MARKET COMMENT January 28, 2013

FIXED INCOME MARKET

Kevin Giddis, Managing Director

Treasuries were trading lower, in fact, much lower Friday morning as investors shed safe assets and take a greater swipe at the risker ones, for reasons that one might question. The principal driver of lower prices/higher yields in Treasuries has to do with the ECB's announcement that the banks are planning to take a bigger bite of the debt repayment than originally thought. The difference is about 80-90 billion dollars, which is significant, but is it really worth 5/8 of a point on the 10-year note? 2) To me, traders are using this news as a technical "probe" to determine where selling resistance is found and where being support begins. As long as nobody steps in, the downward trade will likely continue. My guess is somewhere around 1.95% to 1.97%, buyers step in and turn the tide. 3) One thing that may help get the buyers "in" is the fact that New Home Sales for the month of December fell 7.3% after rising 9.3% in November. While the housing recovery appears to be underway, it will likely be a choppy recovery with a series of up and down months. 4) For the most part, this is a Friday. Besides that, there were not any additional economic numbers released, the Treasury did not issue paper, and the creatures in Washington were not stirring, so with the volume trade down, the momentum trade took center stage. My guess is that we finish the day somewhere in the middle of the range and the traders go home and wait for snow.

MUNICIPAL MARKET

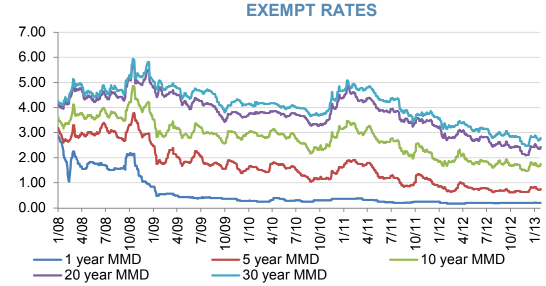
Casy O'Brien, Managing Director / Kevin Thompson, Managing Director

Municipal bond trading seemed to fade last week as buyers focused on the heavier supply offered in the primary market. The week started stronger and seemed to fade as more primary supply was absorbed. Secondary market volume was down as attention appeared focused on the primary market. On Friday MMD yields increased 5 to 6 bps throughout the curve. Primary volume for this week is approximately $6.4 billion - a little over half of last week's volume. Thirty day visible supply is down to approximately $9 billion, showing adjustments for last week's sales. And, municipal bond funds saw inflows of $871 million according to Lipper. The $6.4 billion in supply for the week includes approximately $4.6 billion of negotiated and $1.8 billion of competitive sales. The largest negotiated issues for the week include $1.5 billion Jobs Ohio Beverage System (A2/AA, JP Morgan), $334.455 million Bay Area Water Supply & Conservation Agency, CA (Aa3/AA-, Goldman Sachs), and $288.84 million Nashville Metro Government (Aa1/AA, Raymond James). **In other news, U.S. budget** issues continue. Representative Paul Ryan (R - Wisconsin) spoke over the weekend saying a March government shutdown won't happen. Senate Budget Committee Chair Patty Murray (D - Washington) released a 10 page memo stating tax expenditures must be cut and revenues must be increased for the 2014 budget. The memo outlined a number of corporate and individual tax breaks to address. And, Municipal Bonds for America released a two page memo outlining the impacts of implementing a 28% tax cap. The memo stated such a move would change 100 years of precedent, increase borrowing costs for public issuers and dampen economic development and infrastructure investment. **And just in case you** missed it, Assured Guaranty was downgraded by Moody's two levels to A2 from Aa3. Moody's is adjusting the ratings on 78 issues of variable rate bonds to reflect the change. Taxable money funds saw outflows of $12.85 billion and tax-exempt money funds fell by $2.44 billion last week. SIFMA rose to 0.10% last week.

KEY INTEREST RATES

	Today 1/25/2013	Last Week 1/18/2013	Last Month 12/24/2012	Last Year 1/27/2012
Federal Funds Rate	0.25	0.25	0.25	0.25
Prime Rate	3.25	3.25	3.25	3.25
LIBOR (1 month)	0.20	0.20	0.21	0.27
LIBOR (3 month)	0.30	0.30	0.31	0.55
SIFMA	0.10	0.08	0.13	0.08
SIFMA/1 M LIBOR %	49.1	39.1	62.0	29.6
B.B. 20 Bond Index	3.54	3.53	3.64	3.68
B.B. Rev. Index	4.24	4.22	4.26	4.71
30-Day Visible Supply	9.0 B	10.8 B	3.6 B	6.9 B

AAA-RATED GENERAL OBLIGATION TAX-EXEMPT RATES



GENERAL OBLIGATION TAX-EXEMPT BOND MARKETS

Year	AAA Tax-Exempt	Current Tax-Exempt Credit Spreads			1 Month Ago Tax-Exempt Credit Spreads			1 Year Ago Tax-Exempt Credit Spreads		
		AA	A	BBB	AA	A	BBB	AA	A	BBB
1	0.20	0.05	0.24	0.82	0.05	0.24	0.82	0.03	0.35	1.20
5	0.75	0.15	0.50	1.39	0.19	0.55	1.44	0.15	0.72	1.83
10	1.75	0.23	0.67	1.44	0.24	0.73	1.52	0.23	0.92	2.00
20	2.43	0.23	0.67	1.42	0.25	0.72	1.49	0.23	0.93	1.75
30	2.79	0.23	0.63	1.27	0.25	0.67	1.31	0.25	0.81	1.59

GENERAL OBLIGATION TAXABLE MARKET / SWAP MARKET

Year	Treasury	AAA Taxable	65% Taxable	Spread to AAA Tax-Exempt	LIBOR	70% LIBOR	SIFMA
1	0.14	0.23	0.15	-0.05	0.36	0.25	0.21
5	0.89	1.19	0.77	0.02	1.04	0.72	0.76
10	1.99	2.49	1.62	-0.13	2.06	1.44	1.65
20	2.58	3.76	2.44	0.01	2.81	1.97	2.44
30	3.17	3.86	2.51	-0.28	3.00	2.10	2.72