

# S&P Fixed Income Update

National Municipal Bond Index

California Municipal Bond Index

New York Municipal Bond Index

May 2008

Published monthly, the S&P Fixed Income Update highlights developments in the municipal bond market as measured by the S&P Municipal Bond Indices.

**Index Analysis and Management**

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For additional information on the S&P Municipal Bond Indices visit:

[www.indices.standardandpoors.com](http://www.indices.standardandpoors.com)

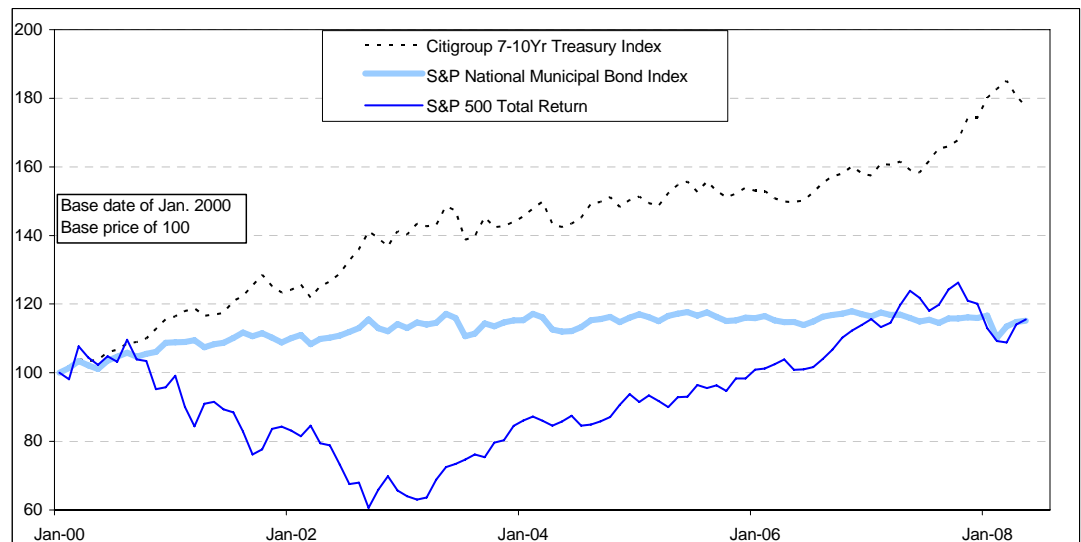
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## Market Overview

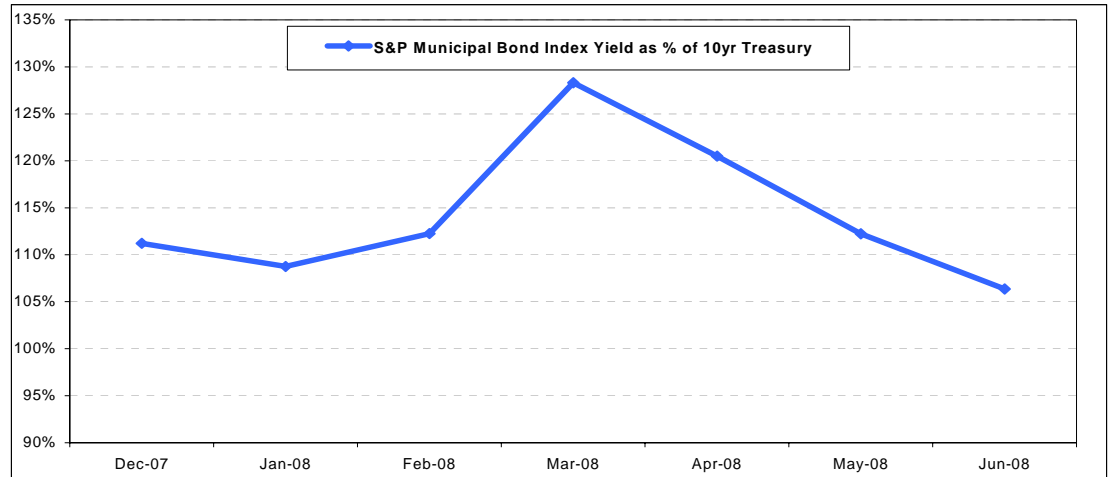
The S&P National Municipal Bond Index continued to outpace treasuries in May with a +0.58% monthly return, for a year-to-date (YTD) total return (TR) of +0.91%. The S&P New York Municipal Bond Index had a May total return of +0.62%, for a YTD TR of +1.11%, and the S&P California Municipal Bond Index increased 0.49% in May, for a YTD TR of 0.89%. Returns were generally equally distributed between price and coupon, with the S&P National Price Index adding 0.34% for the month and the California and New York Price Indices increasing 0.24% and 0.38% respectively. Demand for tax exempt income and reinvestment prospects supported the index in May. Municipal investors are expected to reinvest some of an estimated US \$47 billion in principal and interest that will be paid in June. Contrarily, the benchmark U.S.10yr yield increased about 33bps on the month, as treasuries continued to suffer from a 'flight-from-quality' as equities recovered and inflation fears accelerated. For comparison, the Citigroup 7-10yr Treasury Index declined 1.77% and the S&P 500 provided a total return of +1.30% in May. The municipal yield curve flattened during the month, as rates remained mostly unchanged on the shorter-end thru 10-year maturities, but yields on longer dated securities, from 15-years on out, declined some despite a 25bps increase in the U.S. benchmark 30yr yield. The U.S. treasury 2yr/30yr curve flattened 14bps in May from 221bps to 207bps.

The chart below depicts the performance of the S&P National Municipal Bond Index (TR), the Citigroup 7-10yr Treasury Index (TR), and the S&P 500 (TR) from January of 2000 with base values of 100. Ironically, as of the end of May, the S&P National Municipal Bond Index total return nearly matched the S&P 500 TR. Since the beginning of the decade, the S&P National Municipal Bond Index has provided a total return of +15.19% (data are pro-forma prior to Sept. 07) compared to the S&P 500 total return over the same period of +15.15%.

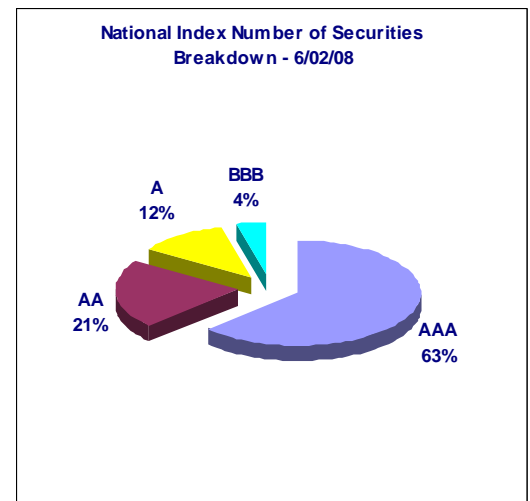
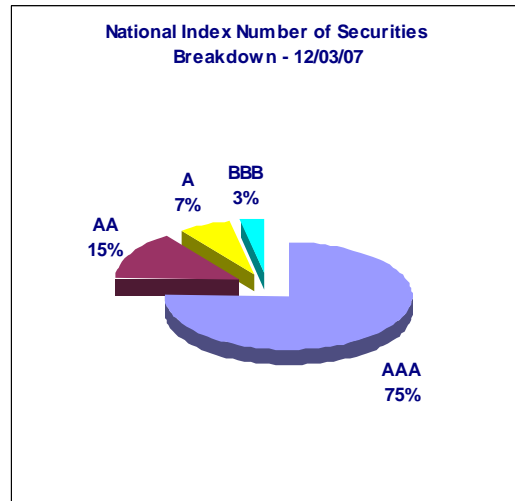


## Performance

The weighted average (WA) yield-to-maturity declined slightly in the National Index (from 4.22% at the end of April to 4.20% at the end of May). The California Index WA yield to maturity dropped from 4.18% to 4.17%. The New York Index WA yield to maturity dropped from 4.28% to 4.24%, but upon the June rebalancing it ticked back up to 4.30% due to new additions. The WA yield to maturity as a percentage of the benchmark 10yr treasury declined to 106% from 112% in the National Index, from 111% to 105% in the California Index, and from 114% to 107% in the New York Index (see chart below).



All three indices maintained AA+ average S&P ratings, as the number of AA securities increased and the number of AAA securities continued to decline. The S&P National Municipal Bond Index, which started 2008 with 75.4% of its constituent securities rated AAA, began June with 63% of its constituents rated AAA. Similar for California and New York; AAA securities at the beginning of June made up 52.6% and 54.8% of constituents compared to 63.0% and 65.6%, respectively, at the beginning of the year. The pie charts below depict the number of securities breakdown by rating within the S&P National Municipal Bond Index on 12/03/2007 and 6/02/2008.



## June Rebalancing

In the National Index, 39 securities with a par value of US \$5.568 billion were deleted and 47 securities with a par value of \$4.533 Billion were added. The majority of the deletions were pre-refunded and five securities matured. The deletions had a WA coupon, WA duration and WA yield to maturity of 5.06%, 1.23, and 2.89% respectively compared, to the additions that have a WA coupon of 4.96%, WA duration of 5.72, and WA yield to maturity of 4.35%. Average years to maturity and duration remained stable in the National and California indices, but the New York index saw about a ½ year increase in the WA years to maturity, to 17.50 at the beginning of June from 17.05 at the beginning of May. The New York Index average effective duration correspondingly increased to 8.33 from 8.23 with the June rebalancing. The June New York Index rebalancing eliminated 12 securities with a market value of US \$2.5 billion, a WA coupon of 5.03%, WA duration of 0.56, and WA yield to maturity of 2.33%. They were replaced by four securities with a market value of US \$632 million, WA coupon of 5.20%, WA duration of 1.32 and WA yield maturity of 3.92%.

### S&P National Municipal Bond Index

May TR: +0.58%  
YTD TR: +0.91%

### S&P New York Municipal Bond Index

May TR: +0.62%  
YTD TR: +1.11%

### S&P California Municipal Bond Index

May TR: +0.49%  
YTD TR: +0.89%

### Index Weighted Average Yield to Maturity as a Percent of the 10yr Treasury:

#### S&P National Municipal Bond Index

May: 106%  
April: 112%

#### S&P New York Municipal Bond Index

May: 107%  
April: 114%

#### S&P California Municipal Bond Index

May: 105%  
April: 111%

## INTEREST RATES

	May 30	April 30
3-Mo T-bill	1.88%	1.38%
6-Mo T-bill	2.01%	1.61%
3-Mo LIBOR	2.68%	2.85%
2-Yr T-Note	2.65%	2.26%
5-Yr T-Note	3.42%	3.01%
10-Yr T-Note	4.06%	3.73%
30-Yr T-Bond	4.72%	4.47%

## Credit – CDS

After an extended period of falling premiums, the cost of protecting the debt of U.S. investment grade and high-yield corporate bonds climbed in the second half of May. Continued worries in the financial sector about the ability to obtain capital and the impact of potential further balance sheet write-downs remained at the forefront of the credit default swap (CDS) market. In addition, ratings downgrades in the financial and insurance sectors and the record high price of crude oil further squeezing airlines also played a contributing factor in the widening of CDS spreads.

May 31, 2008

### Tickers

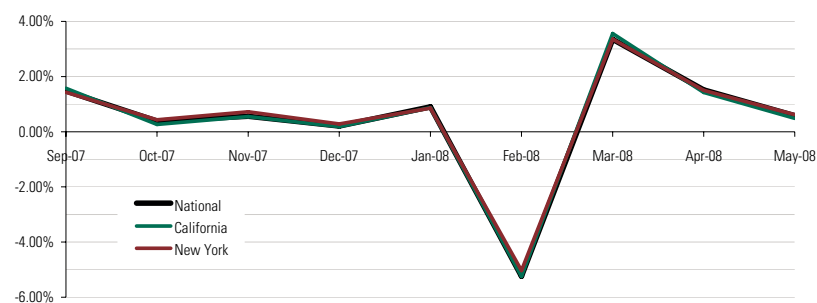
BLOOMBERG <sup>SM</sup>	
S&P National Municipal Bond Index	
Price Return	SPMUNUS
Total Return	SPMUNUST
S&P California Municipal Bond Index	
Price Return	SPMUNCA
Total Return	SPMUNCAT
S&P New York Municipal Bond Index	
Price Return	SPMUNNY
Total Return	SPMUNNYT

### Performance Returns

	S&P National Municipal Bond Index	S&P California Municipal Bond Index	S&P New York Municipal Bond Index
1 Month	0.58%	0.49%	0.62%
3 Month	5.53%	5.55%	5.56%
YTD	0.91%	0.89%	1.11%
1 Year*	3.35%	3.21%	3.72%
3 Years* (Annualized)	3.45%	3.53%	3.52%
5 Years* (Annualized)	3.67%	3.78%	3.72%
2007*	3.18%	3.18%	3.31%
2006*	5.04%	5.00%	4.92%
2005*	3.88%	4.34%	3.83%
2004*	4.75%	5.63%	4.36%
2003*	4.97%	3.96%	5.71%

\*Index inception September 2007, historical returns based upon proforma data.

### Monthly Returns



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### Index Characteristics

	S&P National Municipal Bond Index	S&P California Municipal Bond Index	S&P New York Municipal Bond Index
Number of Bonds	3,225	645	524
Market Value (US\$ Billion)	324.47	62.04	62.21
Weighted Average Coupon	4.98%	4.85%	5.06%
Weighted Average Years to Maturity	15.37	15.01	16.97
Weighted Average Yield To Worst	4.01%	4.01%	3.96%
Weighted Average Yield To Maturity	4.20%	4.17%	4.24%
Weighted Average Modified Duration	8.14	8.14	8.21

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