

S&P Fixed Income Update

National Municipal Bond Index

California Municipal Bond Index

New York Municipal Bond Index

June 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:

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Index Services

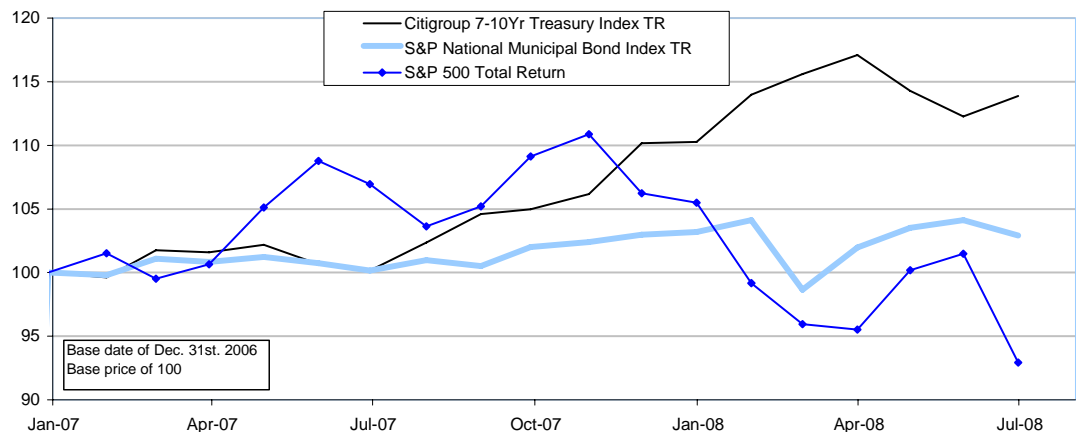
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Index Performance and Market Overview

Supply, Downgrades, and Flight to Quality Pressure Munis

The S&P National Municipal Bond Index declined 1.15% in June for a year-to-date total return of -0.25%. It was the second worst month of the year, after the 5.24% plunge in February. The California and New York Indices fared a bit better, with June declines of 1.09% and 0.89%, respectively. The S&P California Municipal Bond Index ended the 1st half of 2008 with a -0.21% total return, while the S&P New York Municipal Bond Index ended the 1st half with a +0.20% total return. An almost perfect storm weighed on the Muni market in June. Municipalities are generally heavy issuers of debt in the summer, and June 08 was no exception. Preliminary figures compiled by Thomson Reuters indicated state and local governments sold about US \$223 billion of long-term bonds in the 1st half, on pace to beat the US \$430 billion total for all of 2007. Many states begin their fiscal years in July, thus adding to year-end issuance in June. Selling related to bond issuer downgrades, insurance companies liquidating securities to meet Midwest flood related claims, and fears of continued state tax revenue growth all weighed on the market. In the 1st quarter of 2008, U.S. state property and sales tax revenue growth declined to the slowest pace since 2003. The resumed market flight-to-quality widened credit spreads, adding pressure to the Muni market, as the benchmark 10yr treasury yield fell 9bps and the S&P 500 lost 8.43% on the month (total return). The market seemed to find value later in the month as top rated 30-year Muni bonds rallied into the 5% handle. The Muni bond yield curve flattened in June (about 10bps 5's to 30's), along with the treasury curve, as the FOMC indicated cuts are less likely due to inflation concerns.

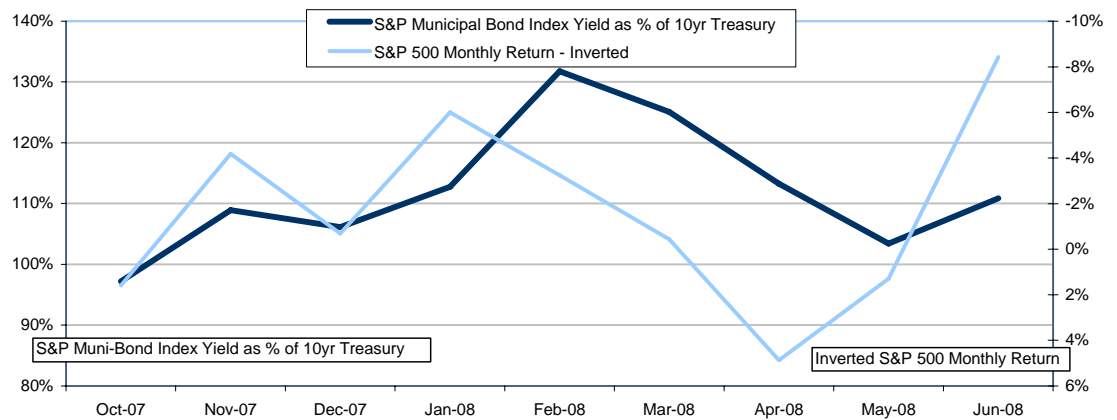
The chart below depicts the returns on the S&P National Municipal Bond Index, the S&P 500, and the Citigroup 7-10yr Treasury Index since the end of 2006 (each with a base of 100). Since the beginning of 2008, the chart shows the recent high correlation between the S&P 500 and the S&P National Municipal Bond Index.



Widening Credit Spreads

The S&P National Muni Bond Index weighted average yield to maturity (WAYM) increased 20bps to 4.40% at the end of June, from 4.20% at the end of May. Year-to-date, the national index WAYM has increased 12bps, from 4.28% at the end of December while the benchmark 10yr treasury yield has declined 6bps to 3.97% from 4.03% at the end of 2007. The benchmark AAA 10yr Muni yield (non-callable) has increased 33bps to 3.93% at the end of June from 3.60% on December 31st. Reflecting fears of deteriorating quality, the average S&P rating declined to AA at the end of June from AA+. In the S&P National Muni Bond Index, the number of AAA rated securities dropped from 2,041 at the end of May to 1,218 at the end of June and AA securities increased from 681 at the end of May to 1,510 at the end of June. Since the end of 2007, the weighted average years to maturity has remained stable near 15.5 (15.45 at the end of June)

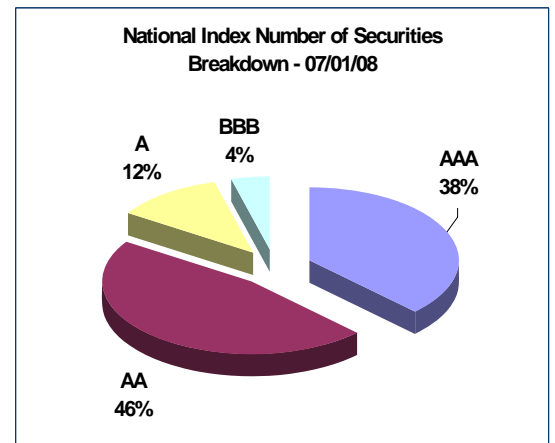
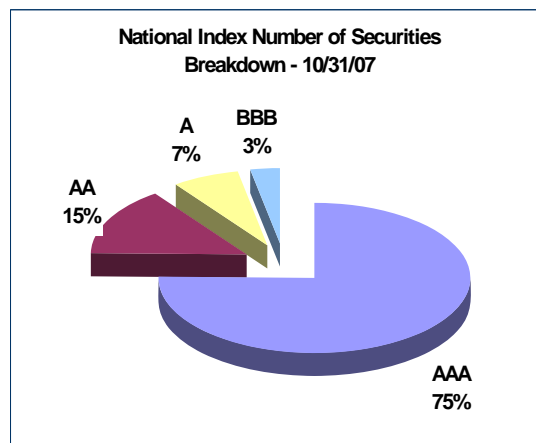
The chart below depicts the S&P National Municipal Bond Index Yield as a percent of the 10yr treasury yield versus the S&P 500 monthly return (inverted). The correlation has been rather high between the Muni-bond index yield to treasury's spread and declining equities.



July Rebalancing

In the National Index, 33 securities with a par value of US \$3.90 billion were deleted and 43 securities with a par value of US \$4.58 billion were added. The majority of the deletes were from California with a par value of US \$1.27 billion, and the majority of the adds were from NY with a par value of US \$827 million. The new additions were mostly longer dated securities with the following weighted averages: coupon 5.26%, years to maturity 27.50, modified duration 10.12, and yield to maturity of 5.20%. The weighted average rating of the new additions was AA-. Weighted average years to maturity in the National Index jumped from 15.45 on June 30th to 15.81 on July 1st due to the new longer-dated additions. Weighted average effective duration correspondingly increased to 8.24 from 8.10.

The charts below depict the ratings breakdown of the index on 10/31/2007 and 7/01/2008.



S&P National Municipal Bond Index

June TR: -1.15%
YTD TR: -0.25%

S&P California Municipal Bond Index

June TR: -1.09%
YTD TR: -0.21%

S&P New York Municipal Bond Index

June TR: -0.89%
YTD TR: +0.20%

Index Weighted Average Yield to Maturity as a Percent of the 10yr Treasury (month-end):

S&P National Municipal Bond Index

June: 111%
May: 103%

S&P California Municipal Bond Index

June: 109%
May: 103%

S&P New York Municipal Bond Index

June: 112%
May: 104%

INTEREST RATES

	June 30	May 30
3-Mo T-bill	1.74%	1.88%
6-Mo T-bill	2.16%	2.01%
3-Mo LIBOR	2.78%	2.68%
2-Yr T-Note	2.62%	2.65%
5-Yr T-Note	3.33%	3.42%
10-Yr T-Note	3.97%	4.06%
30-Yr T-Bond	4.53%	4.72%

Credit – CDS

Concerns of greater losses on mortgage securities and further balance sheet write-downs continued to spook the credit default swaps (CDS) market in June. CDS on financials, specifically Lehman Brothers and Merrill Lynch, were among the most actively traded. CDS premiums, the cost of protecting against default, increased anywhere from 50 to 100 bps within the broker-dealer sector. Continuing worries of default have also persisted among the monoline insurers, automotive and airline industries. These factors coupled with higher oil prices, record home foreclosures, and extremely low U.S. consumer confidence have all generally increased the cost of protection for U.S. investment grade and high-yield corporate bonds.

June 30, 2008

Tickers

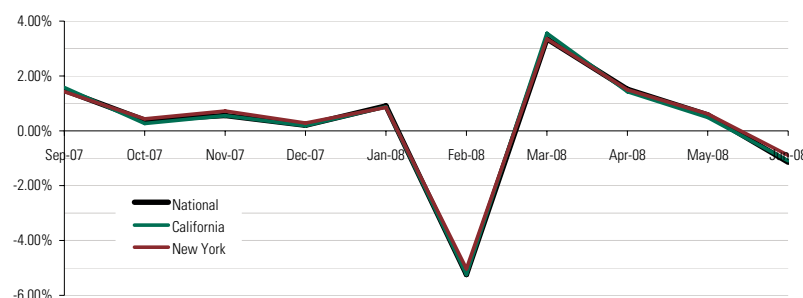
BLOOMBERG SM	
S&P National Municipal Bond Index	
Price Return	SPMUNUS
Total Return	SPMUNUST
S&P California Municipal Bond Index	
Price Return	SPMUNCA
Total Return	SPMUNCAT
S&P New York Municipal Bond Index	
Price Return	SPMUNNY
Total Return	SPMUNNYT

Performance Returns

	S&P National Municipal Bond Index	S&P California Municipal Bond Index	S&P New York Municipal Bond Index
1 Month	-1.15%	-1.09%	-0.89%
3 Month	0.94%	0.81%	1.22%
YTD	-0.25%	-0.21%	0.20%
1 Year*	2.75%	2.75%	3.35%
3 Years* (Annualized)	2.83%	2.90%	2.99%
5 Years* (Annualized)	3.59%	3.78%	3.66%
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



Index Characteristics

	S&P National Municipal Bond Index	S&P California Municipal Bond Index	S&P New York Municipal Bond Index
Number of Bonds	3,233	650	516
Market Value (US\$ Billion)	323.21	71.89	59.44
Weighted Average Coupon	4.99%	4.86%	5.07%
Weighted Average Years to Maturity	15.45	14.97	17.38
Weighted Average Yield To Worst	4.27%	4.23%	4.25%
Weighted Average Yield To Maturity	4.40%	4.34%	4.46%
Weighted Average Modified Duration	6.37	6.47	5.74

Note: Previously reported was the WA (OS) Effective

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