

# S&P Fixed Income Update

## Municipal Bond Indices

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

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

October 2008

## Municipal Bond Indices

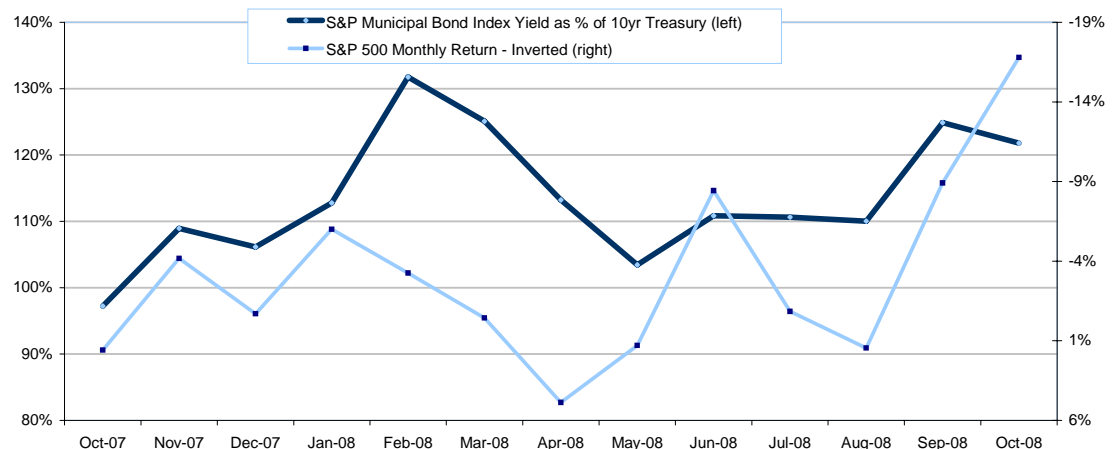
S&P National Municipal Bond Index      S&P New York Municipal Bond Index  
S&P California Municipal Bond Index      S&P National 0-5 Year Municipal Bond Index

### Index Performance and Market Overview

#### Signs of Recovery

The S&P National Municipal Bond Index declined only 0.90% in October despite the worst month for the S&P 500 since October of 1987. Credit market conditions improved into the month-end, as indicated by a decline in the percentage difference of the S&P National Municipal Bond Index weighted average yield to maturity (WAYM) over the benchmark U.S. 10yr yield. The chart below depicts this spread declining to 122% at the end of October, from the end of September value of 125%. Helped along by the Fed easing 50bps to 1.00%, the treasury story was about curve steepening as the 2yr to 30yr curve steepened about 41bps to 276bps and the Muni-curve followed. The S&P National 0-5 Year Index WAYM declined 10bps on the month to 3.04%, while the WAYM on securities within the national index with 20 or more years to maturity increased about 23bps to 5.98%. "The Yields Are Staggering," read a headline from the 10/20 edition of Barron's. From the same article, "Municipal bonds are trading at unusually low prices and rare yields. They've almost never looked as attractive when compared with U.S. Treasury securities." Such articles were common in October and the muni market stabilized accordingly. At the October lows on 10/16, the S&P National Municipal Bond Index was down 6.37% on the month alone. On the same day, the S&P California and New York Municipal Bond Indices closed down about 7%, but the S&P National 0-5 Year Municipal Bond Index only dipped 1% and recovered to post a 0.37% gain on the month. Strong support from the Federal Reserve and global central banks to free up shorter-term financing, and the success of California selling a greater than expected US \$5 billion in short-term municipal notes on 10/16, helped the muni-bond market to recover from the October lows.

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).



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

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

October TR: -0.90%  
YTD TR: -4.88%

### S&P California Municipal Bond Index

October TR: -0.97%  
YTD TR: -4.52%

### S&P New York Municipal Bond Index

October TR: -0.94%  
YTD TR: -4.69%

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

October TR: +0.37%  
YTD TR: +2.73% (pro-forma)

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

### S&P National Municipal Bond Index

September: 122%  
September: 125%  
Dec: 106%

### S&P California Municipal Bond Index

September: 122%  
September: 124%  
Dec: 106%

### S&P New York Municipal Bond Index

September: 123%  
September: 126%  
Dec: 101%

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

October: 194%  
September: 160%

## Winners and Losers

A Jefferson County, Texas, insured hospital bond was the biggest loser on the month with a price drop of 23.82% in October, setting a record high yield of 6.60% on October 22, 2008 since it first came to market in 2001. Historically, the bond had an average yield of 4.75%. The spread widened as a result of FHA guaranteed bonds being priced on the basis of their own credit worthiness and not that of the insurance company. The biggest winner in the index was a space and farmland preservation bond from the state of NJ. The bond had a price increase of 7.21%. Bonds with maturities 20 years and greater were the worse performing segment of the index, with a WAYM of almost 6% at the end of October and a month end price decline near 3.25%.

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

Issues	Market Cap (\$ Million)	Index Weight
Liberty N Y Dev Corp Rev Goldman Sachs Headquarters	\$1,011,869	0.225%
California St Economic Recovery Ser a	\$713,330	0.159%
New York N Y City Transitional Fin Auth Rev Rfdg Ser a	\$706,198	0.157%
California St Rfdg	\$648,993	0.144%
Massachusetts St Sch Bldg Auth Dedicated Sales T Ax Revser a	\$639,946	0.142%
Los Angeles Calif Uni Sch Dist Election of 2002- Ser a	\$636,982	0.142%
Triborough Brdg & Tunl Auth N Y Revs Gen Purp-Ser a	\$630,547	0.140%
California St Var Purp	\$622,382	0.138%
Hudson Yds Infrastructure Corp N Y Rev Ser a	\$620,164	0.138%
Metropolitan Transn Auth N Y Rev Rfdg-Ser a	\$607,637	0.135%
California St Economic Recovery Ser B-Mand Tend 7/1/10	\$592,683	0.132%
New Jersey St Tpk Auth Tpk Rev Rfdg-Ser-C	\$563,618	0.125%

## November Rebalancing

The November rebalancing added a net of 33 securities (79 additions, 46 deletions) to the index for a total of 7,699. Of the 70 additions, 57 are new issues. The rate of new issuance seems to have declined. In November 2007, when the pre-expanded index was almost half of its current size, new issuance was comparable at 62 new bonds. The additions to the index (made up of new issues and unrefunded balances) had a WAYM of 5.06%, down from the 5.17% reported last month.

## Relevant Research

A paper titled "Linkages between Housing and Municipal Bond Markets," published by Standard & Poor's explores a possible link between housing and municipal bond markets at the county level. The paper's principal finding is: when home prices are stable or rising, there is little effect on spreads; however when home prices decline, there is a negative correlation with spreads. Counties with greater home price declines have experienced higher yield spreads and ratings have a discriminatory ability, with counties having lower rated debt being more sensitive to declining home prices. For more information about this paper and other publications please visit

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

October 31, 2008

**Tickers**

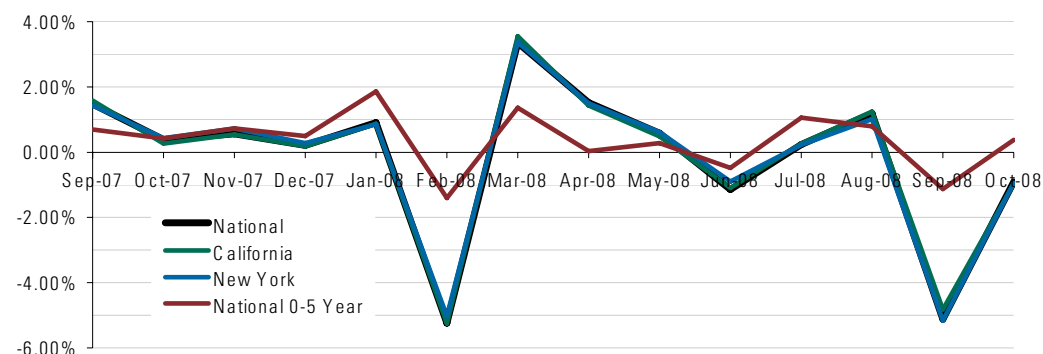
BLOOMBERG <sup>SM</sup>	
S&P National Municipal Bond Index	
Price Return	SPMUNUS
Total Return	SPMUNUST
S&P California Municipal Bond Index	
Price Return	SPMUNCA
Total Return	SPMUNCAT
S&P New York Municipal Bond Index	
Price Return	SPMUNNY
Total Return	SPMUNNYT
S&P National 0-5 Year Municipal Bond Index	
Price Return	SPMU5YR
Total Return	SPMU5YRT

**Performance Returns**

	S&P Municipal Bond Index			
	National	California	New York	National 0-5 Year
1 Month	-0.90%	-0.97%	-0.94%	0.37%
3 Month	-4.86%	-4.57%	-5.10%	0.02%
YTD	-4.88%	-4.52%	-4.69%	2.73%
1 Year*	-4.15%	-3.82%	-3.73%	4.00%
3 Years* (Annualized)	1.52%	1.68%	1.59%	3.88%
5 Years* (Annualized)	2.75%	3.09%	2.68%	3.19%
2007*	3.18%	3.18%	3.31%	4.79%
2006*	5.04%	5.00%	4.92%	3.39%
2005*	3.88%	4.34%	3.83%	1.35%
2004*	4.75%	5.63%	4.36%	2.70%
2003*	4.97%	3.96%	5.71%	3.85%

\*Index inception Sept 2007 (Sept 2008 for the National 0-5 Year Index), historical returns based upon proforma data.

**Monthly Returns**



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**Index Characteristics**

	S&P Municipal Bond Index			
	National	California	New York	National 0-5 Year
Number of Bonds	7,666	1,311	1,309	1,725
Market Value (US\$ Billion)	449.69	89.04	82.80	109.10
Weighted Average Coupon	4.99%	4.89%	5.04%	5.17%
Weighted Average Years to Maturity	14.16	14.63	15.26	2.64
Weighted Average Yield To Worst	4.78%	4.82%	4.80%	2.98%
Weighted Average Yield To Maturity	4.84%	4.85%	4.90%	3.04%
Weighted Average Modified Duration	8.1	8.5	8.4	2.3

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

## Index Performance and Market Overview

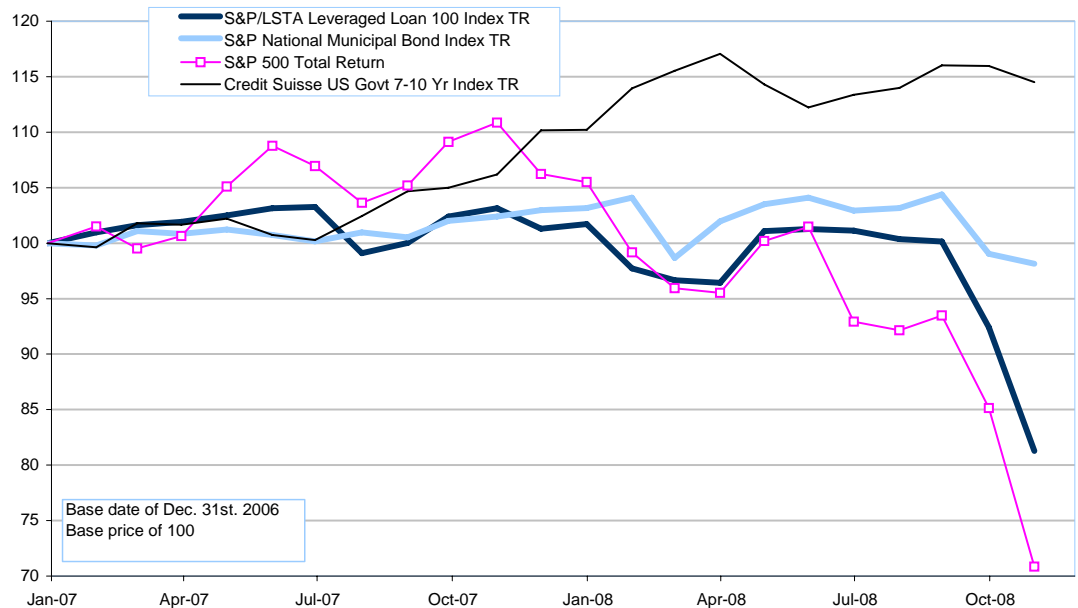
### Down with the Tide

The S&P/LSTA U.S. Leveraged Loan 100 Index was officially launched on October 20<sup>th</sup>, 2008. The Index consists of 100 loan facilities drawn from the leading broad market leveraged loan indicator - the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index and measures the total (principal and interest) return on the loans. Pro-forma S&P/LSTA U.S. Leveraged Loan 100 Index history begins with a base price of 1000 on December 28<sup>th</sup>, 2001. The end of October 08 mark was 1048.66 and the index declined 12.05% on the month, for a YTD loss of 20.10% (TR). October 08 was the worst month in the history of the broader S&P/LSTA Leveraged Loan Index (from which the 100 loans are drawn) but, reflecting the better quality of the S&P/LSTA U.S. Leveraged Loan 100 Index, the broad index declined a greater 13.22% on the month. Like most risky assets, the leveraged loan market suffered from the lower tide impact of the plunging equity market in October. The average price of the Loan 100 Index fell 13.38% in October to 70.75% of par. This was on the back of an 8.36% decline in September. The total market value of the S&P/LSTA U.S. Leveraged Loan 100 Index declined to US \$183 billion, at the end of October, from \$229 billion at the end of 2007.

### Winners and Losers

According to the LCD group (Leveraged Commentary and Data) at S&P, “in October, loans, at negative 13.2%, held up better than high-yield (negative 16.3%) and equities (negative 16.9%) but lagged 10-year Treasuries (negative 0.8%) and corporate bonds (negative 7.4%).” In the S&P/LSTA U.S. Leveraged Loan 100 Index, only one loan from Chrysler Financial increased in October. The single biggest drag on the index for the month was loan from General Growth Properties that lost over one-half of its value. Generally, higher rated loans have performed better this year, but Chrysler Financial was the exception in October, with the second highest LIBOR spread in the index at 400bps and the only loan with a CCC+ rating. The S&P/LSTA U.S. Leveraged Loan 100 Index is rebalanced weekly to maintain 100 constituents and no loans were added or deleted during the month of October.

The chart below depicts the S&P/LSTA U.S. Leveraged Loan 100 Index return compared to other indices, from a base date of December 31<sup>st</sup>, 2006 and a base price of 100



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

October TR:	-12.05%
YTD TR:	-20.10%
WA Years to Maturity:	5.2
WA LIBOR Spread (bps):	238
WA Bid Price:	70.75

### INTEREST RATES

	Oct. 31	Sept. 30
3-Mo T-bill	0.38%	0.91%
6-Mo T-bill	0.95%	1.61%
3-Mo LIBOR	3.03%	4.05%
2-Yr T-Note	1.57%	1.96%
5-Yr T-Note	2.83%	2.98%
10-Yr T-Note	3.97%	3.83%
30-Yr T-Bond	4.33%	4.31%

# S&P U.S. Commercial Paper Index

## Index Performance and Market Overview

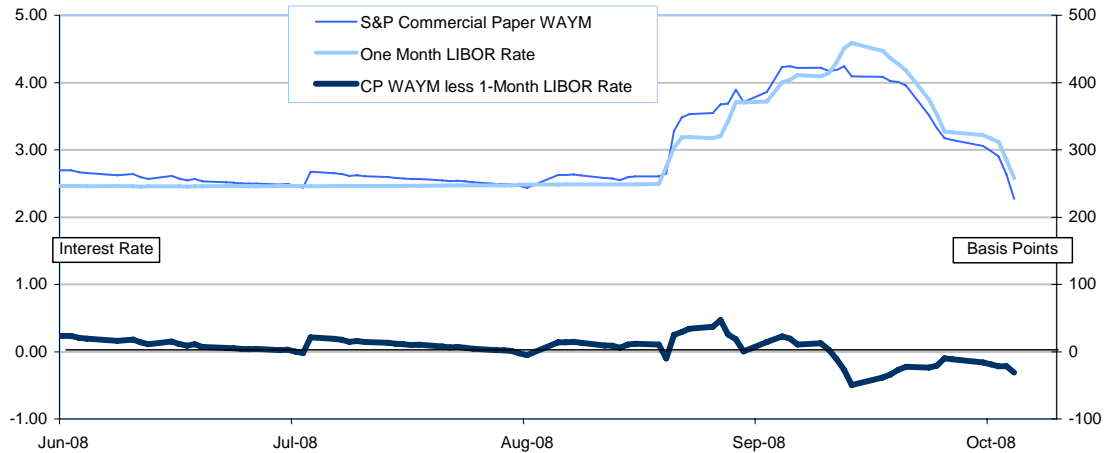
### October Thaw

The S&P U.S. Commercial Paper Index benefited from the Fed program to buy commercial paper and the concerted global effort to thaw credit markets in October, increasing 0.46% on the month as the WAYM declined 159bps to 2.27%. The index ended the month of September with a WAYM spread over the 1-month T-bill of 237bps, and reached an October high spread of 306bps on 10/10. Indicative of the sharp thawing of credit markets by the month end, the S&P U.S. Commercial Paper Index WAYM over the 1-month T-bill ended October at 96bps, for a one month decline of 141bps. Fed easing also benefited the market in October as rates on overnight commercial paper fell to record lows during the month. The S&P U.S. Commercial Paper Index WAYM declined every session into month end beginning with the October 10<sup>th</sup> high mark of 4.09% along with 1-month LIBOR, but the spread between the two widened 45bps from +14 to -31.

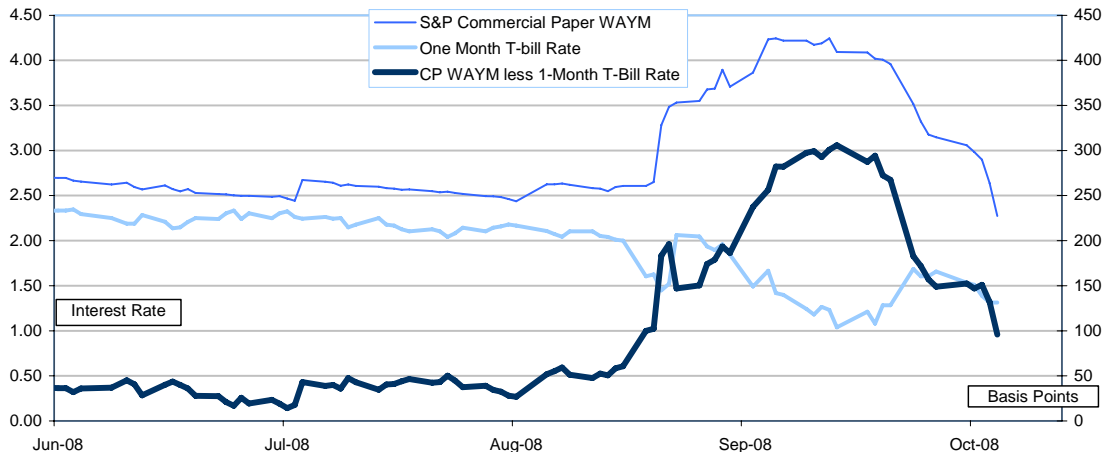
The chart below depicts the WAYM of the S&P U.S. Commercial Paper Index and the 1-month LIBOR rate. From June to mid-August, the two rates generally held steady but recently the CP yield has dipped below that of 1-month LIBOR, indicating the marketplace perception of lesser risk in corporate America than international banks.

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

October TR: +0.46%  
 WA Yield to Maturity: 2.27%  
 Constituent Count: 1205



The chart below depicts the substantial thawing of the credit markets last month as represented by the WAYM of the S&P U.S. Commercial Paper Index relative to the 1-month T-bill.



## Credit - CDS

If September was considered historic in the credit space, it is hard to come up with an accurate adjective for October's impact on credit portfolios. The credit crisis clearly moved beyond just financial companies as global recession worries set in and resulted in one of the worst months ever in the credit arena. Investment grade and high yield CDS spreads across sectors widened dramatically as U.S. corporate bonds lost over 7% in October and U.S. high-yield bonds lost over 15%. Fannie Mae, Freddie Mac, Lehman Brothers and Washington Mutual were all settled in October through the auction protocol with Lehman Brothers debt, most notably, recovering only 8.625 cents on the dollar. Record wide spreads across all sectors persisted, while liquidity remained considerably subdued in single names CDS contracts. Some of the widest CDS spreads were still noted in the auto industry, but selected homebuilders and some consumer discretionary companies were also among the month's worst performing CDS. CDS spreads on the monoline insurers actually improved somewhat over the course of the month.

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

The S&P/Citigroup International Treasury Bond Index Series was launched on November 3, 2008. The indices are designed to serve the investment community's need for a benchmark representing developed market treasury bonds excluding the United States. The indices include only countries that are classified as being developed markets by the Bank of International Settlements.

The new series consists of two indices – the S&P/Citigroup International Treasury Bond Ex-US Index, which includes bonds with a maturity of greater than one year, and the S&P/Citigroup International Treasury Bond Ex-US 1-3 Year Index, which includes bonds with a maturity of between one and three years. The indices are rebalanced at the end of each month. On a back-tested basis, the yields of the indices have generally been between 2% and 4% since April 2001.

The top three sovereign issuers represented in the index series, as of 30 September 2008, are Japan (24.95%), Germany (9.28%) and Italy (8.74%). The indices do not have a set number of constituents, but are based on how many issues are eligible at each rebalancing. No single country can have a weight of greater than 24.95%.

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