

# S&P Fixed Income Update

National Municipal Bond Index

California Municipal Bond Index

New York Municipal Bond Index

August 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.

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

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

**Index Services**

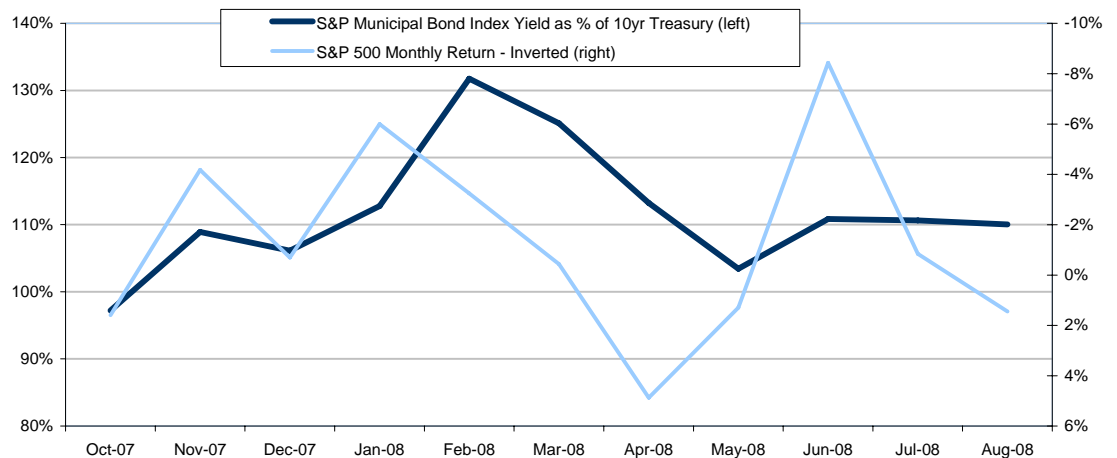
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**Index Performance and Market Overview**

**Tracking Treasuries**

The S&P National Municipal Bond Index increased 1.19% in August, keeping pace with treasuries, as the index yield over the benchmark 10yr treasury remained stable near 110%. Benefiting munis (and treasuries) in August was the migration away from Fannie Mae and Freddie Mac debt, along with fears of higher marginal tax rates, regardless of which party wins the presidency. Pressure on municipalities to improve disclosure processes have coincided with systematic upgrades from the ratings agencies. In addition, in August many analysts were heard continuing to point out the still attractive yields of munis relative to treasuries. The near bankruptcy of Jefferson County Alabama gained plenty of headlines and weighed on the market. Although munis have generally had difficulty following treasuries when treasuries have rallied in 2008, August was an exception, as equities recovered and commodities declined, lessening inflation fears and thus benefiting munis. Summer doldrums were likely a contributing factor, as treasuries have generally benefited when equities have declined this year. Many analysts expect September to set the tone for the remainder of the year, as to whether the marketplace will refocus on credit issues. Despite the one month S&P National Municipal Bond price-only Index increase of 0.87%, the year-to-date (YTD) total return of +1.17% is behind most treasury indices. For comparison, the Credit Suisse U.S. Govt. 7-10 Index posted a YTD total return of +5.26% as of the end of August. The S&P National Muni-Bond Index weighted average yield to maturity (WAYM) dropped 12bps to 4.19% from the beginning of August level of 4.31%. Despite a relatively parallel shift in the treasury curve on the month, the S&P National Muni Bond Index curve steepened some. Longer-dated munis, of 20 or more years to maturity, declined about 6bps (weighted average) compared to a drop in yield of about 25bps on securities from 2 to 4 years to maturity.

The chart below depicts the S&P National Municipal Bond Index WAYM as a percentage of the 10yr treasury and the monthly S&P 500 percentage total return (inverted). Since the February high just above 130% and dip to near 105% in May, for the past three months the S&P National Muni-bond index WAYM as a percentage of the 10yr treasury has remained near 110%.



### S&P National Municipal Bond Index

August TR: +1.19%  
YTD TR: +1.17%

### S&P California Municipal Bond Index

August TR: +1.25%  
YTD TR: +1.30%

### S&P New York Municipal Bond Index

August TR: +1.02%  
YTD TR: +1.45%

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

### S&P National Municipal Bond Index

August: 110%  
July: 111%  
Dec: 106%

### S&P California Municipal Bond Index

August: 110%  
July: 109%  
Dec: 106%

### S&P New York Municipal Bond Index

August: 111%  
July: 111%  
Dec: 101%

### Winners and Losers

As a group, Jefferson County Alabama bonds were the biggest drag on the index and, due to ratings downgrades, many Jefferson county securities were deleted from the index upon the September rebalancing. The single biggest loser in August was an AMBAC insured revenue bond from Overland Park Development Corporation in Kansas due to an AMBAC downgrade. It dropped about 9%, while the biggest winner was a California Foothill/Eastern Transportation Corridor Agency toll revenue bond due to recent market bids. Its price increased about 8%.

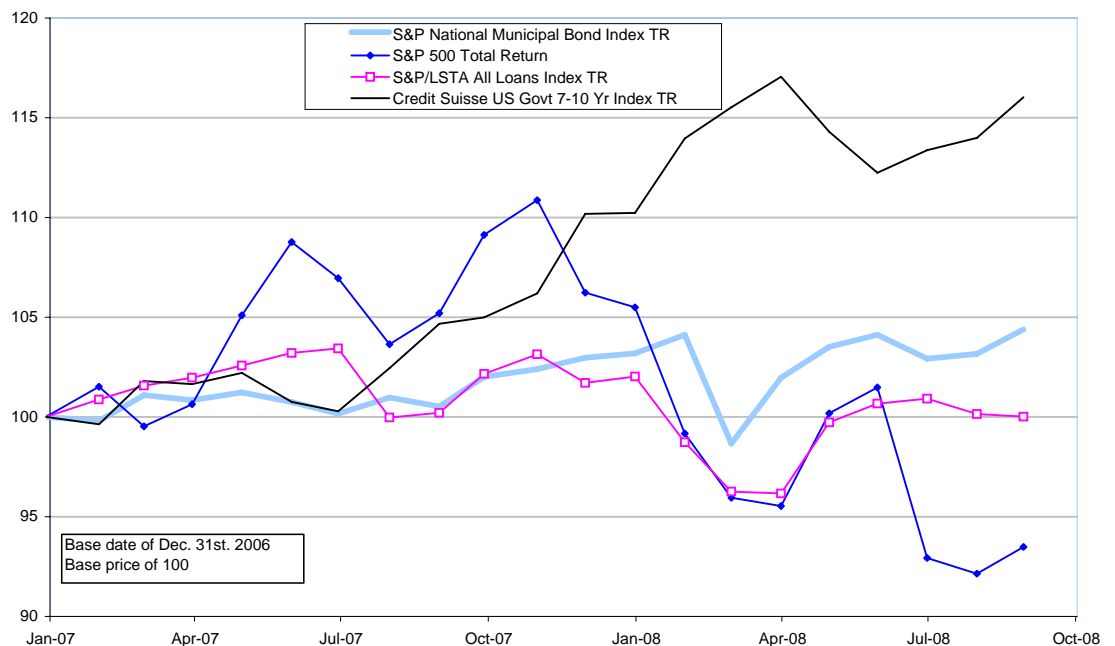
### August Rebalancing Slight Contraction

The September rebalancing slightly decreased the size of the index as 66 securities with a par value of US\$ 544.8 million were deleted and 34 securities with a par value of US\$ 232.9 million were added. The duration and maturity of the index also declined slightly as the new securities had a Weighted Average Yield to Maturity of 3.6 years and Weighted Average Modified Duration of 5.31, compared to the broad index end of August levels of 14.55 years and modified duration of 7.21.

### September Fixed Income Launches

In September, S&P will be launching the S&P/LSTA U.S. Leveraged Loan 100 Index and the S&P U.S. Commercial Paper Index. Both indices are tradable. The S&P/LSTA U.S. Leveraged Loan 100 Index is based on the 100 loans from the larger benchmark S&P LSTA Leveraged Loan Index. The S&P U.S. Commercial Paper Index is a broad based index consisting of U.S. commercial paper ranging from one-month to three-months in maturity. Along with the September rebalancing, the S&P National 0-5 Year Municipal Bond Index was launched at the end of August.

The table below depicts the since December of 2006 performance (from a base of 100) of the S&P National Municipal Bond Index, the S&P 500, S&P/LSTA All Loans Index, and the Credit Suisse US Govt. 7-10 year Index.



## INTEREST RATES

	August 29	July 31
3-Mo T-bill	1.72%	1.67%
6-Mo T-bill	1.95%	1.87%
3-Mo LIBOR	2.81%	2.79%
2-Yr T-Note	2.37%	2.52%
5-Yr T-Note	3.09%	3.24%
10-Yr T-Note	3.81%	3.95%
30-Yr T-Bond	4.42%	4.57%

## Credit – CDS

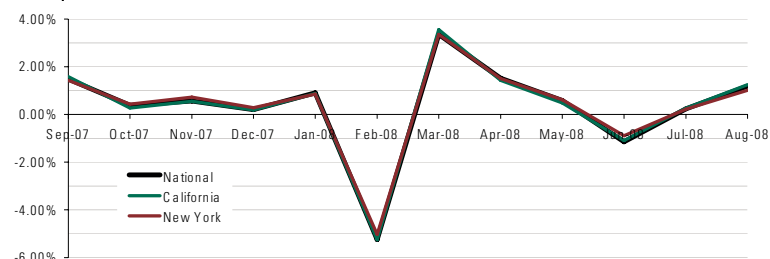
The summer markets, or lack thereof, hit credit default swaps in August as well. There were, however, some movements of note. High-yield names continued to generally under-perform investment grade names as the perception of default risk rises, especially in sectors like the auto industry where the markets have implied 5 year default risk ranging anywhere from 50-90%. CDS in the monolines performed a bit better off the back of MBIA news and Lehman CDS spreads rallied on a potential bid from KDB, but then fell back as the bid dissolved. The consistent theme of U.S. financials facing more mark-to-market losses, reduced asset values, and a slowing economy is still very apparent in the credit space.

August 31, 2008

Tickers	BLOOMBERG <sup>SM</sup>	Performance Returns			
		S&P National Municipal Bond Index	S&P California Municipal Bond Index	S&P New York Municipal Bond Index	
S&P National Municipal Bond Index					
Price Return	SPMUNUS	1 Month	1.19%	1.25%	1.02%
Total Return	SPMUNUST	3 Month	0.26%	0.41%	0.34%
S&P California Municipal Bond Index		YTD	1.17%	1.30%	1.45%
Price Return	SPMUNCA	1 Year*	3.85%	3.93%	4.39%
Total Return	SPMUNCAT	3 Years* (Annualized)	3.12%	3.20%	3.25%
S&P New York Municipal Bond Index		5 Years* (Annualized)	4.57%	4.87%	4.53%
Price Return	SPMUNNY	2007*	3.18%	3.18%	3.31%
Total Return	SPMUNNYT	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	7,582	1,313	1,263
Market Value (US\$ Billion)	476.37	94.38	86.84
Weighted Average Coupon	4.98%	4.85%	5.03%
Weighted Average Years to Maturity	14.55	14.78	15.81
Weighted Average Yield To Worst	4.04%	4.07%	4.01%
Weighted Average Yield To Maturity	4.19%	4.20%	4.25%
Weighted Average Modified Duration	7.21	7.43	6.49

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