2	42.0%
Equity	87.7	65.4	34.2%

* Percent change between 2012:Q3 and 2012:Q2
(1) Includes long-term issuance only

Total Issuance Rises in Third Quarter 2012

Securities issuance totaled $1.85 trillion in the third quarter of 2012, a 7.9 percent increase quarter-over-quarter (q-o-q) and a 24.9 percent increase year-over-year (y-o-y).

During the September FOMC meeting, the Fed indicated that economic activity continued to increase at a moderate pace in recent months; employment rose slowly; and the unemployment rate remained elevated. Consumer price inflation remained subdued, while measures of long-run inflation expectations stayed stable. The Fed decided to keep the target Fed Funds rate at 0 - 0.25 percent and anticipated such exceptionally low levels in the target rate to be warranted at least through mid-2015.

On September 13, Federal Reserve Chairman Ben Bernanke announced the open-ended third round of quantitative easing ("QE3"), planning to buy $40 billion in agency MBS every month until the U.S. economic outlook improved substantially, as long as inflation remains contained. The Federal Reserve also announced the continuation of the 'Operation Twist' program through December 2012.[1]

The equity markets increased slightly in the third quarter of 2012. The S&P 500 closed the third quarter at 1,440.67, a 5.8 percent increase from last quarter and 27.3 percent up y-o-y. The NASDAQ Composite Index ended the third quarter at 3,116.23, a 6.2 percent gain from 2Q'12 and 29.0 percent increase y-o-y. The Dow Jones Industrial Average (DJIA) increased as well, finishing 3Q'12 at 13,437.13, a 4.3 percent gain q-o-q and 23.1 percent gain y-o-y.

Total gross issuance of Treasury bills and coupons, including cash management bills (CMBs), was $1.92 trillion in 3Q'12, a 7.0 percent increase from the $1.80 trillion issued in 2Q'12 and a 5.4 percent increase from 3Q'11's issuance of $1.82 trillion. Total third quarter net issuance of U.S. Treasury securities, including CMBs, increased to $232.0 billion, up 44.2 percent from the previous quarter's $160.9 billion but 1.0 percent below the $234.3 billion issued in 3Q'11.

Federal agency long-term debt issuance was virtually unchanged at $176.0 billion in the third quarter compared to $175.8 billion in 2Q'12, , but was a 32.4 percent decline y-o-y.

Long-term municipal issuance volume, including taxable and tax-exempt issuance, totaled $83.6 billion in the third quarter of 2012, a decline of 26.9 percent q-o-q ($113.4 billion) but an increase of 11.9 percent y-o-y ($74.7 billion).

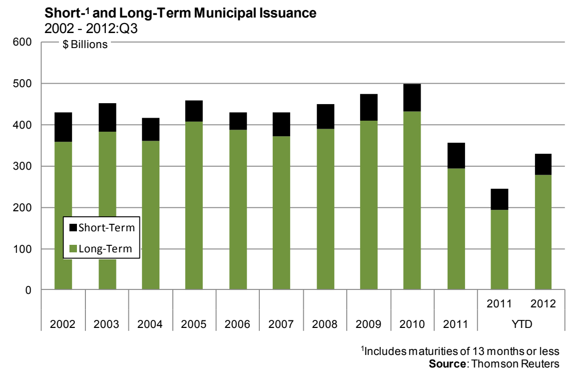
Issuance of mortgage-related securities, including agency- and non-agency pass-throughs and collateralized mortgage obligations, totaled $540.7 billion in the third quarter of 2012, a 14.7 percent and 49.5 percent increase, respectively, from 2Q'12 ($471.1 billion) and 3Q'11 ($361.5 billion).

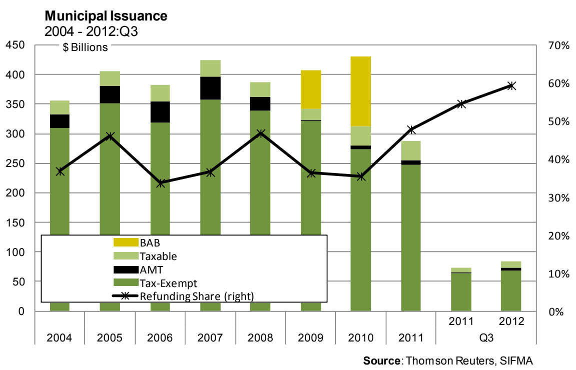
Asset-backed securities issuance totaled $51.2 billion in the third quarter of 2012, a decline of 5.9 percent from 2Q'12 ($54.4 billion) but a 91.7 percent increase from 3Q'11 ($26.7 billion).

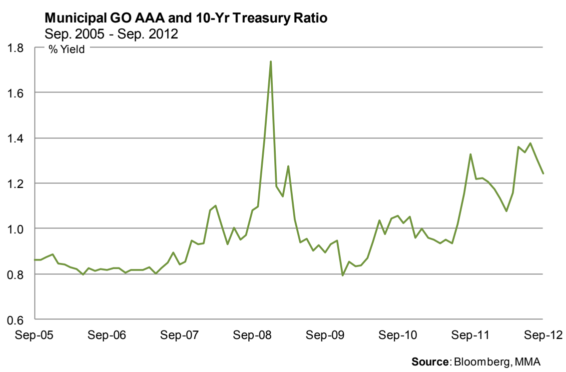
Total corporate bond issuance totaled $342.5 billion in 3Q'12, 43.9 percent above the $238.0 billion issued last quarter and almost double the $180.1 issued in 3Q'11.

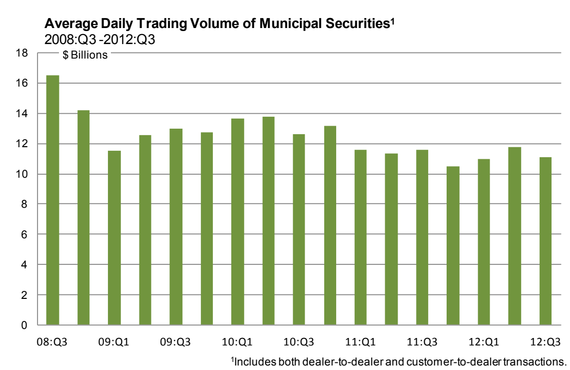
[1] 'Operation Twist' is the Federal Reserve's process of extending the average maturity of the securities in the Federal Reserve's portfolio by by selling or redeeming short-term securities and using the proceeds to buy longer-term Treasury securities. The intent is to place downward pressure on long-term interest rates. http://www.federalreserve.gov/faqs/money_15070.htm

MUNICIPAL BOND MARKET









Primary Market

Long-term municipal issuance volume, including taxable and tax-exempt issuance, totaled $86.3 billion in the third quarter, a decline of 24.5 percent q-o-q but an increase of 12.6 percent y-o-y. Year-to-3Q, municipal issuance totaled $279.3 billion, tracking the 10-year average closely ($281.4 billion year-to-3Q).

Tax-exempt issuance totaled $67.9 billion in 3Q'12, a decline of 34.3 percent from 2Q'12 ($103.4 billion) but an increase of 7.6 percent from 3Q'11 ($63.1 billion). Taxable issuance was $10.8 billion in 3Q'12, an increase of 63.3 percent and 53.9 percent, respectively, from 2Q'12 ($6.6 billion) and 3Q'11 ($7.0 billion).

By use of proceeds, general purpose led issuance totals in 3Q'12 ($20.2 billion), followed by primary & secondary education ($12.4 billion), water and sewer facilities ($8.4 billion), and higher education ($6.0 billion).

Refundings, while still relatively elevated in the third quarter, declined slightly as a percentage of total issuance (59.4 percent) compared to 2Q'12 (62.8 percent) but still above 3Q'11 (54.6 percent). Refundings will likely continue to remain elevated as true interest costs (the discount rate paid by issuers on new municipal issues) continue to fall to new lows for issuers; as of 3Q'12, municipal issuers enjoyed a dollar-weighted true interest cost of 2.49 percent in 3Q'12, compared to 2.82 percent in 2Q'12 and 3.10 percent in 3Q'11.

Yields, Inflows, and Total Return

Ratios of 10-year tax-exempt AAA GOs to similar-maturity Treasuries moved lower in the third quarter, ending at 105.1 percent. Continuing negative net supply and high demand continued to keep yields low. The municipal market returned 2.51 percent in 3Q'12 on a total return basis, compared to 1.96 percent in 2Q'12 and 3.94 percent in 3Q'11. On the other hand, Build America Bonds (BABs) underperformed similarly-rated corporates in part due to concerns over the loss of the federal BAB subsidy (a 35 percent subsidy on the interest paid by issuers), returning 2.74 percent 3Q'12 compared to 3.53 percent in A- to AAA-rated corporates.

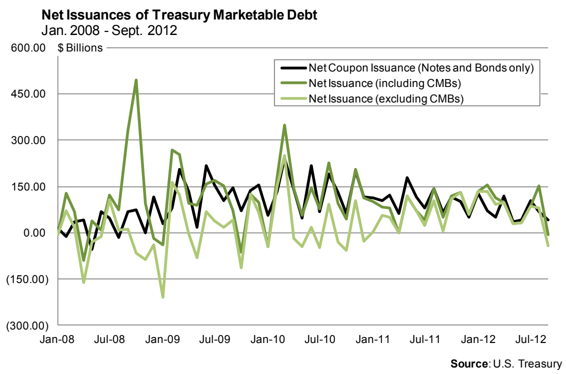
According to the Investment Company Institute (ICI), third quarter inflow into long-term municipal funds was $14.9 billion, compared to $11.4 billion in 2Q'12 and $662 million in 3Q'12.

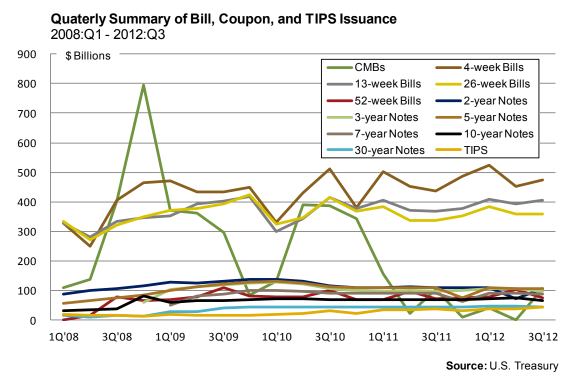
Trading Activity and Dealer Inventories

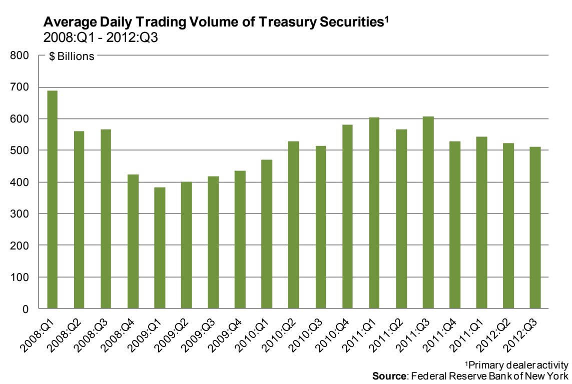
Trading activity decreased q-o-q in 3Q'12 to $11.1 billion daily, a 5.6 percent decline from 2Q'12 ($11.8 billion traded daily) and a 4.5 percent decrease y-o-y ($11.6 billion traded daily in 3Q'11). The average number of trades also declined slightly q-o-q (a decline of 5.8 percent) and y-o-y (a decline of 1.3 percent).

The general decline in trading volume since 2007 has also been mirrored in broker-dealer inventories, although this trend has been prevalent in nearly all asset classes. According to the Federal Reserve's Flow of Funds, broker-dealers also reported municipal bond inventory declines since 2006; as of the end of 3Q'12, broker-dealers reported $29.0 billion of inventory, compared to $31.5 billion of inventory at the end of 2011 and $50.9 billion at its peak in 2006.

TREASURY MARKET







U.S. Treasury Securities Gross Issuance Increases

Total gross issuance of Treasury bills and coupons, including cash management bills (CMBs), was $1.92 trillion in 3Q'12, a 7.0 percent increase from $1.80 trillion issued in 2Q'12 and a 5.4 percent increase from 3Q'11's issuance of $1.82 trillion.

On a gross basis, approximately $502.0 billion in Treasury coupons were issued in the third quarter, 2.2 percent above the $491.4 billion issued in the prior quarter but 2.0 percent below the year-ago issuance of $512.3 billion.

Gross issuance of Treasury Inflation Protected Securities (TIPS) increased to $13.6 billion, 17.4 percent above the $11.6 billion issued in 2Q'12 and almost fourfold increase from 3Q'11's $3.4 billion. Treasury indicated that it remains pleased with the demand for inflation protection.

Gross issuance of bills, including CMBs, was $1.31 trillion in 3Q'12, a slight increase from previous quarter's $1.30 trillion and an 8.7 percent increase from $1.21 trillion issued during the same year-ago period.

U.S. Treasury Securities Net Issuance Also Increases

Total third quarter net issuance of U.S. Treasury securities, including CMBs, increased to $232.0 billion, up 44.2 percent from the previous quarter's $160.9 billion but 1.0 percent below the $234.3 billion issued in 3Q'11. The 3Q'12 issuance of $232.0 billion in net marketable debt was 15.9 percent below the Treasury's July 3Q'12 borrowing estimate of $276 billion.[2]

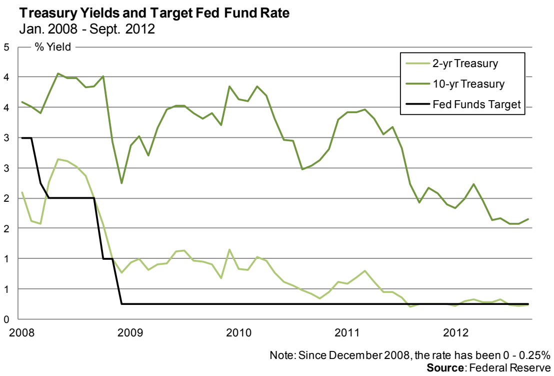
Excluding cash management bills (CMBs), total net issuance stood at $126.98 billion in 3Q'12, a 21.1 percent decrease from $160.87 billion in the prior quarter. After no CMBs were issued in 2Q'12, CMBs issuance was $105.0 billion in the third quarter, the highest issuance total since 1Q'11's $155.0 billion.

Net coupon issuance in the third quarter was $212.4 billion, a 7.9 percent increase from 2Q'12's $196.9 billion but down 26.3 percent y-o-y. As Treasury has transitioned from bill to coupon financing, the percentage of nominal coupons in the Treasury's portfolio has been gradually increasing, and the average maturity of the portfolio continues to extend. The average maturity of the portfolio is currently approximately 64.2 months, longer than 62.8 months last quarter and well above the 3-decade average of 58.1 months.

Trading Volume Decreases

Average trading volume dropped for the second consecutive quarter. Daily trading volume of Treasury securities by primary dealers averaged $510.1 billion in 3Q'12, compared to $522.9 billion in the prior quarter (2.5 percent decrease) and $606.4 billion in 3Q'11 (15.9 percent drop). Despite the downward trend, the average daily trading volume of Treasuries stood only 2.0 percent below its 5-year average of $520.5 billion.

[2] Treasury Announces Marketable Borrowing Estimates, July 30, 2012.



Treasury Yields Fall

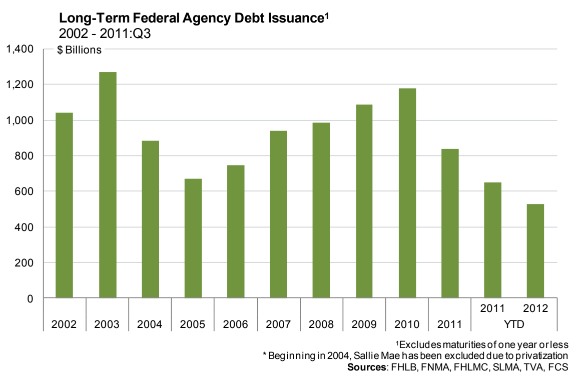
Treasury yields declined across almost all maturities in 3Q'12. Two-year rates decreased sharply to 0.24 percent at the end of 3Q'12from 0.31 percent in June 2012, 5-year yields dropped to 0.63 percent from 0.73 percent in the end of June, and the 10-year yields declined to 1.64 percent in 3Q'12from 1.66 percent in June. Only 30-year yields increased in 3Q'12, to 2.83 percent in September from 2.77 percent in June. SIFMA's Quarterly Issuance and Rates Forecast Survey[3] forecast rates to gradually increase through March of 2013 across all maturities: benchmark 2-year Treasury yields were expected to increase to 0.29 percent in 1Q'13, 5-year yields to increase gradually to finish 1Q'13 at 0.83 percent, 10-year rates to rise to 1.83 percent in the end of March 2013; and 30-year yields to finish 1Q'14 at 2.98.

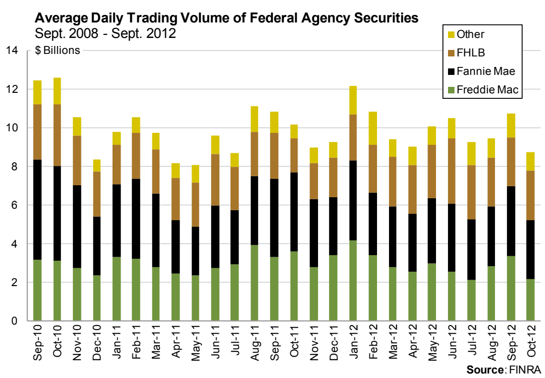
Related News

On September 13, 2012, Federal Reserve Board Chairman Ben Bernanke announced the open-ended third round of quantitative easing ("QE3"). The Fed plans to buy $40 billion in agency MBS every month until the outlook for jobs and economic recovery improves substantially, as long as inflation remains contained. The Federal Reserve also announced the continuation of the Operation Twist program through December 2012. Through this program, the Fed plans to sell $267 billion in shorter-term debt and buy the same amount of longer-term securities in order to extend the maturities of assets on its balance sheet.

[3] 4Q'12 SIFMA Quarterly Issuance and Rates Forecast survey can be found here.

FEDERAL AGENCY DEBT MARKET





Agency LT Debt Issuance Flat Q-o-Q, Down Y-o-Y

Federal agency long-term debt (LTD) issuance was $176.0 billion in the third quarter compared to $175.8 billion in the 2Q'12, and fell 32.4 percent y-o-y. Overall, average daily trading volume of agency securities in the third quarter was $9.8 billion, a decline of 0.5 percent q-o-q and a 3.9 percent decline y-o-y. Trading activity for Freddie Mac debentures increased 3.2 percent q-o-q, while Fannie Mae and Federal Home Loan Banks (FHLBs) debentures experienced declines of 1.2 percent and 9.0 percent, respectively.

The 12 Federal Home Loan Banks issued $70.3 billion in LTD in the third quarter, a decrease of 28.3 percent and 31.4 percent, respectively, from 2Q'12 ($98.1 billion) and 3Q'11 ($102.5 billion). A little more than $983.2 billion in short-term debt (STD) was issued in 3Q'12, an increase of 7.2 percent q-o-q and 42.2 percent y-o-y.

Total FHLB LTD outstanding was $457.1 billion as of September 30, 4.1 percent below the $477.1 billion outstanding at the end of the second quarter and down nearly 13.0 percent y-o-y from $524.3 billion. Discount notes outstanding increased to $217.3 billion at end-September 2012 from end-June 2012 ($196.3 billion) and end-September 2011 ($172.3 billion).

Fannie Mae's 3Q'12's gross debt issuance, both STD and LTD, totaled $144.2 billion, up 21.1 percent from 2Q'12 ($119 billion); STD issuance increased to $78.3 billion, a 46.3 percent increase q-o-q while LTD issuance remained unchanged at $66.2 billion. Fannie Mae had $105.1 billion in STD outstanding in 3Q'12, an increase of 13.0 percent from the prior quarter, and $554.1 billion LTD outstanding, a decrease of 3.4 percent from 2Q'12.

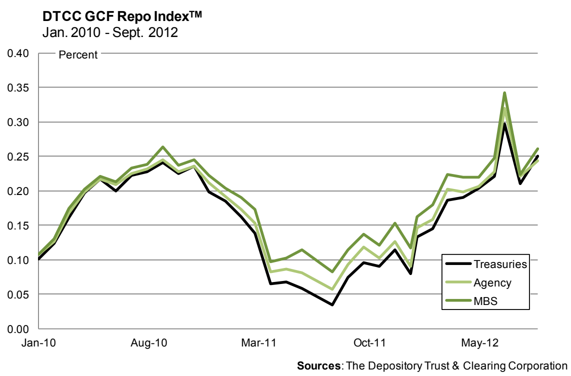
Freddie Mac's third quarter gross debt issuance totaled $116.9 billion, a 17.8 percent increase from 2Q'12 ($99.2 billion) but a 43.0 percent decrease from 3Q'11 ($205.2 billion). As of quarter-end, Freddie Mac had $122.3 billion STD and $456.3 billion LTD outstanding, a decline of 5.9 percent and 1.0 percent, respectively, from the prior quarter.

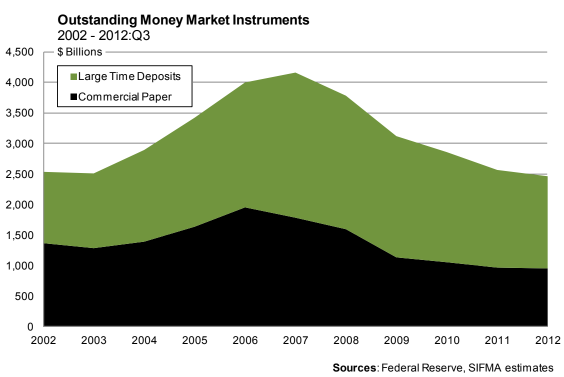
Total Farm Credit System gross debt issuance in 3Q'12 totaled $94.74 billion. Total debt outstanding ended the third quarter at $190.9 billion, of which $13.4 billion was short-term and $177.5 billion was long-term debt.

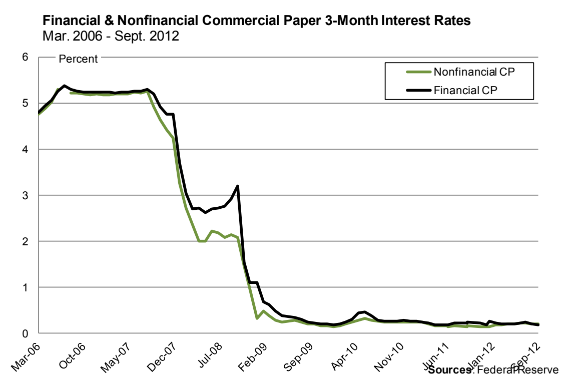
Primary dealers polled by SIFMA in the Third Quarter Government Forecast survey expected gross coupon issuance for the four largest Federal agencies (FHLB, Fannie Mae, Freddie Mac, and the Farm Credit Systems) to reach $210.5 billion in the fourth quarter of 2012.[4] By agency, gross coupon issuance was expected to be $52.2 billion for Fannie Mae, $55 billion for Freddie Mac, $90 billion for the FHLBs, and $13.3 billion for the Farm Credit System.

[4] See SIFMA's U.S. Government Forecast 4Q'12.

FUNDING AND MONEY MARKET INSTRUMENTS







Total Repurchase Activity Falls in Third Quarter[5]

The average daily amount of total repurchase (repo) and reverse repo agreement contracts outstanding decreased to$4.86 trillion in 3Q'12. This represents a slight decrease from 2Q'12's average of $4.88 trillion and a 1.17 percent decrease y-o-y.

Daily average outstanding repo transactions totaled $2.71 trillion in 3Q'12, down slightly from 2Q'12's average of $2.72 trillion, while reverse repo transactions averaged nearly $2.15 trillion, unchanged from 2Q'12.

Treasuries, Agency and MBS Repo Rates Rise

In 3Q'12 the DTCC GCF Repo rates increased for Treasuries, agency debt, and agency MBS. Specifically, the repo rate for Treasuries (30-year and less) increased to 0.250 percent from 0.221 percent in 2Q'12; the agency debt repo rate rose to 0.244 percent from 0.228 percent; and the MBS repo rate increased to 0.261 percent from 0.248 percent.

More generally, the use of agency MBS as collateral for repo has continued to grow during the past year, with approximately 37.7 percent by dollar amount of triparty repo collateralized by agency MBS in September 2012, compared to 34.0 percent in the previous year. U.S. Treasuries used for collateral as also increased, with 33.0 percent of triparty agreements collateralized by U.S. Treasuries end-September, compared to 28.5 percent in the previous year. Agency debentures, however, declined, representing 6.3 percent by dollar amount in September, compared to 8.5 percent the prior year.

Total CP Outstanding Drops Slightly

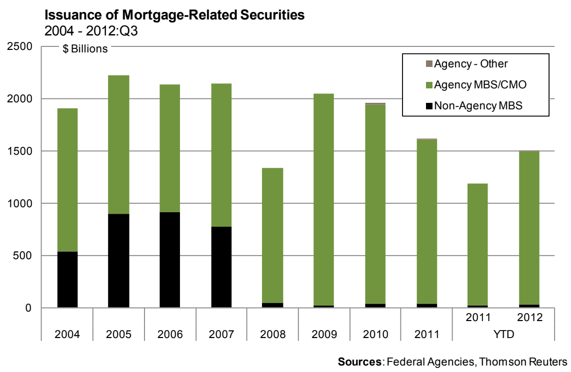
The outstanding volume of total money market instruments (MMI), including commercial paper (CP) and large time deposits, stood at $2.46 trillion at the end of the third quarter, 0.7 percent below the $2.47 trillion in 2Q'12 and a 7.2 percent decrease y-o-y. CP outstanding totaled approximately $956.8 million, a 0.5 percent decrease from $962.0 million in 2Q'12 and a 4.7 percent decrease y-o-y. Large time deposits totaled $1.50 trillion in 3Q'12, a decline of 0.8 percent from 2Q'12 and a 9.5 percent decline y-o-y from $1.66 trillion.

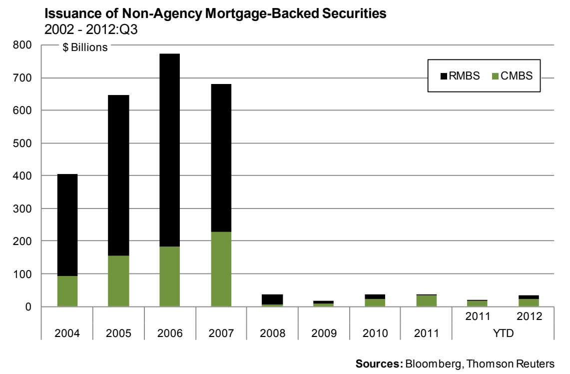
Financial and Nonfinancial 3-Month CP Interest Rates Fall

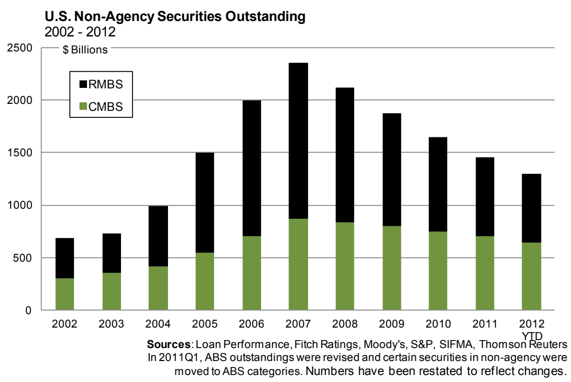
The interest rates for financial and nonfinancial CP fell in the third quarter. The rate for financial CP was 0.17 percent at the end of 3Q'12, 4 bps lower than the 0.21 percent in 2Q'12 and 5 bps lower than in 3Q'11. The rate for nonfinancial CP fell to 0.20 percent in 3Q'12, a 1 bps decrease from 2Q'12's 0.21 percent, but a 6 bps increase from 3Q'11's 0.14 percent.

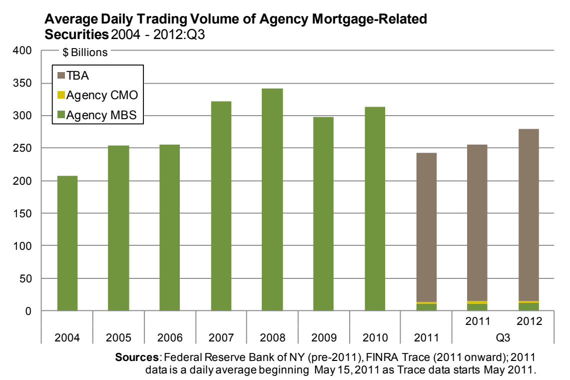
[5] As a reminder, repo data is provided by the primary dealers only: http://www.newyorkfed.org/markets/gsds/search.cfm. For a breakdown of tri-party repo data, please refer to the Federal Reserve Bank of New York's Tri-party Repo Reform website here: http://www.newyorkfed.org/tripartyrepo/margin_data.html.

MORTGAGE-RELATED SECURITIES









Mortgage-Related Market

Issuance of mortgage-related securities, including agency- and non-agency pass-throughs and collateralized mortgage obligations (CMOs), totaled $540.7 billion in the third quarter, a 14.7 percent and 49.5 percent increase, respectively, from 2Q'12 ($471.1 billion) and 3Q'11 ($361.5 billion). Non-agency commercial mortgage-backed securities (CMBS) issuance declined in the third quarter, causing the agency share of issuance to rise to 98.7 percent in 3Q'12 from 97.4 percent in 2Q'12. While non-agency residential mortgage (RMBS) issuance of legacy performing and non-performing loans has ticked up, new issuance continues to remain largely limited to Redwood deals.

The housing market continued its slow recovery during 3Q'12. The Case-Shiller 20-City Composite Index rose to 143.2 in September 2012, an increase of 1.1 percent from end-June 2012 and an increase of 4.7 percent from the all-time low reached in January 2012. Housing prices continued to recover in all housing markets except Cleveland during the third quarter, with the largest gains in the Atlanta region.

Agency Issuance and Outstanding

Agency mortgage-related issuance totaled $533.5 billion in 3Q'12, an increase of 16.3 percent and 52.3 percent, respectively, from 2Q'12 and 3Q'11. Issuance activity picked up from both Fannie Mae and Freddie Mac, while Ginnie Mae volumes remained unchanged from the prior quarter, leading to an overall increase in issuance. Agency MBS outstandings increased by 0.4 percent in 3Q'12, with multifamily outstandings climbing faster than single-family. Multifamily outstandings were $233.6 billion in 3Q'12, a 5.6 percent increase q-o-q, while single-family outstandings were 5.39 trillion, a 0.2 percent increase q-o-q.

Non-Agency Issuance and Outstanding

Non-agency issuance totaled $6.8 billion in 3Q'12, a decline of 44.7 percent and 38.7 percent, respectively, from 2Q'12 ($12.3 billion) and 3Q'11 ($11.1 billion). The decline in non-agency issuance is due to the decline in CMBS issuance. While CMBS continues to comprise the majority of non-agency issuance, CMBS issuance totaled $6.0 billion in 3Q'12, a decline of 47.4 percent q-o-q and 40 percent y-o-y. Non-agency RMBS issuance was $0.9 billion in 3Q'12, unchanged q-o-q and a decline of 18.2 percent y-o-y.

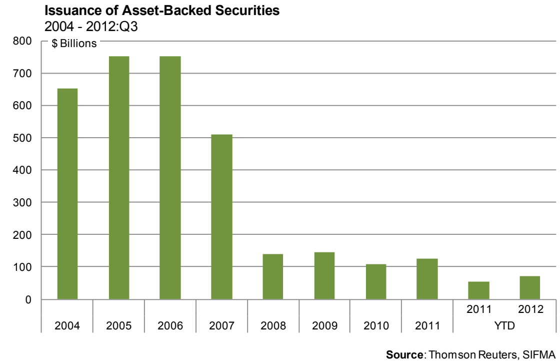
Non-agency outstandings continue to decline, with an $1.30 trillion outstanding end-September, down 3.2 percent from 2Q'12, comprising $643.2 billion in non-agency CMBS outstandings and $653.3 billion in non-agency RMBS outstandings.

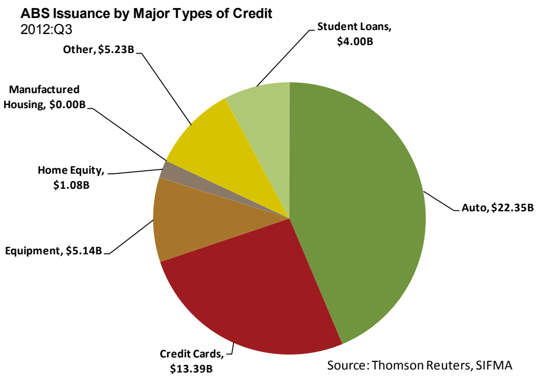
Trading Activity and Rates

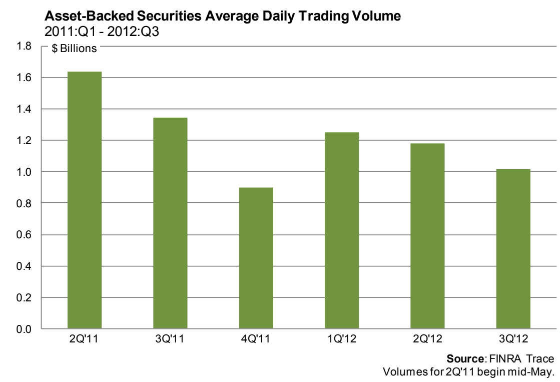
Average daily trading of agency mortgage-related securities, including pass-throughs, CMOs and TBA, was $280.1 billion in 3Q'12, a decline of 1.5 percent from 2Q'12's $284.2 billion but an increase of 9.4 percent y-o-y ($256.0 billion). Average daily trading of non-agency CMBS and RMBS in 3Q'12 was $1.7 billion and $1.8 billion respectively, a decline of 4.4 percent but an increase of 35.0 percent, respectively, from 2Q'12.

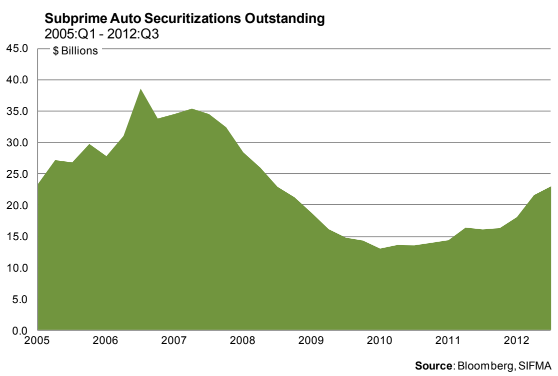
According to Freddie Mac, average rates on conventional 30-year mortgages continue its steady decline to new lows, ending September at 3.40 percent, 26 basis points below from the 3.66 percent rate end-June.

ASSET-BACKED SECURITIES









Asset-Backed Market Issuance and Outstanding

Asset-backed securities (ABS) issuance totaled $51.2 billion in the third quarter, a decline of 5.9 percent from 2Q'12 ($54.4 billion) but nearly double that in 3Q'11 ($26.7 billion). The auto sector continued to lead issuance totals, with $22.4 billion sold (43.7 percent of total issuance in 3Q'12), followed by credit cards ($13.4 billion, representing 26.2 percent of total issuance).

Outside of autos and credit cards, home equity and 'other' also experienced issuance growth q-o-q (58.4 percent and 59.1 percent, respectively). The home equity issuance has been primarily derived from the securitization of performing and non-performing legacy loans, rather than new mortgages. Certain esoteric ABS deals sold in the third quarter contributed to the growth to the 'other' category, including several timeshare deals, one structured settlement deal, and a premium finance deal, among others.

On net, however, only auto and equipment outstandings grew in the third quarter, growing by 2.7 percent and 6.1 percent, respectively, from 2Q'12. The pickup in the origination and securitization of subprime auto market loans also led to an increase in outstanding balances of subprime auto securitizations; after a steady decline since the onset of the crisis, subprime auto outstandings was $23.0 billion in 3Q'12, a 41.1 percent increase from the end of 2011 ($16.3 billion).

Outstandings in the remainder of ABS sectors, however, continued to decline in the third quarter, despite positive growth of gross issuance q-o-q. Declines in outstandings q-o-q were most pronounced in structured finance CDOs (8.6 percent), credit cards (4.6 percent), and home equity and manufactured housing (both 2.9 percent). Altogether, ABS outstandings declined by 2.4 percent from 2Q'12, and by 9.1 percent from 3Q'11.

Trading Activity Declines; Total Return Positive But Weaker

Daily average trading activity in ABS declined slightly in the third quarter to $1.02 billion, a decline of 13.8 percent from $1.18 billion traded daily in 2Q'12.

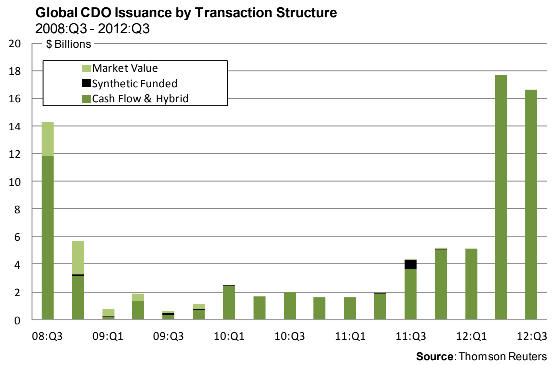
According to the Bank of America-Merrill Lynch indices, the total return for ABS and CMBS was 2.21 percent in 3Q'12, up from the 0.97 percent return in 2Q'12.

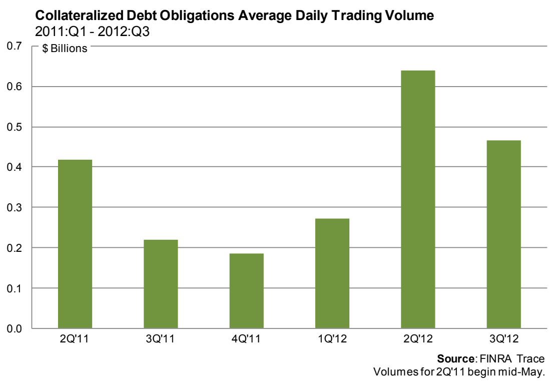
Global Collateralized Debt Obligations Issuance Rises

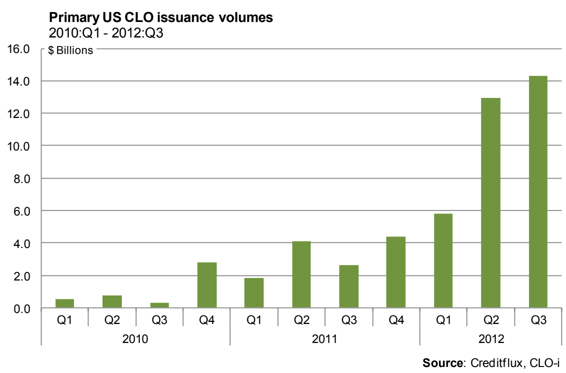
According to Thomson Reuters, global funded CDO issuance totaled $16.6 billion in 3Q'12, a decline of 6.0 percent from 2Q'12 ($17.7 billion) but nearly a fourfold increase from 3Q'11 ($4.3 billion). U.S. CLO issuance continues to drive almost the entirety of new global CDO volume in 2012.

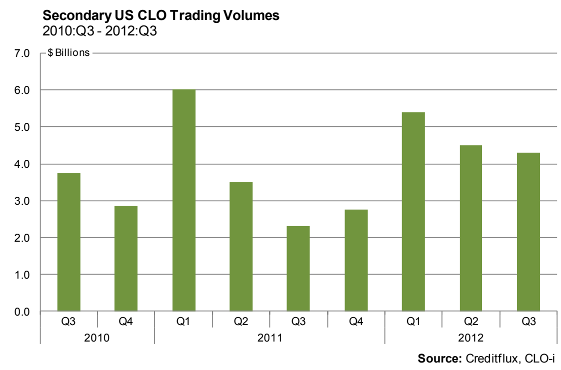
USD-denominated CLO outstandings increased for a second quarter in the row, growing by 1.5 percent from the prior quarter, driven by the rise in US CLO issuance. However, outstandings of structured finance CDOs and other bond CDOs declined quarter-over-quarter.

COLLATATERALIZED LOAN OBLIGATIONS[6]









U.S. CLO Issuance Reaches $14.3 Billion in 3Q'12

The primary CLO market experienced its busiest quarter in five years with $14.3 billion of new CLOs issued, up 12.6 percent from the previous quarter when volumes were $12.7 billion. The last time the primary market was as active was in 4Q'07 when $17 billion of CLOs were issued after which activity ground to a halt. The CLO market has experienced a resurgence in the last two years, however, with volumes edging higher during each of the last five quarters.

The third quarter saw 33 CLOs price, with 13 deals launched by managers looking to follow up deals launched in the first half of the year.

During the third quarter activity increased consecutively each month. In July, $2.2 billion of CLOs printed; in August volume went up to $5.3 billion; and in September, volumes were $6.7 billion of issuance; September was the most productive month in the last two years, beating the record of $5.7 billion set in April of this year.

Senior CLO Spreads Stay Sticky; Junior Spreads Tighter

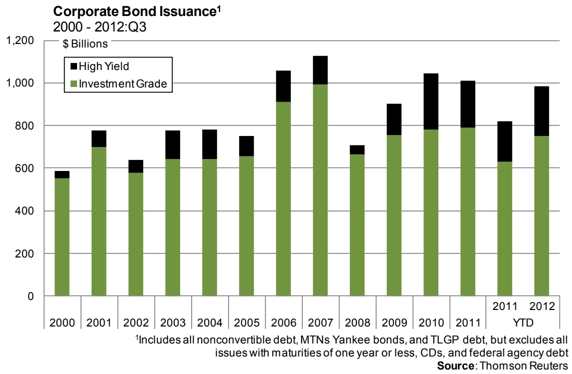
Senior CLO spreads remained unchanged in the third quarter. During this period, first-pay senior CLO notes printed largely in the 145-150 basis point range. However, at the other end of the spectrum, junior spreads narrowed rapidly from 875 bps in early July to a year-long tight of 725 bps.

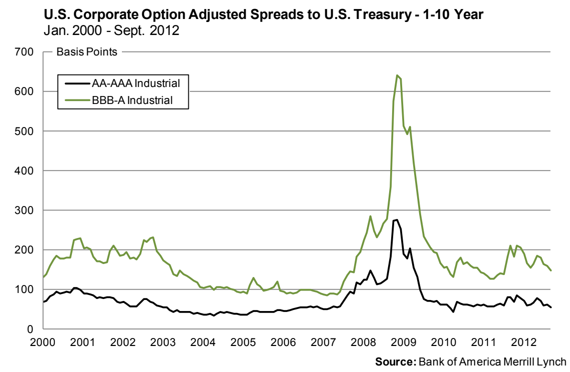
Secondary CLO Volumes Slide Once More

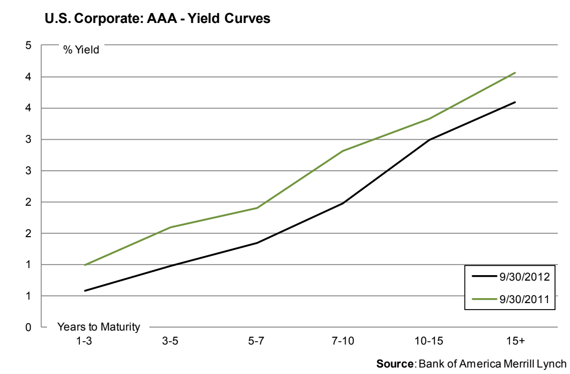
A boom in CLO primary issuance during the third quarter resulted in lower volumes of activity within the secondary market. Secondary volumes dipped for the third straight quarter to $4.3 billion, compared to $4.5 billion of US CLO paper traded in 2Q'12 and $2.3 billion of paper during 3Q'11.

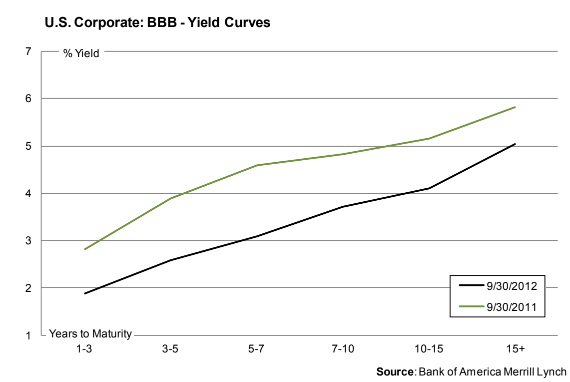
[6] The author of the CLO section is Sayed Kadiri, Creditflux. For any questions, please contact Sayed Kadiri at sayed.kadiri@creditflux.com.

CORPORATE BOND MARKET









S&P US Corporate Rating Actions

	2012:Q3	2012:Q2	2011:Q3	2012YTD	2011YTD
Upgrades	28	78	60	183	239
Downgrades	87	87	64	241	170

Source: S&P Fixed Income Research

Corporate Bond Issuance Increases by 44 Percent

Total corporate bond issuance totaled $342.5 billion in 3Q'12, 43.9 percent above the $238.0 billion issued last quarter and almost double the $180.1 billion issued in 3Q'11. After low volumes in 2Q'12, issuance of both investment grade (IG) and high-yield (HY) bonds rebounded in the third quarter. One reason for the increase in corporate debt issuance was very high volumes of refinancing in order to take advantage of narrowing spreads, which narrowed substantially over the last year. For example, HY spreads narrowed to 615 bps at the end of 3Q'12from 830 bps a year ago. Approximately a third of the total bond issuance in the third quarter was to refinance existing debt ($118.6 billion), up 35.5 percent from $87.5 billion in 2Q'12 and a huge jump from $2.3 billion issued for refinancing in 3Q'11. Reduced volumes in the loan market may have also led issuers to turn to the bond markets as an alternative; primary loan syndication in the U.S. market fell to $363.8 billion in 3Q'12, the lowest quarterly volume since 3Q'10.

IG bond issuance increased by 30.9 percent to $248.8 billion from $190.1 billion in the previous quarter and by 58.5 percent from $157.0 billion in 3Q'11. Financial companies remained the leading industry in IG debt issuance and gained share (43.7 percent) of total IG issuance, up from 34.0 percent in 2Q'12, followed by energy and power with 12.6 percent (down from 17.9 percent in 2Q'12).

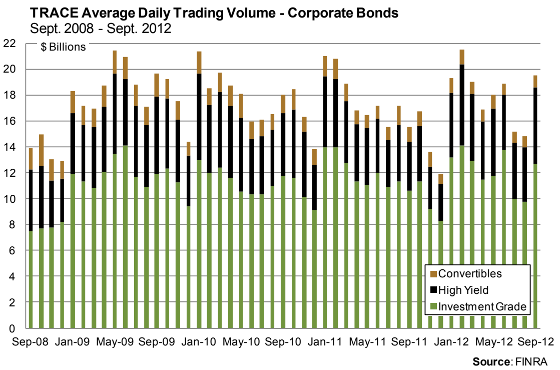
After low volumes in 2Q'12, HY bond issuance increased to $93.7 billion in 3Q'12, up 95.5 percent from $47.9 billion in the previous quarter and a four-fold increase from the $23.1 billion issued in 3Q'11. The $93.7 billion in HY issuance marked a record high in quarterly issuance, surpassing the previous high of $90.8 billion in 1Q'12. Almost half of the HY issuance came from three sectors: financials (19.8 percent, or $18.6 billion), energy and power (17.1 percent, or $16.1 billion), and healthcare (12.5 percent, or $11.7 billion).

Spreads Narrow; U.S. Default Rate Increases Slightly

According to S&P, composite spreads for both IG and HY bonds narrowed significantly in the third quarter. IG bond spreads finished the quarter at 190 bps, 15.2 percent lower than 224 bps at the end of 2Q'12 and 22.8 percent below its 5-year moving average of 246 bps. HY bond spreads also narrowed, finishing 3Q'12 at 615 bps, 11.3 percent below 693 bps at the end of 2Q'12 and 18.1 percent below its 5-year moving average of 751 bps. The cost of HY borrowing decreased significantly from the beginning of October 2011, when the speculative-grade spread reached 830 bps.

S&P's Global Fixed Income Research reported 20 issuers defaulted worldwide in 3Q'12, nine of which were based in the U.S. This represents a slight quarterly increase in U.S. defaults from eight in the last quarter, and from seven in 3Q'11. The top reasons for defaults remained missed interest or principal payment or distressed exchanges. The 12-month U.S. default rate increased to 3.0 percent in September from 2.6 percent in June, still well below the long-term average of 4.5 percent. S&P predicts, based on the future expectations and the likely path of the U.S. economy and financial markets, that the default rate will rise to 3.7 percent by June 2013,.

In 3Q'12, S&P Ratings Services downgraded 87 and upgraded only 28 U.S. issuers, a much weaker outcome than in previous quarter, when there were 87 downgrades versus 78 upgrades.

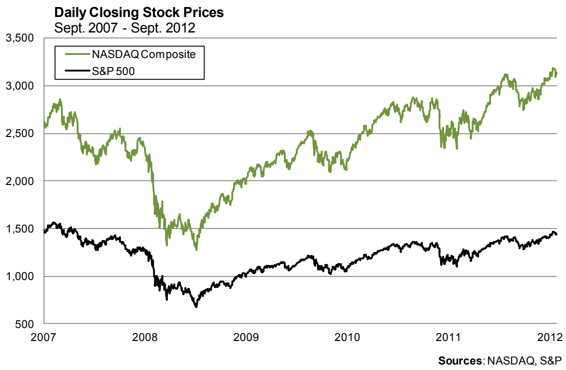


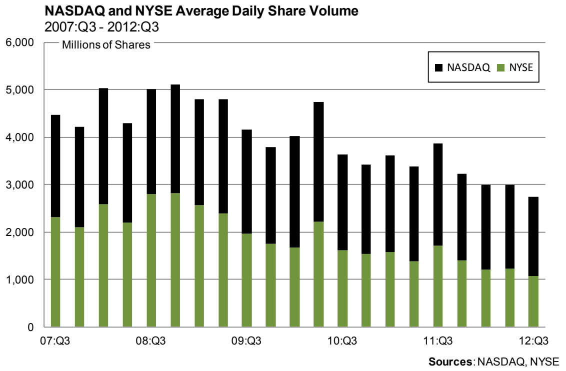
IG Trading Volume Decreases in 3Q'12; HY Volume Up

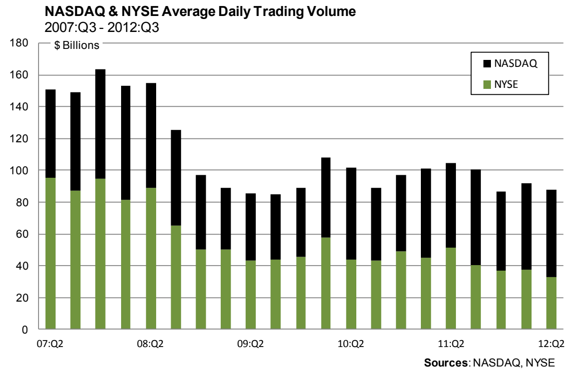
According to the FINRA TRACE data, trading volume for IG and convertible (CV) bonds decreased in the third quarter, while HY bond trading volume increased. IG average daily trading volume decreased to $10.8 billion, down 12.3 percent from $12.3 billion in 2Q'12 and 1.3 percent lower than $10.9 billion in 3Q'11. The average daily trading volume of CV bonds decreased as well to $0.90 billion, 1.8 percent below 2Q'12's $0.92 billion and 26.7 percent lower than $1.2 billion a year ago. HY average daily trading volume was $4.8 billion in 3Q'12, a 2.8 percent increase from $4.7 billion in the second quarter and a 23.2 percent increase from $3.9 billion in the same year-earlier period.

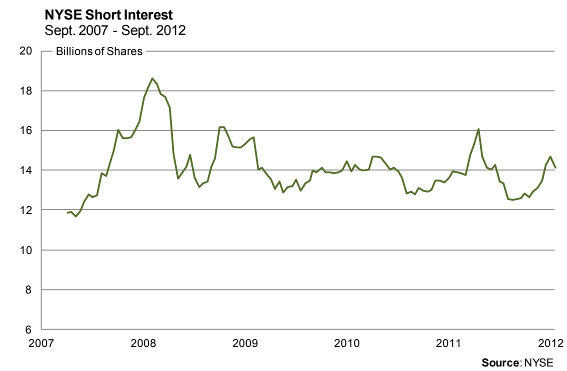
On a monthly basis, IG and HY trading volume were seasonally low in July and August, increasing significantly during September. For IG bonds, trading increased to $12.7 billion in September, a 30.7 percent increase from $9.7 billion in August, while for HY bonds, trading increased to $5.9 billion, a39.8 percent increase from $4.2 billion.

EQUITY AND OTHER MARKETS









Equity prices recorded slight quarterly gains in 3Q'12. The S&P 500 closed the third quarter at 1,440.67, a 5.8 percent increase from last quarter and 27.3 percent up y-o-y. The NASDAQ Composite Index finished the third quarter at 3,116.23, a 6.2 percent gain from 2Q'12 and a 29.0 percent increase y-o-y. The Dow Jones Industrial Average (DJIA) increased as well, finishing 3Q'12 at 13,437.13, a 4.3 percent gain q-o-q and 23.1 percent increase y-o-y.

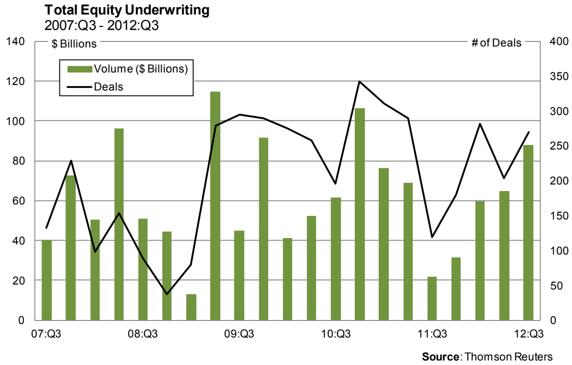
NYSE & NASDAQ Daily Share Volume Drops

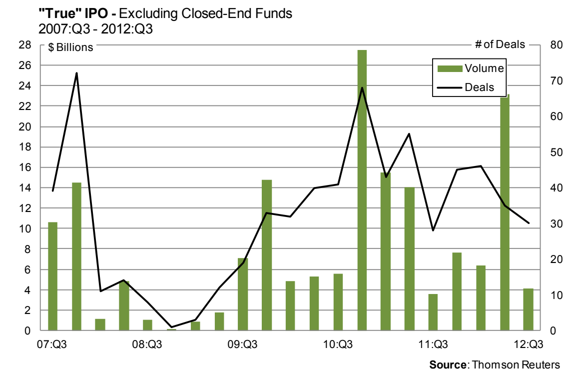
The New York Stock Exchange's (NYSE) 3Q'12 average daily share volume declined to 1.08 billion shares, 12.7 percent below the previous quarter's 1.24 billion and 37.2 percent below 1.72 billion in 3Q'11. The 3Q'12 total is the lowest quarterly average daily share volume on NYSE since 3Q'00 (0.96 billion shares). The NYSE's average daily dollar volume decreased as well. The average dollar volume stood at $32.7 billion in 3Q'12, 12.5 percent below the previous quarter's $37.4 billion and 36.1 percent lower than 3Q'11's $51.3 billion.

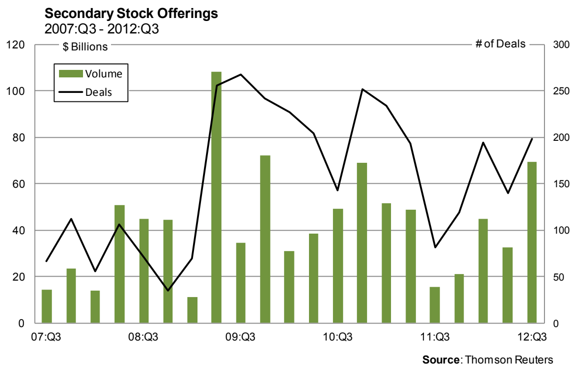
NASDAQ's average daily share volume decreased by 6.1 percent to 1.7 billion shares in 3Q'12, the lowest average daily trading volume on NASDAQ since 3Q'05, and by 22.7 percent y-o-y. Dollar trading volume decreased to an average of $49.5 billion daily in 3Q'12, down 10.2 percent from $55.1 billion in the previous quarter and 18.3 percent below the 3Q'11's $60.5 billion. U.S. equity trading volumes are on the pace for a third consecutive annual decline.

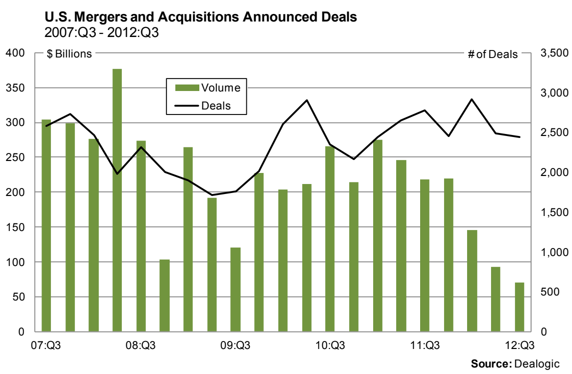
Short Interest Decreases by 4 Percent

The number of shares sold short on the NYSE stood at 13.6 billion shares at the end of 3Q'12, down 4.1 percent from 14.2 billion at the end of previous quarter and 15.6 percent below 16.1 billion at the end of 3Q'11. The short interest declined steadily during the quarter and remained below the 5-year average of 14.2 billion shares.









Equity Underwriting Increases

Equity underwriting increased for the fourth consecutive quarter in 3Q'12. Total equity underwriting totaled $87.8 billion in the third quarter, 35.5 percent above the $64.8 billion in 2Q'12, a fourfold increase from $21.9 billion in 3Q'11 and was 42.7 percent higher than the 5-year average of $61.5 billion. The number of equity underwriting deals increased in tandem to the dollar volume; in 3Q'12 there were 270 deals, up 32.4 percent q-o-q and 126.9 percent y-o-y.

IPO Volume Decreases After Strong Second Quarter

"True" initial public offerings (IPOs), which exclude closed-end mutual funds, declined in 3Q'12 to $4.1 billion on 30 deals, an 82.4 percent decrease from $23.2 billion and a 14.3 percent decrease from 35 deals in the previous quarter. The large drop in volume came after an unusually high IPO volume in the previous quarter due to the Facebook IPO. On May 18, 2012, Facebook shares started trading on NASDAQ and raised $16 billion, the third largest IPO in history. According to Dealogic, the leading sector in IPOs in 3Q'12 remained computers and electronics (27.0 percent of the total), followed by finance (12.8 percent) and real estate and property (16.9 percent) sectors. The $4.1 billion in IPO activity in 3Q'12 is half the 5-year average of $8.3 billion per quarter.

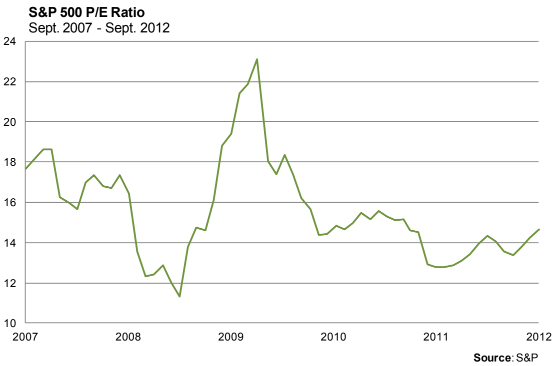
Secondary Offerings Double

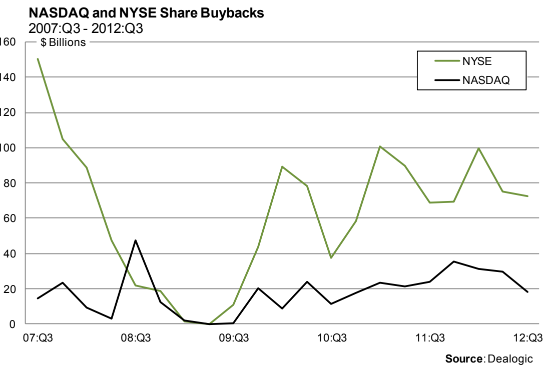
Secondary market issuance doubled to $69.4 billion on 198 deals from $32.4 billion on 140 deals in 2Q'12 (an increase of 114.1 percent in volume and 41.4 percent in number of deals). The average deal value for the quarter increased by 51.4 percent to $350.3 million from $231.4 million in the previous quarter. Compared to 3Q'11, secondary issuance was up 343.5 percent in dollar volume and up 144.4 percent in number of deals.

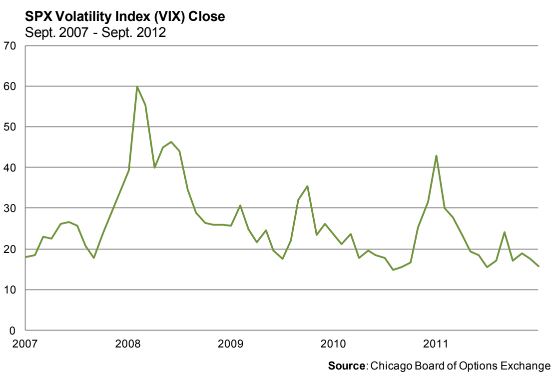
Announced M&A Volume Drops to Record Low

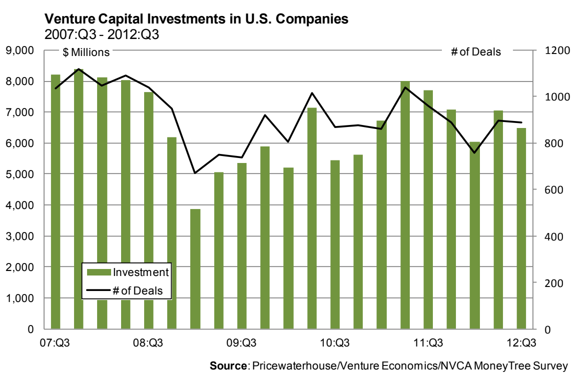
Despite some signs of a slowly improving U.S. economy, investors remained hesitant given the still uncertain economic outlook, looming fiscal cliff, and lingering worries about the European sovereign debt crisis. Announced U.S. mergers and acquisitions (M&A) volume in 3Q'12 stood at $70.5 billion, down 23.7 percent from the previous quarter's $92.4 billion and down 67.6 percent y-o-y. The $70.5 billion level marks the lowest volume since SIFMA started recording volume in 1Q'00 and is 68.8 percent below the 5-year quarterly average of $226.4 billion. The number of deals decreased by 1.8 percent, declining to 2,438 deals this quarter from 2,483 deals in 2Q'12. Average deal size also fell by 22.3 percent.

According to Dealogic data, the amount of "U.S. Inbound" M&A (money invested in U.S. companies by those outside the U.S. through M&A deals) decreased by 33.6 percent to $33.6 billion in 3Q'12 from $50.5 billion in the previous quarter. Similarly, the dollar amount of "U.S. Outbound" M&A decreased; American firms invested $37.9 billion in deals outside of the U.S., 20.7 percent below the $47.7 billion in 2Q'12.









P/E Ratio Increases, But Remains Below Five-Year Average

The S&P 500's P/E ratio averaged 14.2 in 3Q'12, up 4.0 percent from the previous quarter's average of 13.7 but 8.6 percent below the 5-year average of 15.6. The P/E ratio's q-o-q increase was a reflection of a slightly more optimistic outlook for the U.S. economic recovery. The S&P 500's P/E ratio increased by 6.1 percent y-o-y and is 35.7 percent below the quarterly high of 22.1 in 4Q'09.

Share Buybacks Decrease on NYSE and NASDAQ

The volume of corporate share repurchases on the NYSE totaled $72.8 billion on 119 deals in 3Q'12, down 3.4 percent in dollar volume ($75.3 billion) but up 43.4 percent in deal volume (83 deals) from 2Q'12. The average deal size declined by 32.6 percent to $611.3 million in the third quarter from $907.2 million in 2Q'12. Year-over-year, NYSE share buybacks increased by 5.6 percent in dollar volume but decreased by 16.2 percent in number of deals.

NASDAQ's buybacks stood at $18.1 billion in 3Q'12, a 39.1 percent decrease from 2Q'12's $29.7 billion while the number of deals fell by 10.1 percent to 98 from 109 in 2Q'12. The average deal size declined by 32.3 percent to $184.3 million in 3Q'12 from $272.2 million in 2Q'12. Compared to 3Q'11, NASDAQ share repurchases declined by 24.3 percent in volume and by 37.6 percent in number of deals.

CBOE VIX Index Falls

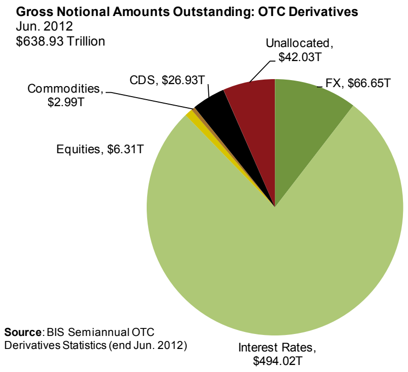
The Chicago Board Options Exchange Volatility Index (VIX) decreased by 7.9 percent to 17.4 in the third quarter from 19.4 in 2Q'12. The index has generally trended downward since the beginning of October 2011. The VIX has remained in the 15 to 25 range over the last years with occasional spikes towards the high end of that range but generally trending towards the mid-point and below.

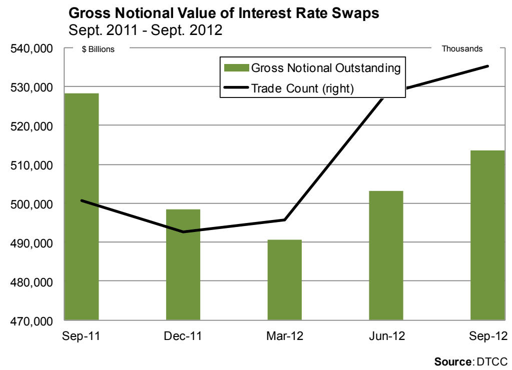
Venture Capital Declines in 3Q'12

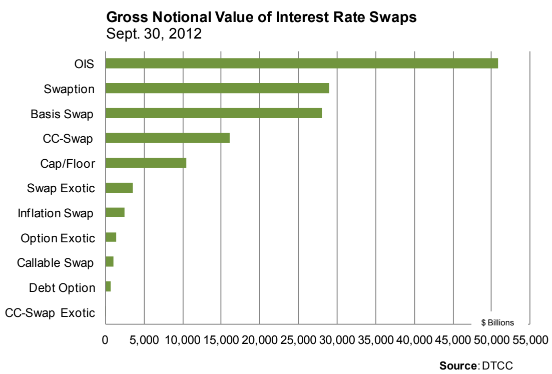
Venture capitalists invested $6.5 billion in 880 deals in the third quarter of 2012, according to the MoneyTree™ Report from PricewaterhouseCoopers LLP (PwC) and the National Venture Capital Association (NVCA).[7] Quarterly investment activity decreased by 11.0 percent in dollar volume and by 4.8 percent by number of deals compared to the second quarter of 2012 when $7.3 billion was invested in 935 deals. Compared to 3Q'11, venture capital investments declined by 15.5 percent in dollar volume and by 7.4 percent in the number of deals. As fewer new venture funds are being raised, there is less capital available for new investments. According to the MoneyTree™ Report, information technology investment continues to remain very strong, while life sciences investment remains low, reflecting ongoing concerns regarding regulatory uncertainty, capital intensity and investment time horizons in the space.[8] The software industry remained the single largest investment sector in 3Q'12 with $2.1 billion in received funding, a 12.5 percent decline from 2Q'12.

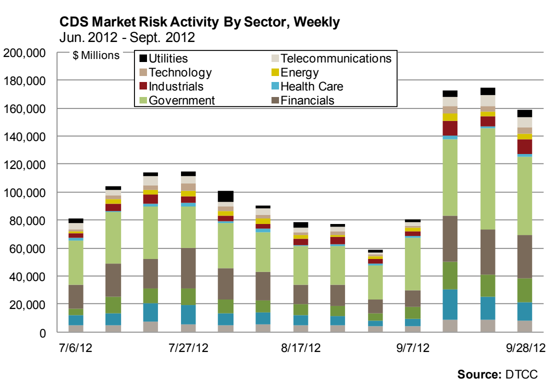
[7] PriceWaterhouseCoopers. Money Tree Report Third Quarter 2012 Press Release.
[8] Ibid.

DERIVATIVES









According to the most recent Bank of International Settlements (BIS) Semiannual Over-the-Counter (OTC) Derivatives Markets Statistics Report (end-June 2012; released November 2012), the gross notional amount outstanding of OTC derivatives totaled $638.9 trillion as of end-June 2012 (down 1.4 percent from end-December 2011)[9]. Interest rate contracts and other products (unallocated in the BIS report) experienced slight decreases, dropping to $494.0 trillion (down 1.9 percent) and $42.0 trillion outstanding (down 1.4 percent), respectively, from end-December 2011. Credit default swaps saw the largest decrease in gross notional outstanding during the same period, dropping 5.9 percent to $26.9 trillion. As the gross notional amount outstanding for all risk categories and instruments decreased, the gross credit exposure of outstanding OTC derivatives also decreased from end-December 2011 to end-June 2012, down 6.2 percent to $3.7 trillion.

Interest Rate Swaps[10]

According to DTCC data, the gross notional value of outstanding interest rate swaps (IRS) at the end of September 2012 was $513.6 trillion, up 2.3 percent from end-June's $502.2 trillion. Small decreases in callable swaps, cap/floor swaps, and swaptions were offset by increases in debt options, forward rate agreements, inflation swaps, and cross currency swaps. The number of contracts outstanding remained nearly unchanged q-o-q at 4.5 million, with increases in forward rate agreements (up 11.22 percent q-o-q) and swaptions (up 14.49 percent q-o-q). The largest decrease was found in callable swaps (down 5.49 percent q-o-q).

Credit Default Swaps

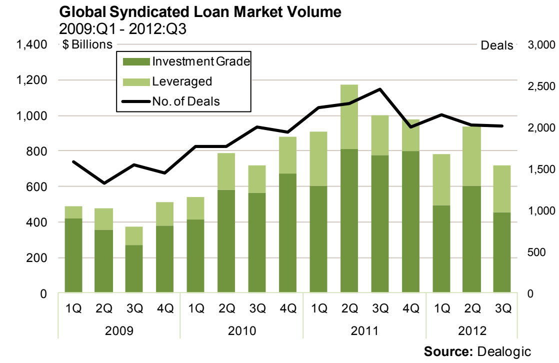
According to DTCC data , the gross notional value outstanding of credit default swaps (CDS), including single names, tranches and indices, increased slightly by 0.07 percent to $25.17 trillion end-September from $24.99 trillion end-June, but declined 11.5 percent y-o-y. Single name CDS outstanding decreased slightly on a gross notional basis by 2.8 percent q-o-q to $14.1 trillion, while on a net notional basis, the outstanding value decreased by 3.2 percent q-o-q to $1.1 trillion.

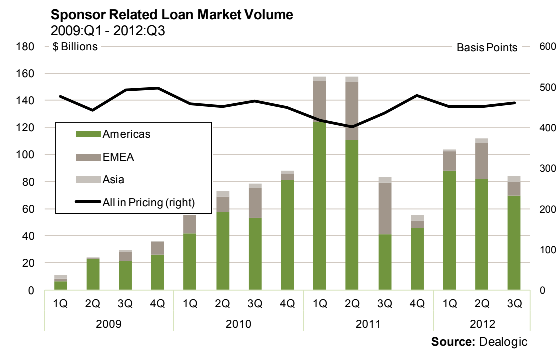
In the third quarter, net notional outstandings were concentrated in government and financial reference entities ($239.0 billion and $200.5 billion, respectively). Sovereign CDS outstanding decreased on a net notional basis q-o-q in many Eurozone sovereigns, including Italy, Germany, Spain and France. However, the most often referenced entities outstanding by gross notional exposure in the third quarter were still concentrated in European sovereigns, as was the case in 2Q'12, led by Italy ($359.6 billion), Spain ($194.4 billion) and France ($163.1 billion). Aside from governments and financials, outstandings increased on a net notional basis in consumer services to $101.9 billion (up 2.1 percent q-o-q) and decreased in consumer goods to $99.3 billion (down 7.4 percent q-o-q).

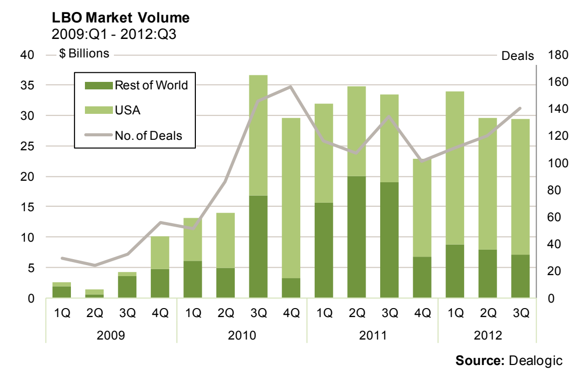
[9] According to BIS, data as of end-December 2011 is not fully comparable to previous periods due to an increase of the reporting population (as Australia and Spain reported for the first time).

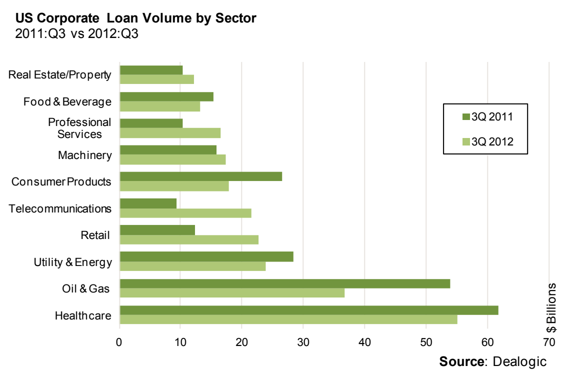
[10] Beginning May 2012, DTCC took over responsibility for collecting/publishing OTC interest rate trades from TriOptima. As such, sizable increases in certain categories may be the result of different reporting and collecting procedures.

PRIMARY LOAN MARKET[11]









Primary loan syndication in the U.S. market fell to $363.8 billion in 3Q'12, the lowest quarterly volume since 3Q'10 ($254.8 billion), and a 16 percent decrease on 3Q'11 volume ($432.0 billion). U.S. syndication accounted for 51 percent of 3Q'12 global loan volume ($714.7 billion), compared to a 44 percent share during the same 2011 period ($978.8 billion).

814 loans were syndicated in the U.S. during 3Q'12, the lowest 3Q deal activity since 2010 (651), marking an 11 percent decrease from 3Q'11 (916). Average deal size in 3Q'12 was $447.0 million, compared to $471.6 million during the same 2011 period.

Regional Breakdown

The Americas accounted for 57 percent of global loan volume in 3Q'12 with $405.3 billion borrowed, up from its 50 percent share ($495.3 billion) in 3Q'11. Asia loan volume of $176.4 billion accounted for 25 percent, down from the region's $222.1 billion (22 percent share) during the same 2011 period. EMEA lending accounted for a 19 percent share of global volume in 3Q'12 ($133.7 billion).

Use of Proceeds

Refinancing & debt repayment volume together accounted for 25 percent of U.S. syndicated loan volume in 3Q'12, down from a 48 percent share during the same period in 2011. General corporate purpose loans accounted for 46 percent of U.S. 3Q'12 loan volume. U.S. spin-off loans totaled $15.6 billion in 3Q'12, the largest quarterly volume on record, mainly due to the $14.5 billion spin-off of Abbvie from Abbot Labs.

Deal Types

U.S. investment grade (IG) loans stood at $188.9 billion in 3Q'12, down from $281.3 billion borrowed during 3Q'11. Average all-in pricing increased to 188 bps in 3Q'12, from 173 bps in 3Q'11 and 182 bps in 3Q'11. U.S. IG loan tenors averaged 4.2 years in 3Q'12, an increase on the 4.1 yrs average in 2Q'12, but a decrease from the 4.7 years average in 3Q'11.

U.S. leveraged loan volume rose to $166.3 billion in 3Q'12, a 10 percent increase on the $150.7 billion borrowed in 3Q'11. Leveraged loan all-in pricing increased to an average of 385 bps from 360 bps in 3Q'11. In contrast to IG maturities, U.S. leveraged loan tenors increased to 4.6 years from 4.5 years in 3Q'11.

Corporate Borrowers

U.S. corporate loan volume fell to $317.5 billion in 3Q'12, a 16 percent decrease on the $378.3 billion borrowed during the comparable 2011 period.

Healthcare led all industries with a 17 percent share of 3Q'12 syndicated loan volume ($55.1 billion), the sector's highest quarterly proportion since 1Q'09 (26 percent). Telecom saw the largest 3Q share increase among the top 10 industries, gaining four percentage points to 7 percent in 3Q'12, from its 3 percent share in 3Q'11. Technology experienced the largest share decrease going from a 9 percent share in 3Q'11 to a 4 percent share in 3Q'12. The top 10 industries accounted for 75 percent of U.S. corporate lending volume in 3Q'12.

Financial Sponsor & LBO Loan Volume

U.S. sponsor-related loan volume totaled $69.5 billion in 3Q'12, up 68 percent on the $41.4 billion

[11] The author of the Primary Loan Market discussion is Joseph Mongeluzzi, Dealogic. For any questions, please email Joseph.Mongeluzzi@dealogic.com.

completed in 3Q'11. U.S. syndication accounted for an 83 percent share of global sponsor-related volume ($83.7 billion) in 3Q'12, up 33 percent from the same 2011 period, and up 10 percent from 2Q'12.

U.S. LBO loan volume in 3Q'12 totaled $22.3 billion, a 55 percent increase on the $14.4 billion completed during the same 2011 period, and the highest 3Q volume since 2007 ($109.4 billion). LBO loan activity, with 57 facilities signed in 3Q'12, was the most since 4Q 2010 (71 deals). U.S. syndication of LBO loans in 3Q'12 established a record third-quarter having accounted for 76 percent of global LBO loan volume ($29.4 billion).

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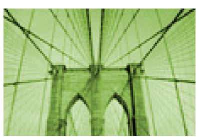

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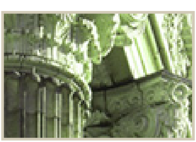

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