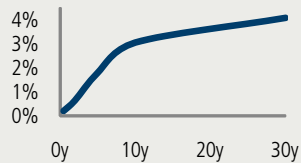


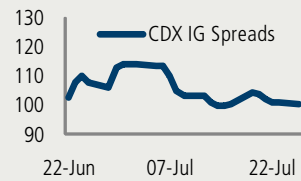
Market Close

Treas.	Yld	Prev.	Chg.
2yr	0.64	0.59	+0.05
5yr	1.79	1.73	+0.06
10yr	3.05	2.99	+0.06
30yr	4.08	4.02	+0.06



MBS	Price	Chg
FN 4.5%	104-3	+01
GN 4.5%	104-28	+01

Credit	Close	Chg
CDX IG	102.9bp	0.0bp
CDX HY	\$97.9	-\$0.1



Muni	Yld	% Tsy	Chg.
2yr	0.63	99%	-8%
10yr	2.86	94%	-2%
30yr	4.40	108%	-2%

Source: MMA

Day Ahead:

- Rates: Five year has 5bps concession built in from week's trading; \$37bln auction likely to fare well
- Eco: Fed Beige Book due at 2PM likely to echo uncertainty noted in Bernanke's testimony
- Credit: Wyndam, IP, Comcast all beat 2Q expectations this AM; Newmont, Kodak, Sprint fell short

Market Review:

The bond market equivalent of a rebel without a cause: despite middling economic data, mixed equities, and a strong two year Treasury auction, the rates markets moved lower on the trading day. The Treasury sold \$38 billion of new two year notes at a 0.67% yield after a morning concession contributed to already-strong demand for short term assets. Given the mixed outside forces and a solid auction, it's challenging to pinpoint the source of soft performance in the rates markets, especially considering that, despite the selloff, mortgages actually improved by a hair. As of day's end, the ten year was weaker by 5.5 basis points at 3.05% while the two year pushed higher in yield by 5 basis points to 0.63%, marking the worst day for the two year since May 25 (Food for thought: like Tuesday, May 25 coincided with the monthly release of consumer confidence data).

While the termination of the government's tax credit negatively impacted sales volumes, it doesn't appear to have affected prices much. The Case-Shiller home price index reported a May year-over-year increase in housing values for twenty of the largest metropolitan areas of 4.6%, the strongest number for prices since 2006. Regional trends included increases in many of the more volatile areas, with the largest annual gain in prices coming from San Francisco at 18.3%, and the biggest losses occurring in the Vegas area, a region plagued by oversupply, with a 6.5% price. Real estate valuations are becoming increasingly local in nature, as areas with job growth and higher populations are performing better than areas without those factors. Also out Tuesday was the Conference Board consumer confidence data for July, which pointed towards a weakening in sentiment to 50.4. Consumer perceptions of the current climate remained largely unchanged, but expectations about the future declined sharply, reflecting slow-to-restart labor markets that have thus far failed to live up to original hopes.

Cable provider turned integrated media group Comcast (Baa1/BBB+) reported a second quarter profit of \$2.1 billion on improved sales of \$9.6 billion and stronger operating cashflows. Additions to the company's customer base in digital video, voice, and internet segments provided the bulk of the revenue gains, while capital spending remained limited compared to the revenue increase. In the press release announcing the 2Q results, Comcast management appeared unusually focused on the cashflow and capital expenditure line items, suggesting they're taking a proactive approach in appealing to debtholders to maintain the credit market's faith in the company. This approach, above and beyond the prudent action itself, sends a signal that Comcast is working to maintain credit quality in the wake of its pending NBC-Universal joint venture deal. While that deal will require debt issuance, the bulk of that issuance will likely be at the NBC-U, not Comcast, level. *-Guy LeBas*

Muni prices were once again firm on Tuesday, despite a weak Treasury market. The deal size on New York City's GO issue (Aa2/AA/AA) was increased from \$800 million to \$997 million on strong demand while Maryland (Aaa/AAA) lowered the size of its issue by \$57 million to \$143 million. The thirty day visible supply is up to \$11.3 billion, the highest level since early June, but once bigger issues including \$1.5 billion Texas and \$400 million Columbus BAB issues are completed, the number will slip back to recent levels. From a peak of 266 bps on June 30, MCDX, the municipal credit default swap has moved lower, trading yesterday at 203 bps, an indication that perception of eroding municipal creditworthiness has eased somewhat.

Bloomberg reports that a survey by the National League of Cities, the US Conference of Mayors and the National Association of Counties indicates local government will cut their work forces by 481,000 jobs or 8.6% 2009 to 2011. Unlike for the city of Bell, California, however, the average salary of these lost jobs is likely to be somewhat below \$800,000, so it will take substantial cuts in the nationwide 6.4 million state and local government payrolls to have a meaningful impact on budgets. Obviously this is challenging to those losing jobs, but it is an important and necessary step for many municipalities to take in addressing the impact of falling revenues on budgets. Although the recession may be behind us, the impact on state and municipal governments will be longer lasting. There is little rating news, but it's worth noting that Ocean City, NJ's rating was raised three notches by S&P from A to AA with a stable outlook. *-Alan Schankel*

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