

# S&P Fixed Income Highlights

Municipal Bond Indices

S&P U.S. Commercial Paper Index

S&P/LSTA U.S. Leveraged Loan 100 Index

S&P/Citigroup International Treasury Bond Index

December 2008

## Municipal Bond Indices

S&P National Municipal Bond Index

S&P New York Municipal Bond Index

S&P California Municipal Bond Index

S&P National 0-5 Year Municipal Bond Index

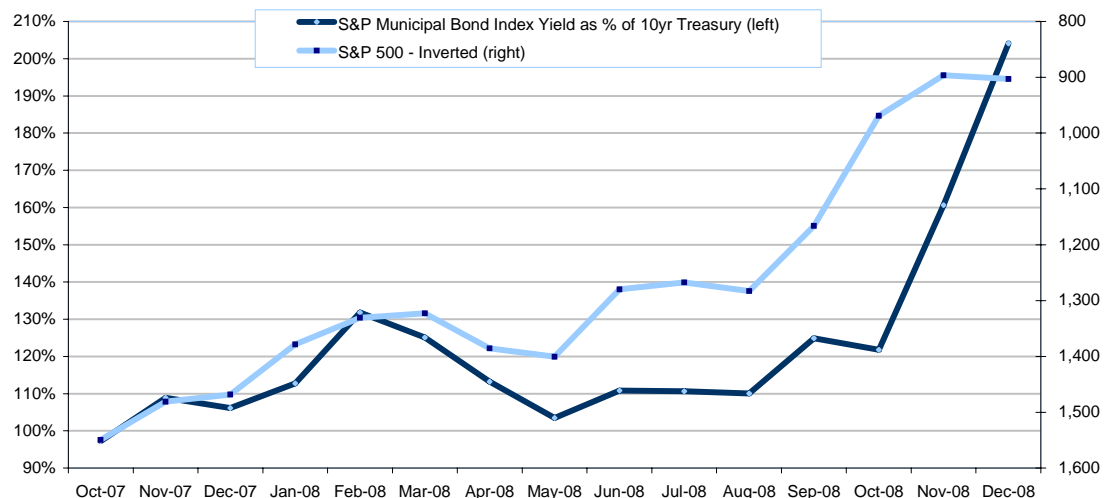
### Index Performance and Market Overview

#### Good Month, Bad Year

The S&P National Municipal Bond Index increased 1.89% in December, but ended 2008 with a decline of 2.83%. Led by strength in the intermediate sector of the muni-bond curve, the average yield to maturity (YTM) of index constituents with 5 to 10 years to maturity dropped approximately 34bps in December, dragging the S&P National Municipal Bond Index YTM down 18bps on the month to end the year at 4.51% (about twice the yield of the 10yr treasury). 2008 began with the index yield and 10yr treasury about even.

Despite another solid month of steepening in the treasury yield curve, due to the 76bps decline on the yield of the 30-year bond, the muni-bond curve steepened on the month. Longer-dated securities within the index with 20 or more years to maturity declined an average of 12bps in December compared to the weighted average YTM decline of 19bps for the S&P National 0-5 Year Municipal Bond Index. On the year, the index's YTM increased 23bps from the December '07 level of 4.28%. The weighted average price of the index constituents ended the year at 98.09 compared to the year-end 2007 level of 102.97. The muni-bond market was hampered in 2008 by the global credit crisis and declining tax revenues, which prompted the worst annual performance for the S&P National Municipal Bond Index since the index's 1999 loss of 3.54% (pro-forma prior to October 2007). 1999, however, was followed by the 2000 return of 13.56%, which was the best return in the history of the S&P National Municipal Bond Index.

The chart below depicts the S&P National Municipal Bond Index weighted average YTM as a percentage of the 10yr treasury and the S&P 500 (inverted).



Published monthly, the S&P Fixed Income Highlights tracks developments in the Fixed Income market as measured by the S&P Fixed Income Indices.

**Index Analysis and Management**  
 Mike McGlone - 212 438 4127  
 Mariah Alsati-Morad - 212 438 2308  
 Craig Feldman - 212 438 3296

For additional information on the S&P Fixed Income Indices, click here.

**Index Services**  
 212.438.2046  
[index\\_services@standardandpoors.com](mailto:index_services@standardandpoors.com)

## Winners and Losers

A Texas State Transportation GO bond that had a weight of 0.078% in the index at the beginning of the month increased 9.7% on the month, and had the biggest positive index impact. The bond with the largest negative index impact was a Hudson Yards Infrastructure revenue bond. At the beginning of the month, the bond had a weight of 0.14%, but the December decline of 7.84% weighed on the index.

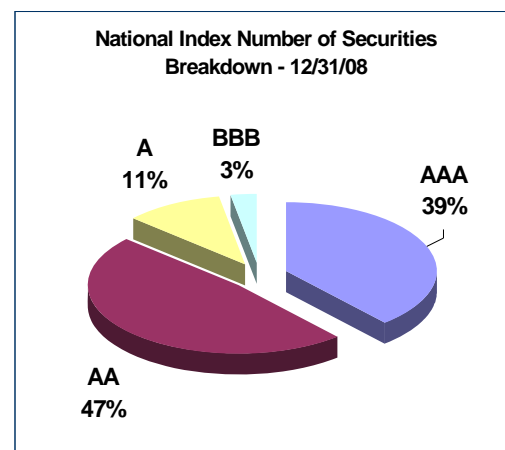
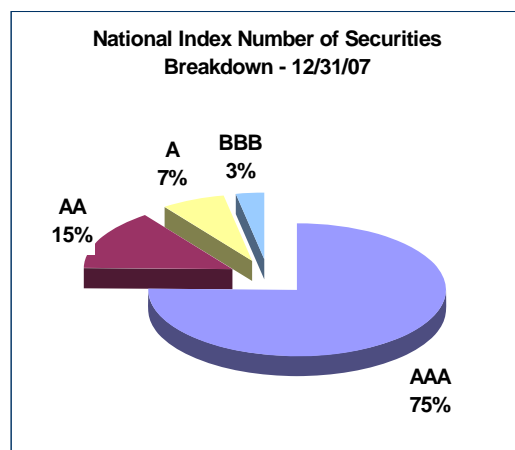
The table below depicts the top 10 bond issues by weight at the end of December in the S&P National Municipal Bond Index.

Issues	Market Cap (\$ Million)	Index Weight
California St Economic Recovery Ser a	\$ 718,823	0.16%
New York N Y City Transitional Fin Auth Rev Rfdg Ser a	\$ 701,815	0.15%
Los Angeles Calif Uni Sch Dist Election of 2002- Ser a	\$ 674,427	0.15%
Massachusetts St Sch Bldg Auth Dedicated Sales T Ax Revser a	\$ 664,788	0.14%
Triborough Brdg & Tunl Auth N Y Revs Gen Purp-Ser a	\$ 654,908	0.14%
California St Rfdg	\$ 649,288	0.14%
California St Economic Recovery Ser B-Mand Tend 7/1/10	\$ 606,248	0.13%
Metropolitan Transn Auth N Y Rev Rfdg-Ser a	\$ 596,302	0.13%
New Jersey St Tpk Auth Tpk Rev Rfdg-Ser-C	\$ 592,126	0.13%
California St Var Purp	\$ 588,394	0.13%

## December '08 Versus December '07

Reflecting the deteriorating quality of credit, the average S&P rating of the S&P National Municipal Bond Index declined from AA+ in December '07 to AA at the end of December 2008; 39% of the securities were AAA rated at the end of 2008 compared to 75% in 2007.

The pie charts below depict the number of securities breakdown by rating within the index on 12/31/2007 and 12/31/2008.



## January Rebalancing

The index had a net increase of 31 securities for a total of 7,824 securities entering into 2009. The new securities added some duration to the index with a weighted average YTM of 5.22%, modified duration of 8.07, coupon of 5.54% and years to maturity of 18.1, compared to the index levels of 4.51% (YTM), 7.95 (MD), 5.01% (coupon), and 13.99 (years to maturity) respectively on 12/31/2008.

### S&P National Municipal Bond Index

December TR: +1.89%  
YTD TR: -2.83%

### S&P California Municipal Bond Index

December TR: +2.01%  
YTD TR: -2.77%

### S&P New York Municipal Bond Index

December TR: +1.71%  
YTD TR: -2.55%

### S&P National 0-5 Year Index

December TR: +0.97%  
YTD TR: +5.15% (pro-forma)

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

#### S&P National Municipal Bond Index

December: 204%  
November: 161%  
Dec 07: 106%

#### S&P California Municipal Bond Index

December: 206%  
November: 163%  
Dec 07: 106%

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

December: 209%  
November: 123%  
Dec 07: 101%

#### S&P 0-5 Year Municipal Bond Index as a Percent of the 2yr Treasury

December: 307%  
November: 259%

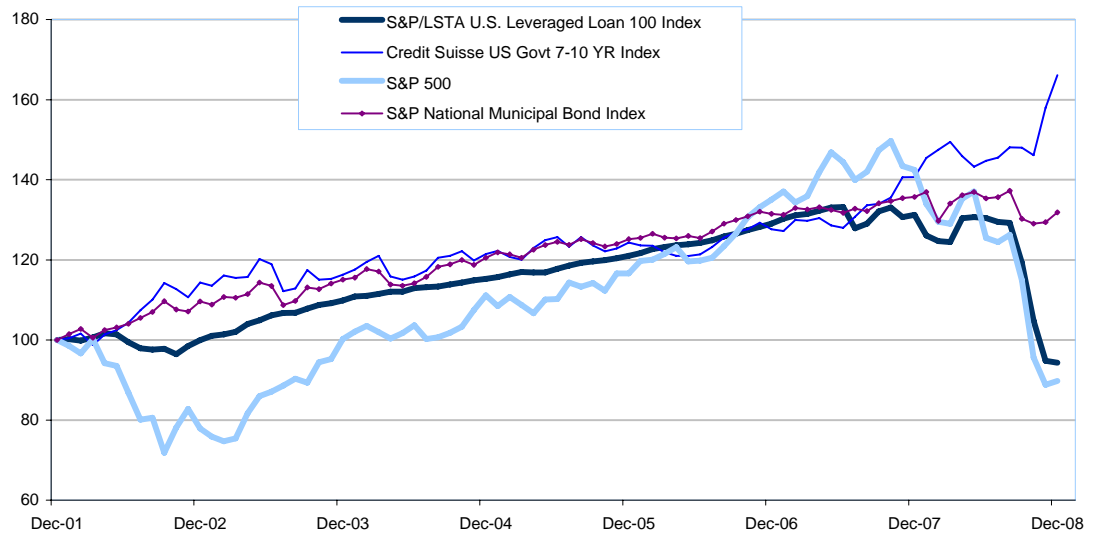
# S&P/LSTA U.S. Leveraged Loan 100 Index

## Index Performance and Market Overview

### Stabilization into the Year's End

The S&P/LSTA U.S. Leveraged Loan 100 Index stabilized in December declining only 0.54%. Similar to other more risk related assets, the index posted a 2008 loss of 28.14%. The 100 index out-performed the broad S&P/LSTA Leveraged Loan Index by 2.41% in December and 0.96% on the year, while the broad index posted a 2008 December loss of 2.95% and 2008 decline of 29.10%. According to Standard & Poor's LCD group, December marked the sixth consecutive month of red ink for the loan market and the longest monthly losing streak on record. 2008 was the loan market's first annual loss after 11 straight years of positive returns, dating from the start of the S&P/LSTA Index, in 1997. On a positive note, a spirited rally into the year's end marked the biggest two-week advance on record. According to S&P's LCD group, "the combination of higher volatility and lower returns gutted the risk-adjusted return of the loan market, sending the 1997-2008 Sharpe ratio of the S&P/LSTA Index to negative 0.29 – implying investors would have done better sticking with three-month Treasuries over the past 12 years."

The chart below depicts the S&P/LSTA U.S. Leveraged Loan 100 Index return compared to the S&P 500 (and other indices), from a base date of December 31<sup>st</sup>, 2001 and a base price of 100.



### INTEREST RATES

	<u>Dec. 31</u>	<u>Nov. 28</u>
3-Mo T-bill	0.08%	0.05%
6-Mo T-bill	0.26%	0.42%
3-Mo LIBOR	1.43%	2.22%
2-Yr T-Note	0.77%	0.99%
5-Yr T-Note	1.55%	1.92%
10-Yr T-Note	2.21%	2.92%
30-Yr T-Bond	2.68%	3.44%

## Winners and Losers

A loan from General Growth Properties was the best performing loan in December, increasing 33.8%. A loan from General Motors was the second best performing loan on the month with a 15.8% price increase. Due to a greater weight, the 8.2% increase in the price of a loan from Charter Communications Entertainment LP had the most positive index impact in December. The 26.7% price decline on a loan from the Tribune Company was the biggest loser for the month, but with a weight of 0.14% in the index, it had limited impact. The biggest drag on the index for the month was Univision Communications Inc., with a beginning weight of 1.9% and a 11.4% price decline.

## January Rebalancing

The Tribune Company loan was deleted from the index at the end of December and was replaced with another Tribune Company loan. A total of 5-loans were replaced at the end of December. For more details, please visit [www.fixedincomeindices.standardpoors.com](http://www.fixedincomeindices.standardpoors.com).

# S&P U.S. Commercial Paper Index

## Index Performance and Market Overview

### Plenty of CP Support in 2008

The S&P U.S. Commercial Paper Index increased 0.33% in December, and 1.25% in the second half of 2008 from the pro-forma inception level of 100 on June 30<sup>th</sup>. The index's yield-to-maturity declined from 2.70% at the end of June, ending 2008 at 0.76%. Credit issues prompted a 2008 high index yield of 4.24% on October 10<sup>th</sup>, but a thawing of credit concerns, the institution of the Federal Reserve's Commercial Paper Funding Facility and FOMC easing supported the commercial paper market through the year's end. Indicative of a continued thawing of credit market conditions, 1-month LIBOR declined about 147bps in December and the spread to the S&P U.S. Commercial Paper Index increased about from -18bps at the end of November to +32bps at the end of December (about 50 bps). With many treasury bills yielding near zero, the YTM of the S&P U.S. Commercial Paper Index over most treasuries decreased last month, as the index's YTM played catch-up. With the 3-month bill hovering just above zero yield, the 1-year bill declined 56bps to 0.35%, and the YTM of the S&P U.S. Commercial Paper Index over the 1-year bill declined to 41bps from 82bps at the end of November. According data released by the Federal Reserve last December, the Fed expanded its purchases of commercial paper to near US\$ 334 billion as part of the Fed's Commercial Paper Funding Facility CFFF program. Based on a hypothetical return near the YTM of S&P U.S. Commercial Paper Index and a cost of capital near the 3-month T-bill, the Fed's return on investment at the end of December was running near an annualized US\$ 2.8 billion. This is down from an annualized return of US\$ 6.5 billion from the week ending 12/05/08 due to the decline in CP rates.

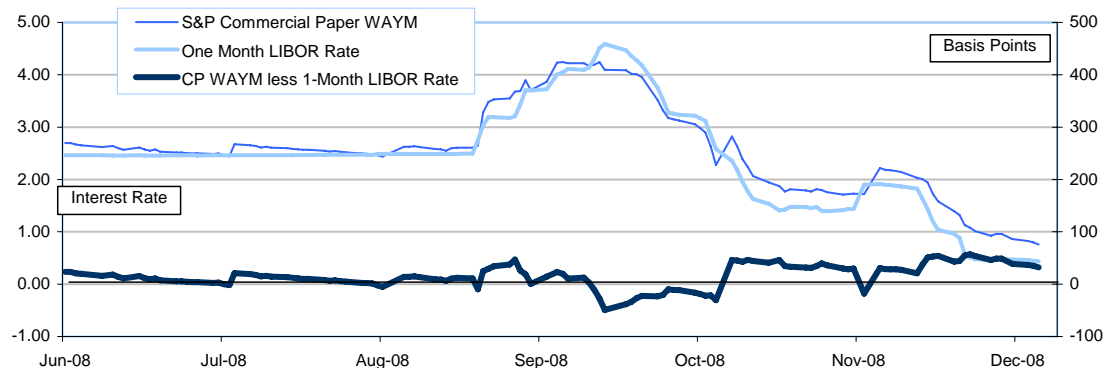
### Winners and Losers

Commercial paper from AIG FDG Inc. was the best performer in December. As a group, AIG FDG Inc. makes up about 1% of the index and the average group yield declined to 10.6%, compared to 12.16% at the beginning of December. Paper from Campbell Soup Co. was among the index laggards, and ended the month yielding near 0.23%, down from near 1.10% at the beginning of the month.

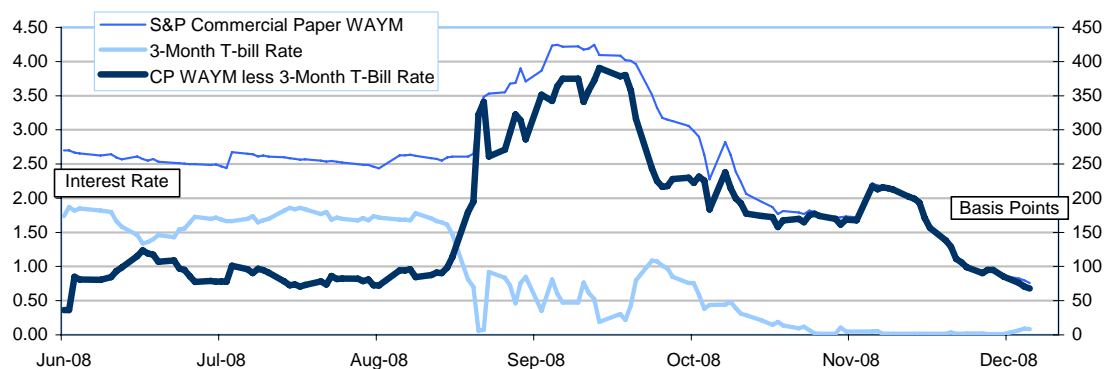
### December Rebalancing

The S&P U.S. Commercial Paper Index expanded 12.8% to 1,139 securities in January, from 1010, in December.

The chart below depicts the weighted average YTM of the S&P U.S. Commercial Paper Index and the 1-month LIBOR rate.



The chart below depicts the weighted average YTM of the S&P U.S. Commercial Paper Index relative to the 3-month T-bill.



### S&P U.S. Commercial Paper Index

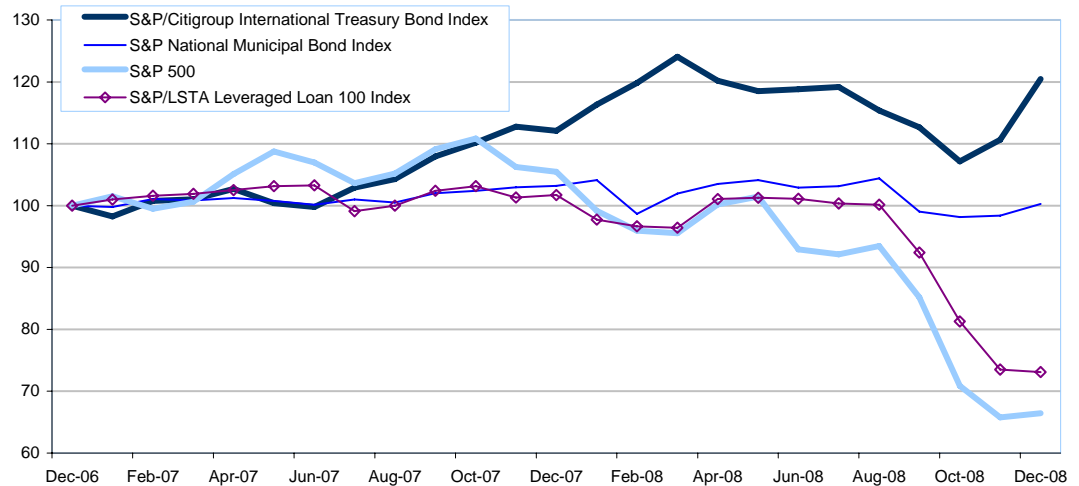
December TR:	+0.33%
WA Yield to Maturity:	0.76%
Constituent Count:	1,010
Spread to 3-month Bill:	68
Spread to 1-month LIBOR (bps):	32

## S&P/Citigroup International Treasury Bond Index Index Performance and Market Overview

### JGB's Lead Again

The S&P/Citigroup International Treasury Bond Index ended a volatile year with an increase of 8.88% in December, the best monthly return in its pro-forma history. The index posted a 2008 gain of 7.46%. Accelerated fears of global economic recession, anticipation of further coordinated rate cuts and flight to safety, inspired a broad based treasury rally into the year's end as the index rallied 12.42% from the end of October. At 25% of the index, the weighted average 1.7% price increase of Japanese Government Bonds contributed the most to the December return, however, securities from the UK had the greatest weighted average monthly price return, increasing an average of 4.31%. The 2.4% weighted average decline in securities from Greece was the biggest drag on the index in December.

The chart below depicts the returns on the S&P/Citigroup International Treasury Bond Index, S&P National Municipal Bond Index, S&P 500 and S&P/LSTA Leveraged Loan 100 Index from a base date of December 31<sup>st</sup>, 2006 and a base price of 100.



### January Rebalancing

There were few surprises in the January rebalancing with JGS's making the majority of the additions and deletions. The weighted average YTM of the deletions was 0.76% compared to 1.40% for the additions.

### S&P /Citigroup International Treasury Bond Index

December TR:	+8.88%
YTD TR (pro-forma)	+7.46%
WA Coupon	3.79%
WA Yield to Maturity:	2.60%
WA Modified Duration:	6.30
WA Life:	8.22
Constituent Count:	544

## Credit - CDS

December started out with a continuation of spread widening across the U.S. corporate credit default swap market, as worries about the auto industry, continued poor economic news, and the CDS triggering bankruptcy of Tribune Co. all factored into the pessimism. Spreads rallied a bit toward the latter half of the month and into the holidays as the government approved a US\$17 billion rescue package for GM and Chrysler and GMAC, although falling short of the 75% participation required by the Fed for their debt swap, still won approval to become a federally backed bank and will get access to funds in the bailout package.

Standard & Poor's does not sponsor, endorse, sell, or promote any S&P index-based investment product. Analytic services and products provided by Standard & Poor's are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during each analytic process. This material is based upon information that we consider to be reliable, but neither Standard & Poor's nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Copyright © 2008. Standard & Poor's, division of The McGraw-Hill Companies, Inc. All rights reserved. STANDARD & POOR'S and S&P are registered trademarks of The McGraw-Hill Companies, Inc.

Copyright © 2008 by The McGraw-Hill Companies, Inc. Redistribution, reproduction and/or photocopying in whole or in part is prohibited without written permission. All rights reserved. "S&P" and "Standard & Poor's" are registered trademarks of The McGraw-Hill Companies, Inc. This document does not constitute an offer of services in jurisdictions where Standard & Poor's or its affiliates do not have the necessary licenses. Standard & Poor's receives compensation in connection with licensing its indices to third parties.

All information provided by Standard & Poor's is impersonal and not tailored to the needs of any person, entity or group of persons. Standard & Poor's and its affiliates do not sponsor, endorse, sell, promote or manage any investment fund or other vehicle that is offered by third parties and that seeks to provide an investment return based on the returns of any Standard & Poor's index. Standard & Poor's is not an investment advisor, and Standard & Poor's and its affiliates make no representation regarding the advisability of investing in any such investment fund or other vehicle. A decision to invest in any such investment fund or other vehicle should not be made in reliance on any of the statements set forth in this presentation. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Inclusion of a stock within an index is not a recommendation by Standard & Poor's to buy, sell, or hold such security, nor is it considered to be investment advice.

Standard & Poor's does not guarantee the accuracy and/or completeness of any Standard & Poor's index, any data included therein, or any data from which it is based, and Standard & Poor's shall have no liability for any errors, omissions, or interruptions therein. Standard & Poor's makes no warranties, express or implied, as to results to be obtained from use of information provided by Standard & Poor's and used in this service, and Standard & Poor's expressly disclaims all warranties of suitability with respect thereto. While Standard & Poor's has obtained information believed to be reliable, Standard & Poor's shall not be liable for any claims or losses of any nature in connection with information contained in this document, including but not limited to, lost profits or punitive or consequential damages, even if it is advised of the possibility of same. These materials have been prepared solely for informational purposes based upon information generally available to the public from sources believed to be reliable. Standard & Poor's makes no representation with respect to the accuracy or completeness of these materials, the content of which may change without notice. The methodology involves rebalancings and maintenance of the indices that are made periodically during each year and may not, therefore, reflect real time information.

Analytic services and products provided by Standard & Poor's are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during each analytic process.