

# S&P Fixed Income Update

Municipal Bond Indices

S&P U.S. Commercial Paper Index

September 2008

## Municipal Bond Indices

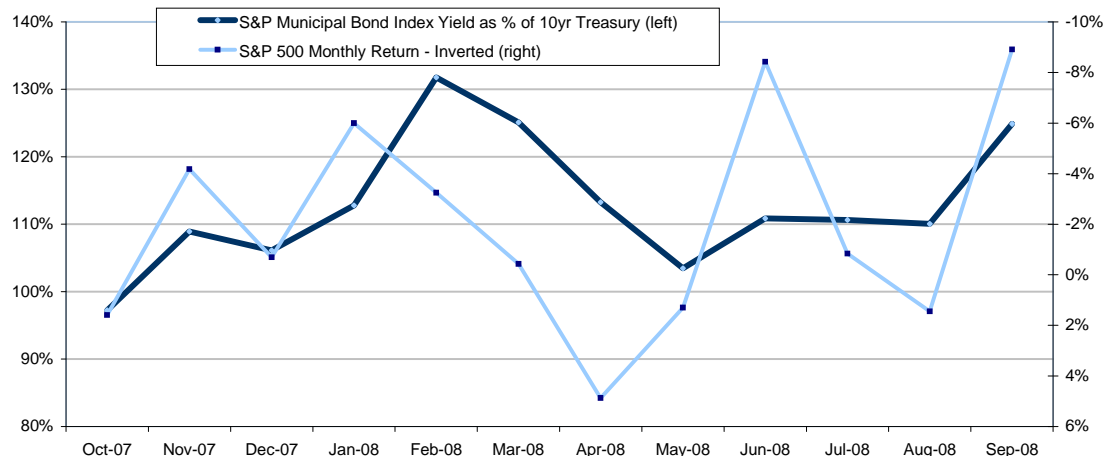
S&P National Municipal Bond Index  
S&P California Municipal Bond Index  
S&P New York Municipal Bond Index  
S&P 0-5 Year Municipal Bond Index

### Index Performance and Market Overview

#### Flight to Safety

The S&P National Municipal Bond Index declined 5.12% in September due to credit market turmoil and weaker equity markets, as the S&P 500 declined 8.9% (total return). Flight to safety was the theme as the U.S. treasury 2yr/30yr yield curve steepened about 30bps (to 235bps), while the S&P National Municipal Index had a relatively parallel yield shift higher of about 60bps. The S&P 0-5 Year Municipal Bond Index weighted average yield to maturity (WAYM) increased 59bps to 3.14% and the WAYM on index securities with maturities of 20 or more years in the national index increased about 61bps (for a spread of 261bps). Muni's have corrected so much, due to steeply discounted prices, that potential taxable gains have become a significant factor for tax exempt investors, and yields have risen high enough that they have become attractive even for investors who don't benefit from tax exemptions on the interest income. The weighted average clean price of the S&P National Municipal Bond Index declined to 97.10 at the end of September, compared to 102.11 at the end of August. As a percentage of the benchmark 10 year treasury, the S&P National Municipal Bond Index WAYM ended the month about 125% (4.77% Vs 3.83%), but still a bit below the end of February mark at 132%. Of course, there are always good reasons for these things and the wider spreads reflect the greater perceived credit risk. The overwhelming force of declining equity markets remains a major drag on all but those assets considered safe. Keeping the story 2008 muni story simple, since the end of October 2007, the S&P 500 has declined 23.2%. Over the same period, the S&P U.S. National Municipal Bond Index has declined 3.3% (total return, chart on following page).

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 municipal bond market as measured by the S&P Municipal Bond Indices.

#### Index Analysis and Management

Mike McGlone - 212 438 4127  
Mariah Alsati-Morad - 212 438 2308  
Craig Feldman - 212 438 3296  
Trisha Malinky - 212 438 2313

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

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

#### Index Services

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

## Winners and Losers

A series of Main Street Natural Gas Inc. bonds from Georgia, that were underwritten and backed by Lehman Brothers, were the biggest losers in the index on the month, dropping about 86% on average. But as a group, they were an insignificant percentage of the index. The single biggest drag on the index in September was a Liberty NY Dev. Corp. Revenue bond that declined 20.8%. At 0.24% of the index, the table below depicts this bond as the single largest weight in the index. An Austin Texas Utility System Revenue Bond was one of the few bonds that was not down on the month and was the biggest index winner, increasing fractionally 0.07% in September.

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

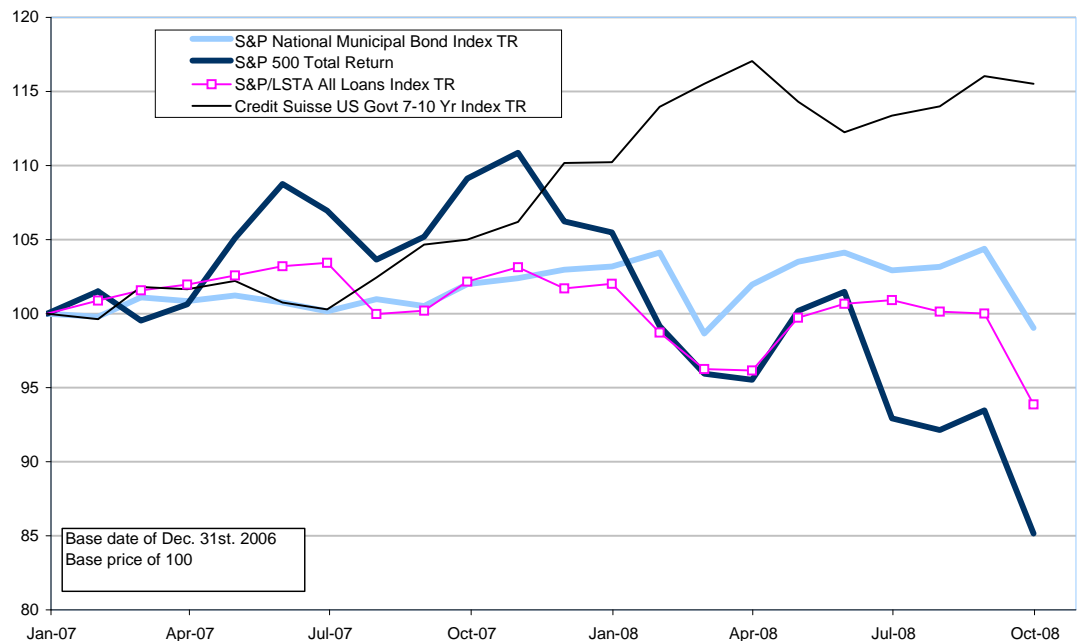
Issues	Market Cap (\$ Million)	Index Weight
Liberty N Y Dev Corp Rev Goldman Sachs Headquarters	\$ 1,070,254	0.238%
Hudson Yds Infrastructure Corp N Y Rev Ser a	\$ 716,152	0.159%
New York N Y City Transitional Fin Auth Rev Rfdg Ser a	\$ 713,564	0.159%
California St Economic Recovery Ser a	\$ 709,562	0.158%
California St Rfdg	\$ 684,016	0.152%
California St Var Purp	\$ 638,836	0.142%
Massachusetts St Sch Bldg Auth Dedicated Sales T Ax Revser a	\$ 631,308	0.141%
Hudson Yds Infrastructure Corp N Y Rev Ser a	\$ 630,595	0.140%
Los Angeles Calif Uni Sch Dist Election of 2002- Ser a	\$ 629,737	0.140%
Triborough Brdg & Tunnl Auth N Y Revs Gen Purp-Ser a	\$ 626,367	0.139%

## October Rebalancing

### Index Expansion

The October rebalancing added a net of 102 securities (146 additions, 44 deletions) to the index for a total of 7,666 bonds. The 146 new issues had a weighted average modified duration of 10.26 and WAYM of 5.17%, thus increasing the index duration and yield a bit. Most of the deletes were pre-refunded or matured bonds. The previously mentioned Main Street Natural Gas Inc. bonds from Georgia made up the majority of the deletes due to a ratings downgrade.

The table below depicts the performance 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 (since December of 2006). From October 31<sup>st</sup> of 2007 to the end of September 2008, the S&P 500 has declined 23.2%, the S&P LSTA All Loans Index has declined 9.0%, the S&P National Municipal Bond Index has declined 3.3%, and the Credit Suisse US Government 7-10 Index has increased 9.2% (all figures are total return).



### S&P National Municipal Bond Index

September TR: -5.12%  
YTD TR: -4.01%

### S&P California Municipal Bond Index

September TR: -4.82%  
YTD TR: -3.59%

### S&P New York Municipal Bond Index

September TR: -5.16%  
YTD TR: -3.79%

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

September TR: -1.13%  
YTD TR: +2.35% (pro-forma)

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

### S&P National Municipal Bond Index

September: 125%  
August: 110%  
Dec: 106%

### S&P California Municipal Bond Index

September: 124%  
August: 110%  
Dec: 106%

### S&P New York Municipal Bond Index

September: 126%  
August: 111%  
Dec: 101%

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

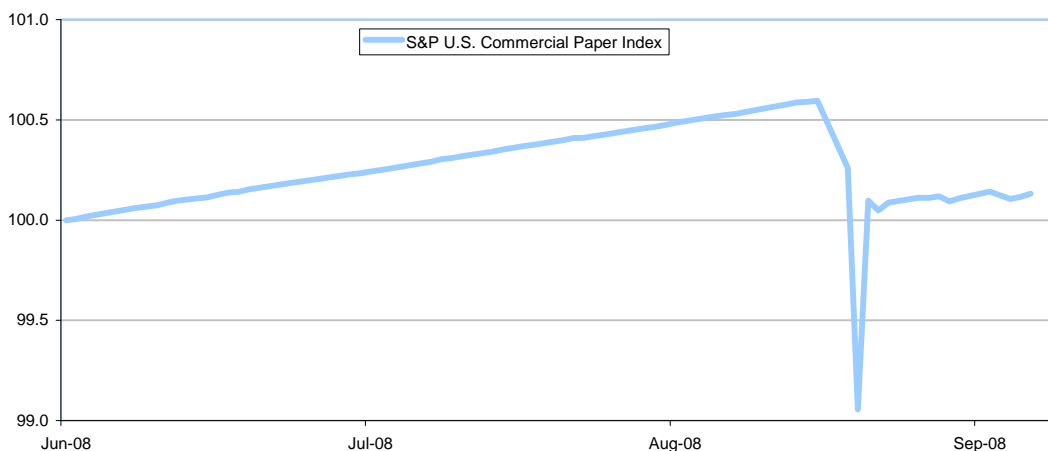
September: 160%

### INTEREST RATES

	<u>Sept. 30</u>	<u>August 29</u>
3-Mo T-bill	0.91%	1.72%
6-Mo T-bill	1.61%	1.95%
3-Mo LIBOR	4.05%	2.81%
2-Yr T-Note	1.96%	2.37%
5-Yr T-Note	2.98%	3.09%
10-Yr T-Note	3.83%	3.81%
30-Yr T-Bond	4.31%	4.42%

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

The S&P U.S. Commercial Paper Index was officially launched on October 1<sup>st</sup>, 2008. The index consists of commercial paper with one-to-three month maturities issued by corporate issuers, both financial and non-financial. Asset-backed commercial paper issues are excluded. Issuers included in the index must have a commercial paper program of at least \$2 billion. Pro-forma index history begins on June 30<sup>th</sup> and the chart of the index is attached below. The index declined 0.34% in September due mainly to the bankruptcy of Lehman Brothers and the government takeover of AIG. Securities from American General Fin. Corp., AIG FDG Inc., International Lease Fin. Corp., and Lehman Brothers Holdings Inc. were the biggest drag on the index and all were removed upon the October rebalancing. The index began October with a WAYM of 4.23% and 1,205 constituents compared to 2.44% and 1,159 constituents at the end of the August.



## Credit - CDS

What a month! It was an historic one in CDS land with the trigger events of Fannie Mae, Freddie Mac, Lehman Brothers and Washington Mutual, and the government intervention at AIG. Speculation on the passage and details of the U.S. government bailout plan along with the reality of an ever worsening U.S. economy had CDS spreads swept up in the volatility that carried across all capital markets last month. Spreads across all sectors traded considerably wider, with the highlight on financials like Goldman Sachs and Morgan Stanley, which began consistently trading with an upfront premium. A flight-to-quality bid in U.S. treasuries, coupled with continued selling in U.S corporate bonds, led to significant spread widening and CDS across all sectors reflected it. Monoline insurers continued to feel pressure and the auto industry continued to trade with implied 5-year default risk ranging anywhere from 50-90%. The ISDA auction process for Fannie and Freddie will commence at the beginning of October.

# S&P U.S. Commercial Paper Index

October 03, 2008

Reflects the performance of the most liquid US commercial paper issues in the market.

## S&P U.S. Indices

S&P Fixed Income Indices

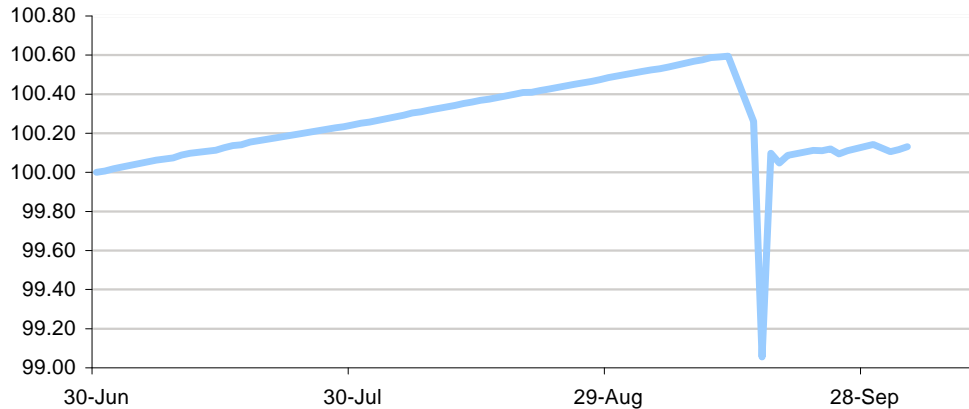
S&P U.S. Commercial Paper Index

### Index Performance

#### Returns

1 Month (Sept.)	-0.34%
3 Months	0.14%
YTD	na
1 Year	na
3 Years (Annualized)	na
5 Years (Annualized)	na

### S&P Commercial Paper Index: Since June 30, 2008



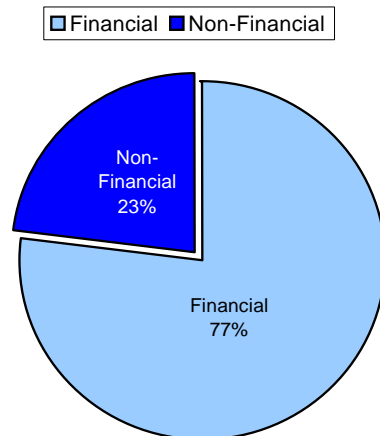
### S&P Commercial Paper Index Top 10 Issuers by Max Program Size

Issuers	Max Program Size (\$ Billions)	Index Weight
AMERICAN EXPRESS CR CORP	Unlimited	1.18%
CITIGROUP FDG INC	Unlimited	1.18%
GENERAL ELEC CAP CORP	Unlimited	1.17%
GENERAL ELEC CAP SVCS INC	Unlimited	1.17%
GENERAL ELECTRIC CO	Unlimited	1.17%
JPMORGAN & CHASE & CO	Unlimited	1.18%
MERRILL LYNCH & CO INC	Unlimited	1.18%
PRUDENTIAL FDG LLC ICP	Unlimited	1.18%
TOYOTA MTR CR CORP	Unlimited	1.17%
UBS FIN DEL INC	\$60B	1.18%

### Tickers

S&P U.S. Commercial Paper Index	
BLOOMBERG <sup>SM</sup>	SPBDCP
Reuters	SPBDCP

### Financial Vs Non-Financial Breakdown



### Index Portfolio Characteristics

#### S&P Commercial Paper Index: As of 10/03/2008

Number of Issuers	195
Financial Issuers	67
Non-Financial Issuers	128
Number of Constituents	1205
Weighted Average Days to Maturity	57
Weighted Average Yield to Maturity	4.22%
Average Discount Price	99.32

Standard & Poor's assumes no responsibility for the accuracy or completeness of the above data and disclaims all express or implied warranties in connection therewith.

September 30, 2008

**Tickers**

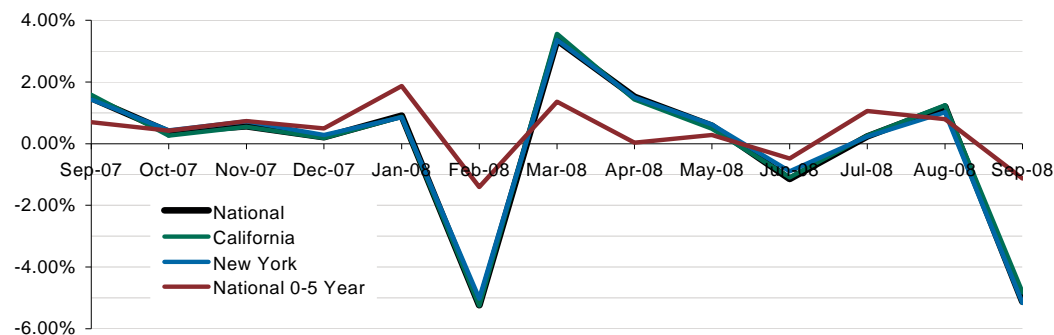
	BLOOMBERG <sup>SM</sup>
S&P National Municipal Bond Index	
Price Return	SPMUNUS
Total Return	SPMUNUST
S&P California Municipal Bond Index	
Price Return	SPMUNCA
Total Return	SPMUNCAT
S&P New York Municipal Bond Index	
Price Return	SPMUNNY
Total Return	SPMUNNYT
S&P National 0-5 Year Municipal Bond Index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

**Performance Returns**

	S&P Municipal Bond Index			
	National	California	New York	National 0-5 Year
1 Month	-5.12%	-4.82%	-5.16%	-1.13%
3 Month	-3.77%	-3.38%	-3.99%	0.71%
YTD	-4.01%	-3.59%	-3.79%	2.35%
1 Year*	-2.91%	-2.62%	-2.40%	4.04%
3 Years* (Annualized)	1.60%	1.80%	1.69%	3.63%
5 Years* (Annualized)	2.86%	3.19%	2.83%	3.02%
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**



**Contact Us:**

J. R. Rieger  
Vice President, Fixed Income Indices  
212.438.5266  
james\_rieger@standardandpoors.com

**Index Services**

index\_services@standardandpoors.com  
New York +1.212.438.2046  
Toronto +1.416.507.3200  
London +44.20.7176.8888  
Tokyo +813.4550.8463  
Beijing +86.10.6569.2919  
Sydney +61.2.9255.9870

For more information, including current data and index performance, visit our Web site:

www.indices.standardandpoors.com

**Index Characteristics**

	S&P Municipal Bond Index			
	National	California	New York	National 0-5 Year
Number of Bonds	7,550	1,300	1,271	1,711
Market Value (US\$ Billion)	449.07	89.00	82.47	108.11
Weighted Average Coupon	4.99%	4.88%	5.03%	5.17%
Weighted Average Years to Maturity	14.3	14.6	15.5	2.7
Weighted Average Yield To Worst	4.72%	4.69%	4.72%	3.08%
Weighted Average Yield To Maturity	4.77%	4.73%	4.82%	3.14%
Weighted Average Modified Duration	6.74%	7.02%	6.00%	2.35%

Standard & Poor's assumes no responsibility for the accuracy or completeness of the above data and disclaims all express or implied warranties in connection therewith. Standard & Poor's does not sponsor, endorse, sell or promote any S&P index-based investment product.