

Market Commentary



Index Strategy Market Commentary

Provided by Senior Portfolio Manager

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Q2 2011 Market Recap

The Treasury bond market rallied in the second quarter of 2011 as yields fell fourteen to fifty-two basis points across the curve. The yield curve became steeper during the quarter as the spread between the two-year note and thirty-year bond widened by 22 basis points to 3.91%.

The final revision of first quarter GDP was little changed at 1.9%. Oil prices, which reached \$115 per barrel in April, weighed on economic growth. The market was focused on Greece and the effect it would have across the European bank sector. Greece may receive as much as \$124 billion in a second bailout to prevent default and relieve the debt crisis in the euro-region.

As expected, the Fed funds rate was unchanged at both the April 27 and the June 22 FOMC meetings. In the announcement following the June 22 meeting, the Fed reduced its growth forecast to 2.8% for this year. The end of June saw the completion of the \$600 billion of purchases of longer-term Treasuries, commonly referred to as QE2. The next FOMC meeting is scheduled for August 9.

Despite a strong April, corporate securities underperformed same duration Treasuries by 32 basis points for the quarter. The CMBS sector also underperformed while mortgage-backed securities and agencies outperformed in the second quarter.

Ms. Rogers' comments are provided as a general market overview and should not be considered investment advice or predictive of any future market performance. Past performance is no guarantee of future results.

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