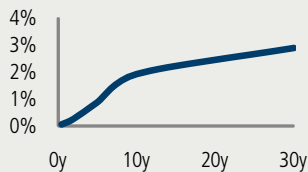


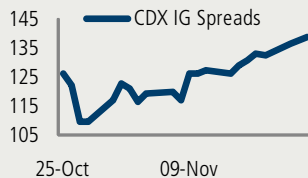
### Market Close

	Yld	Prev.	Chg.
2yr	0.26	0.26	-(0.00)
5yr	0.87	0.90	-(0.03)
10yr	1.92	1.96	-(0.04)
30yr	2.88	2.95	-(0.06)



MBS	Yld	Price	Chg
FN 3.5%	3.08%	102-1	+04
GN 3.5%	2.80%	103-28	+04

Credit	Close	Chg
CDX IG	137.3bp	1.2bp
CDX HY	\$91.0	-\$1.0



Muni	Yld	% Tsy	Chg.
2yr	0.53	204%	3%
10yr	2.50	130%	3%
30yr	4.40	153%	3%

Source: MMA

### Day Ahead:

- Rates: Market liquidity to dry up quickly; officially, Wed. is a full trading day, Thurs. a holiday, and Fri, a 2pm close
- Eco: Personal income/spending (Janney 0.4% / 0.4%) to show stability on modest jobs growth, retail spending
- Munis: Harrisburg faces its first appointment—and a slate of opponents—in bankruptcy court today

### Market Review:

Trading activity was expectedly subdued on Tuesday, the second day of this holiday shortened week, while today, Wednesday, and Friday are typically the lowest volume two trading days of the year. European peripheral debt yields spiked once again on Tuesday, with the Italian ten year moving higher by nearly 20 basis points and the Spanish ten year government moving to a Euro-era record close of 6.64%. Here in the US, surprisingly strong demand for a five year auction helped support Treasury prices, sending yields down across the belly and long end of the yield curve. The 3.15x bid/cover ratio at the auction, the strongest since May, proves that, despite the quiet week, there remains very high demand for safe haven assets. On the day, the ten year Treasury fell in yield by 4 basis points to 1.92%, the lowest close since early October, while the two year yield declined by about half a basis point to 0.26%. Overnight, greater talk of Germany's opposition to using the ECB or pan-Euro bonds to support EU peripheral governments has generated additional selling pressures overseas, though the Treasury markets don't appear to be responding this morning.

Domestic economic growth for the third quarter was revised downward to a 2.0% annualized pace from the previously-reported 2.5%, suggesting that the third quarter expansion was less impressive than initially thought. At the same time, the downward revision stemmed almost exclusively from lower inventory levels, an ancillary, though volatile, component of GDP. Falling commodities costs and caution on the part of producers were responsible for the less-than-impressive inventories results, but interpreting the numbers isn't a straightforward exercise. Economic optimists would have you believe that slower inventory builds mean firms will have to catch up with faster production and inventory growth in the future. Economic pessimists would have you believe that slower builds means sales of goods are likely to fall in the coming months. Given how open to interpretation inventories data tend to be, we tend to view them as fairly poor predictors of future growth. —Guy LeBas

The challenging global economy continues to impact direct-selling businesses. Moody's downgraded the senior unsecured rating for beauty company Avon Products (A2/BBB+/BBB) yesterday, and assigned a negative outlook to the company, citing weakness in key markets and sustained soft credit metrics. In its latest earnings release, management emphasized that prior guidance of mid-single-digit sales growth and 50-70bps margin expansion for 2011 is unachievable due to trends in Brazil and the US. As a result, management is reassessing its strategy, which will translate to tighter cash flows. Avon's foreign operations are under SEC investigation, which adds additional uncertainty to the mix. Although some say Avon is the perfect target for household products direct-seller Tupperware (Baa/BBB-/NR), we doubt it will happen any time soon. —Jody Lurie

Going into the holiday period, municipal markets are quiet, and though dealers are somewhat laden with inventory of the recent new issue bulge, a thinner calendar with under \$4 billion of primary sales scheduled for next week should help. Relative value indicators such as the muni to Treasury ratios remain elevated with the thirty year maturity AAA benchmark yield of 3.75% standing at 130% of the like maturity Treasury at 2.88%, matching 2011 highs. Supply and demand dynamics for tax free bonds are favorable with lower forward supply and increasing demand from December and January reinvestment flows.

The first hearing in judge Mary Frances' courtroom on Harrisburg's bankruptcy filing is scheduled for today, even as the state moves ahead to gain approval to appoint a receiver. Many parties are lined up against the filing including the state, the mayor, Dauphin County, insurers Ambac and Assured Guaranty as well as city employee unions. Municipal bankruptcy is an infrequently pursued remedy, with little precedent in Pennsylvania. We'll be watching to see how the intersection of a bankruptcy filing and appointment of a state receiver play out in coming days and weeks.

S&P has been reviewing its methodology for rating bond insurers for most of the year. Early in the year the rating agency suggested that more stringent capital criteria might result in a lowering of Assured Guaranty's rating to the A category, but adjustments to the proposed methodology seemed to indicate retention of a AA category rating, though a one or two notch drop to AA or AA- from AA+ is possible. In any case, S&P promised to finalize its rating by the end of November, so we should learn if Assured Guaranty will be downgraded in coming days. Moody's rates the insurer Aa3. —Alan Schankel

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