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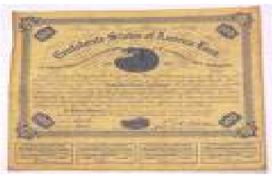

Economics & Financial Markets

United States Fixed Income

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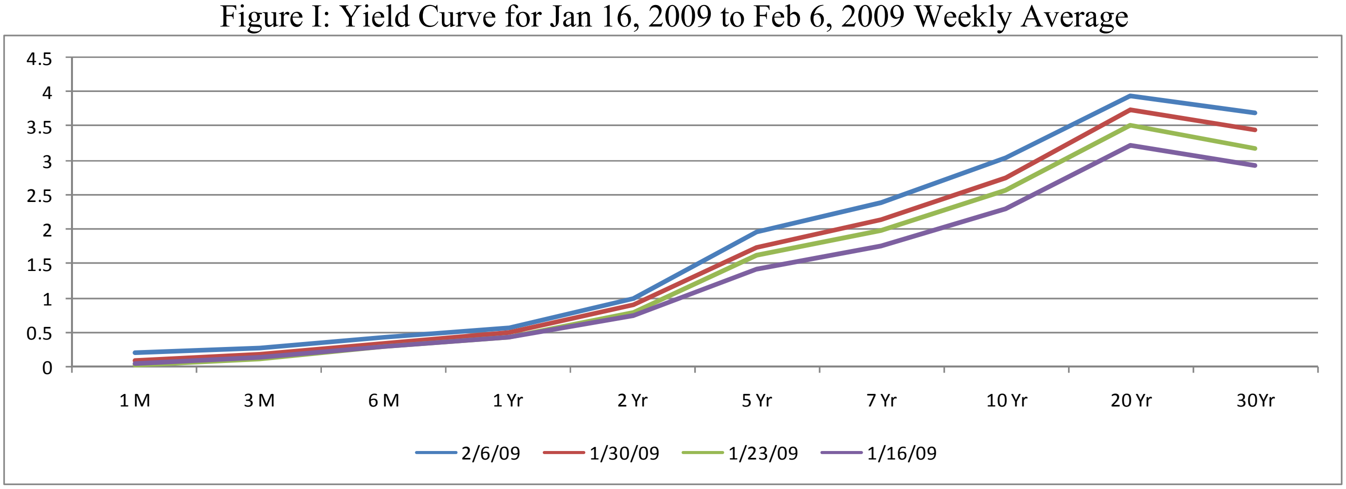
Yields Remain Essentially Unchanged for Week but signs of Lending have Emerged

I: **Yields essentially unchanged from Prior Week**

Since the middle of January the Treasury weekly average yield has been higher with each passing week, with the exception of this past week. We have been arguing since the last month, that this is a clear indication that the financial markets are beginning to stabilize, with Figure I indicating the progressive improvement in each week over the past 4 weeks through the end of the prior week ending Feb. 6, 2009.

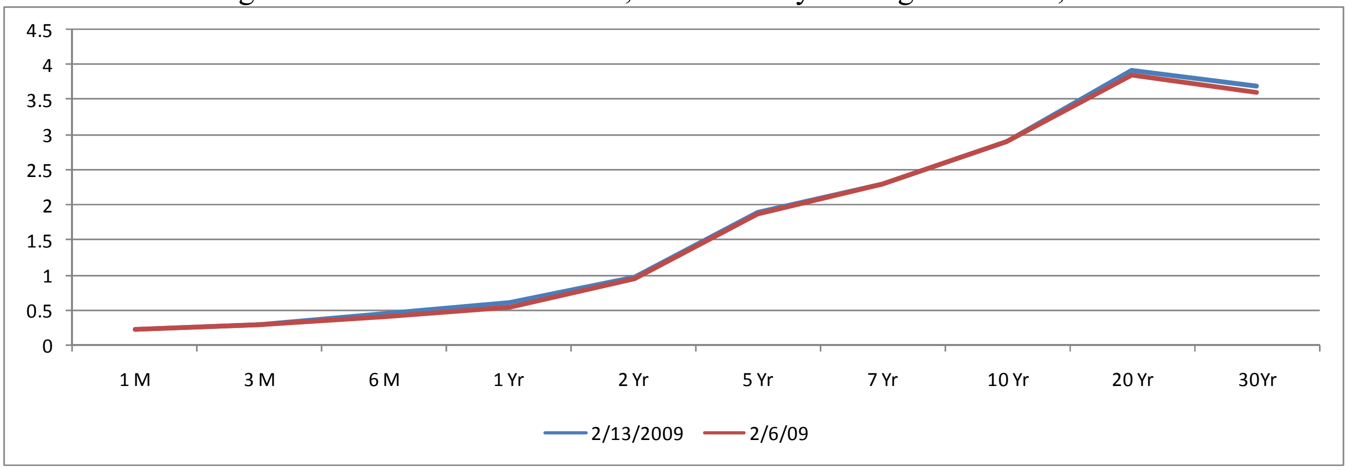
Figure I: Yield Curve for Jan 16, 2009 to Feb 6, 2009 Weekly Average



Source: Federal Reserve, U.S. Treasury, SISR

Figure II in contrast shows that over the past week there has been no movement in the yield curve from the week average prior, to the end of the week Friday February 13, 2009. The equity markets and the Treasury markets however, had been quite volatile over the past week following the Geithner non announcement about the plan for dealing with the remaining $350 Billion in TARP money. Throughout the week however the administration had been providing indications that a good portion of the funds would be allocated to the mortgage markets, which helped to stabilize the markets later in the week.

Figure II: Yield Curve for Feb 6, 2009 Weekly Average to Feb 23, 2009



Source: Federal Reserve, U.S. Treasury, SISR

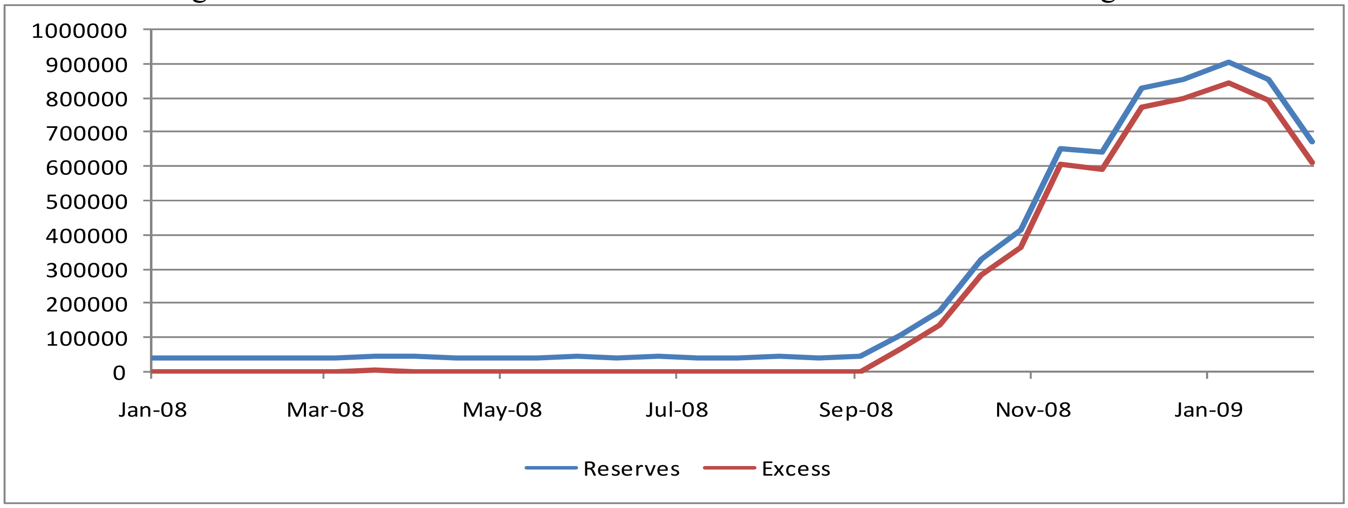
This volatility in the equity markets stalled the increase in rates this past week with the Geithner speech retarding the slow but continued progress in the Treasury markets. We believe, however, that the reaction to the Geithner speech was an overreaction, and we expect that the equity markets and the financial markets will improve with continued higher yields on the Treasuries going forward, and higher equity prices for the major market indices.

The real irony of the week was the lack of interest in two important events: 1) the beginning of the banking system to lend money as indicated by the reduction of their reserves and excess reserves, and 2) the expansion of the TALF program to as much as $1 trillion from the prior $200 Billion.

II: **Bank Reserves and Excess Reserves**

With all the noise of the week we found that perhaps the most important data point that banks were beginning to lend again almost was lost on the markets. From Figure III we find that since mid January there has been a significant decline in both reserves and excess reserves being held by banks. This is the first significant decline since the crisis of financial confidence occurred with the fall of Lehman Brothers. We are seeing both the yields on the Treasuries become normalized, and we are even finding that banks are beginning to lend again.

Figure III: Bank Reserves and Excess Reserves – as Indication of Lending Rate



Source: Federal Reserve, U.S. Treasury, SISR

The other significant event that went almost unnoticed was the changes made to the TALF program.

III: <u>Changes in the TALF Program</u>

The Federal Reserve announced on February 10, 2009 this past Tuesday, that they were expanding the TALF program from the original \$200 Billion to \$1 Trillion. The stated that:

> The Federal Reserve Board announced that it is prepared to undertake a substantial expansion of the Term Assist-Backed Securities Loan Facility (TALF). The expansion could increase to as much as \$1 Trillion and could broaden the eligible collateral to encompass other types of newly issued AAA rated asset backed securities, such as commercial mortgages-backed securities, private-label residential mortgage-backed securities, and other asset-backed securities. An expansion of the TALF would be supported by the provision by the Treasury of additional funds from the TARP program (The \$20 credit protection as provided by the FRBNY from the TARP program).

The additional authority to deal with commercial mortgages-backed securities, and private-label residential mortgage-backed securities could and likely will be the mechanism for creating a market for these troubled assets on the bank balance sheets.

This expansion was almost entirely ignored by the markets during the week when everyone was focused on the ZERO Republican votes for the Stimulus package, and the non Speech by Timothy Geithner. Aside from the likelihood that this TALF program will be the most significant vehicle for managing the toxic assets of the banking system, and perhaps the most appropriate location within the Government for dealing with the banking system, the TARP will be focused more on Main Street helping the mortgage holder. This would appear to us at SISR that this there has been some real progress in these programs in the past few weeks, and that the markets have over reacted to the Geithner non statement.

IV: Conclusion

It is an interesting time and we believe a very positive time for equities to begin to appreciate, despite the noise from the prior week. Treasuries are showing clear signs that there is growing stability in the markets, and we believe that this is a clear signal that, barring some catastrophe, that the markets have seen their lows and the economy will by midyear to late summer, be in a clear rebound.

The fact that there are some sign of the beginning of lending, the passage of the Stimulus bill, the work on the restructuring of the TARP money, and finally the increase and more aggressive structure of the TALF, have all been major positive steps. The noise of politics may be one of the greatest distractions in the past couple of weeks, creating an environment where there is a divided elite structure, which only causes uncertainty.

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2 – Overweight – The stock is expected to outperform the equal weighted expected total return of the sector coverage. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.
3 – Neutral – The stock is expected to perform in line with the equal weighted expected total return of the sector coverage. Our investment horizon is 12 -18 months except as specified by the reporting analyst.
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3 – Neutral – The sector fundamentals and valuations are flat with the second derivative close to zero or with a neutral slope.
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Price Chart:

A price chart, with changes of ratings and price targets in prior periods, is included above, for all securities covered in this report.

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