FIXED INCOME COMMENTARY

JANNEY FIXED INCOME STRATEGY SEP 1 2009

Fund manager index rebalancing introduced a solid upward move in the interest rate markets on the last day of August, adding some drama to what would have otherwise been a slow day. Weaker equities also aided in the buying after a more than 4% plunge in oil prices on concerns about Chinese demand hit the energy sector. These concerns, in turn, came forth after growing talk about a second round of government stimulus in China, though that talk coincided with a convincing study indicating no need for further stimulus here in the U.S. As a result of these pressures, both the ten and two year Treasuries strengthened by 5 basis points to 3.40% and 0.97%, respectively.

Today marks the one year anniversary of the month that changed the financial markets, as well as the first day that speculation swirled about a government takeover of housing gorillas Fannie Mae and Freddie Mac. In September, 2008, mortgage foreclosures were clearly stressing consumer balance sheets and building pressure behind a sizeable recession, but the massive withdraw of liquidity that was triggered by the failure and near-failure of four major financial firms remained very much an outside concern. One year ago, our preferred measure of market liquidity, the LIBOR – OIS spread, measured 78 basis points, the worst level in years. Today, that same number is just under 16 basis points, which points towards liquidity conditions that are within levels realized even in the free credit days of 2005 – 2006. Judging by liquidity, the capital markets are very evidently in a more stable position today than one year ago.

Bank of America (A2/A) officials have privately indicated that they plan on repaying a portion of the U.S. Treasury's TARP capital injections—specifically a portion of aid related to the company's acquisition of Merrill Lynch in late 2008. While the exact amount of the proposed repayment isn't clear, it would be substantially less than the $45 billion BofA has accepted and would likely require a repayment fee in the range of $300 - $500 million (which suggests that the capital to be repaid is in the $10 - $15 billion range). Repayment would indicate that BofA has moved beyond short term emergency planning and will once again be able to focus on its long term business model, though the partial nature of the proposed transaction suggests that the bank's capital levels are still significantly weaker than many competitors who have managed to repay the entire dollar amount of TARP funds.

A National League of Cities survey released yesterday updated the fiscal problems municipalities are facing with regard to 2010 budgets. The survey of 379 cities found that 88% said they are less able to meet their budgets, up from 64% a year earlier, while 89% of those surveyed believe next year will be worse. Meanwhile, the Office of the New York State Comptroller announced that local sales tax revenues dropped by 9% or $640 million for the first seven months of 2009 compared to the same period last year. Comptroller Thomas DiNapoli offered a warning to local governments in a press release: "Back to school shopping makes September a very important month for sales tax revenues. Local government need to take a hard look at the September data. Just like the state, if local governments are not on track to meet their budgeted revenues for the year, they need to make adjustments in their spending now without placing a greater burden on the taxpayers."

The trend of record inflows to municipal bond mutual funds continued last week, which helped to maintain the average $2 billion per week flows recorded in 2009 to date. August did, however, mark a change to the "baseline" trends: over the past four weeks, deposits to intermediate and long term funds have increased to over 60% of all inflows; previously, the majority of inflows were in short term funds.

Guy LeBas, Chief Fixed Income Strategist & Tom Kozlik, Municipal Credit Analyst

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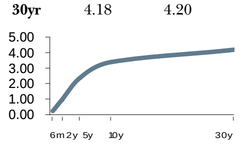
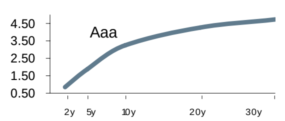
"On-the-Run" Treasury Yields

	Close	Previous	Chg.
6mo	0.23	0.24	(0.012)
2yr	0.97	1.02	(0.048)
5yr	2.39	2.45	(0.060)
10yr	3.40	3.45	(0.048)
30yr	4.18	4.20	(0.022)



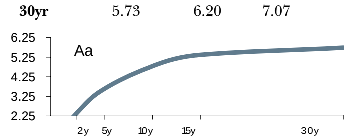
Benchmark Muni Yields

	Aaa	% Treas	Insd.	Baa
2yr	0.84	86%	1.03	2.20
5yr	1.89	79%	2.08	3.50
10yr	3.24	95%	3.39	4.92
20yr	4.27	99%	4.79	7.58
30yr	4.73	102%	5.05	7.70



Benchmark Corporate Yields

	Aa	A	Baa
2yr	2.03	2.49	3.79
5yr	3.47	4.15	5.32
10yr	4.70	5.38	6.43
15yr	5.35	5.93	6.94
30yr	5.73	6.20	7.07

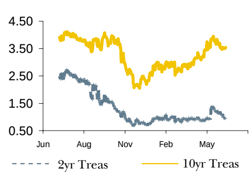


Other Key Market Rates

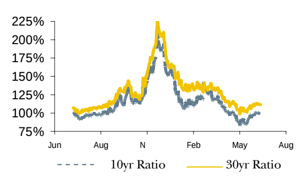
Non-Callable CDs

Mat.	APY		
3m	0.30	Fed Funds Target	0.25
6m	0.40	Prime Rate	3.25
1yr	0.90	3 Month LIBOR	0.35
2yr	1.65	5/1 Agcy Callable	3.15
5yr	2.90	GN 30yr 4.5% MBS	4.34
		FN 30yr 4.5% MBS	4.38

Historical Treasury Yields



Historical Muni % of Treas.



Recent Economic Indicators

Date	*Release*	*Actual*	*Trend*
28-Aug	Personal Income	0.0%	-
28-Aug	Personal Spending	0.2%	
28-Aug	PCE Deflator (YoY)	-0.8%	
28-Aug	PCE Core (MoM)	0.1%	

Upcoming Economic Indicators

Date	*Release*	*Proj.*	*Trend*
1-Sep	ISM Manufacturing	51.5	+
1-Sep	Construction Spending	0.3%	
1-Sep	Pending Home Sales	2.1%	
1-Sep	Total Vehicle Sales	14.0mm	+

Fixed Income Strategy
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