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DAILY GLOBAL COMMENTARY

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The Fed's Announcement of March 18 – Indicators to Track

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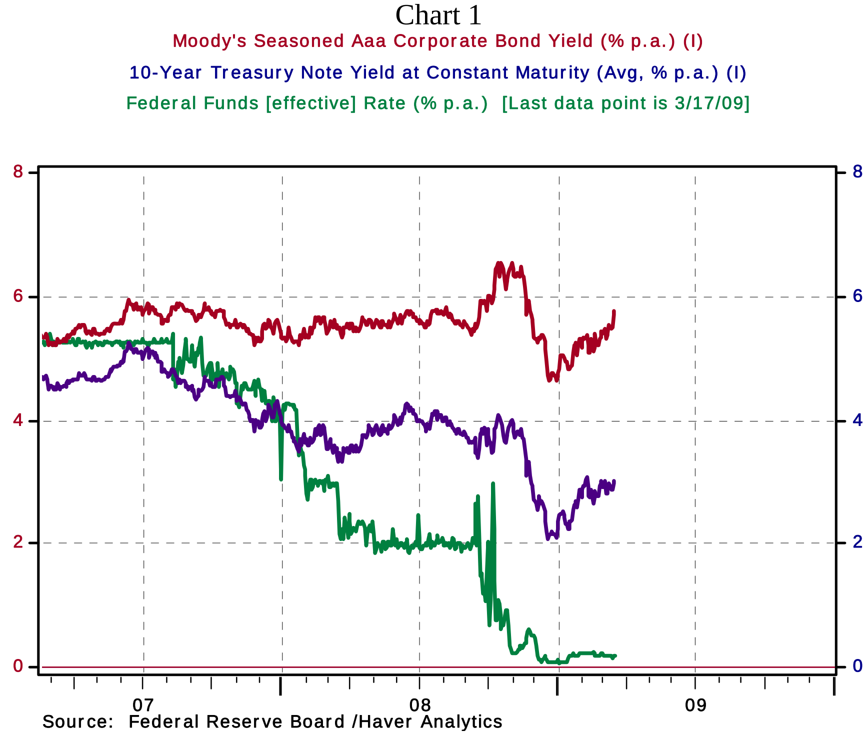
The Fed's intention to purchases mortgage backed securities, agency debt, and long dated Treasuries amounting to the sum of $1.15 trillion is an aggressive move. This follows the plethora of programs in place and the $1 trillion TALF program, the first disbursement of funds under TALF will take place next week. How would we track the impact of this announcement and other programs in place? The immediate impact should be visible in credit markets as we have seen since the current crisis commenced in August 2007. Chart 1 illustrates the recent behavior of the federal funds rate, 10-year Treasury note yield and the Moody's Aaa corporate bond yield. The 10-year Treasury note yield closed at 2.51% on March 18 after the FOMC policy statement was published from 3.00% earlier in the day. A statement on the New York Fed's website indicates that the Fed's purchase will focus on the 2- to 10-year sector of the nominal Treasury curve. The purchases will be conducted through the Fed's primary dealers 2-3 times per week. Further details will be available early next week and the plan is to hold the first purchase operation late next week. The objective of the Fed's explicit purchase of long-dated Treasuries is to bring down borrowing costs which in turn should be reflected in lower yields of other private sector securities in the weeks ahead.

Chart 1

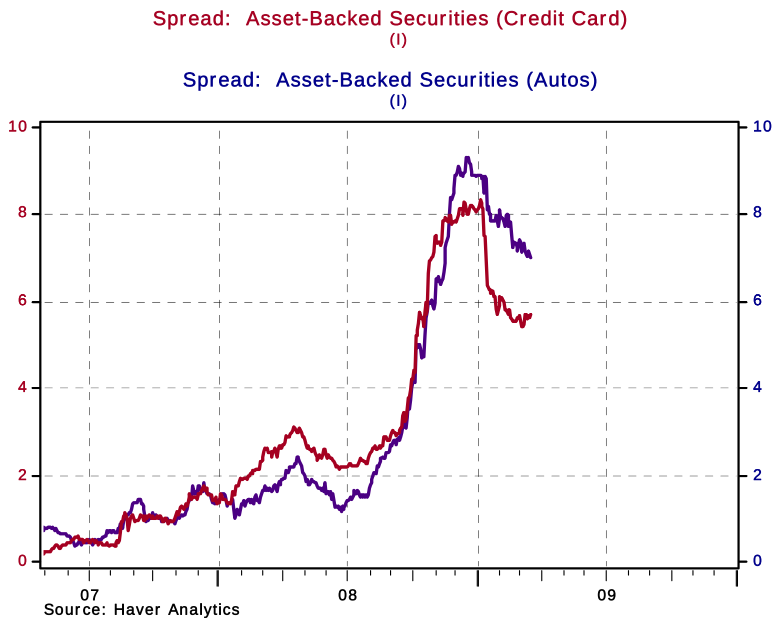


The increase in the purchase of mortgage-backed securities is focused on driving down mortgage rates. The Fed has been successful in this regard since the program was operational from early-January 2009. As of the week ended March 19, the 30-year fixed rate on mortgages was 4.98%, down from 5.47% in early-December and a high of 6.46% in mid-October (see chart 2).

Chart 2

The TALF program is aimed at unlocking the frozen consumer and small business loan sector. The accomplishments of this program will be visible in the interest spreads with regard to asset-backed securities such as those of credit cards and autos (see chart 3). These spreads have narrowed since their peaks in late-2008. Additional improvements in these spreads would indicate that the Fed's program is working in the desired direction. These actions combined with the fiscal policy stimulus package are expected to get the economy back on track.

Chart 3

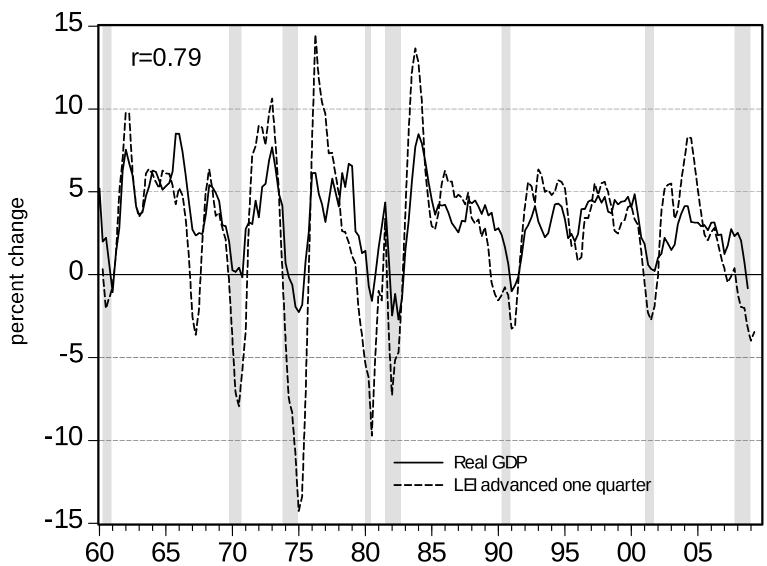


Index of Leading Indicators – Continued Contraction of Economic Activity

The Conference Board's Index of Leading Economic Indicators (LEI) fell 0.4% in February, after a revised 0.1% increase in January (previously reported as a 0.4% increase). On a quarterly basis, the year-to-year change in the LEI advanced one quarter has a strong positive correlation with the year-to-year change in real GDP (see chart 4). The January-February average, the proxy for the first quarter, declined 3.5% from a year ago, a slightly smaller reduction than the 4.0% drop recorded in the fourth quarter of 2008. We are following this indicator closely to identify a turnaround in economic conditions.

Chart 4

Index of Leading Economic Indicators (LEI) vs. Real GDP
year-to-year percent change



In February, declines in four of the ten components of the index – consumer expectations, stock prices, initial jobless claims, and average weekly manufacturing hours – more than offset the positive contributions from real money supply, interest rate spread, building permits, orders of durable consumer goods and non-defense capital goods, and supplier deliveries. The six-month change of the LEI shows a decelerating trend as did the year-to-year change.

Jobless Claims – New High for Continuing Claims and Insured Unemployment Rate

Initial jobless claims fell 12,000 to 646,000 during the week ended March 14. Continuing claims, which lag initial claims by one week, rose 185,000 to 5.473 million, a record high. The insured unemployment rate also posted a new high of 4.1%.

Chart 5

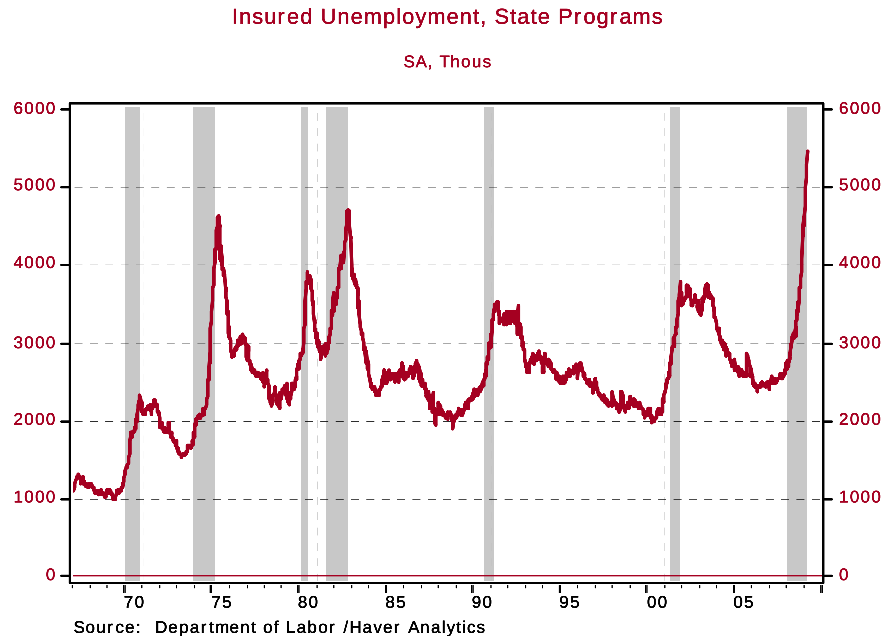


Chart 6