

Income Research & Management

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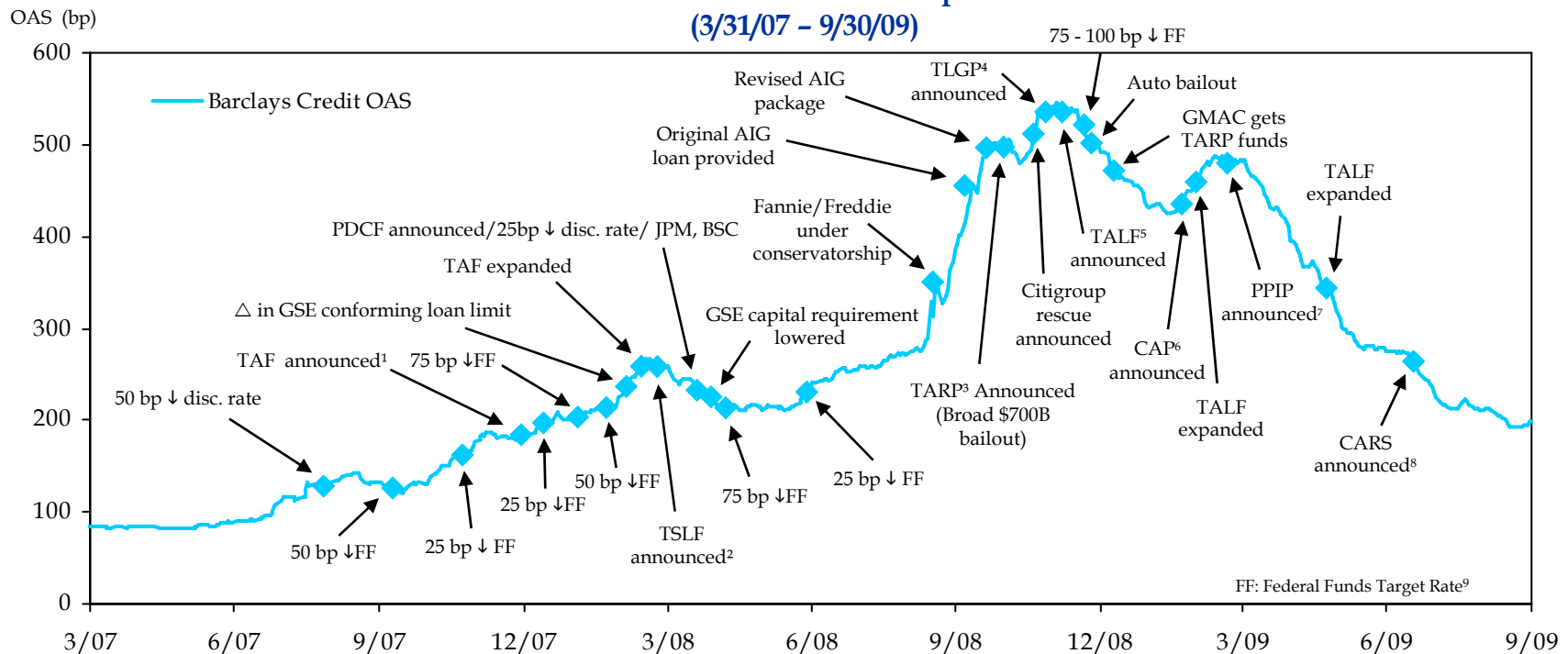
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The Government often shows willingness to intervene.

- ▶ Traditional monetary policy did not get the job done
- ▶ Fed pulled almost everything out of the toolbox with unprecedented intervention

Government Actions and Spreads
(3/31/07 - 9/30/09)



¹Term Auction Facility (TAF). ²Term Security Lending Facility (TSLF). ³Troubled Asset Relief Program (TARP) ⁴Temporary Liquidity Guarantee Program (TLGP) ⁵Term Asset-Backed Securities Loan Facility (TALF) ⁶Capital Assistance Program (CAP) ⁷Public-Private Investment Program (PPIP) ⁸Car Allowance Rebate System (CARS) ⁹Each change in the Federal Funds Target Rate includes an equal change in the discount rate.
Sources: IR&M, Federal Reserve (www.federalreserve.gov), Barclays Capital and J.P. Morgan as of 9/30/09
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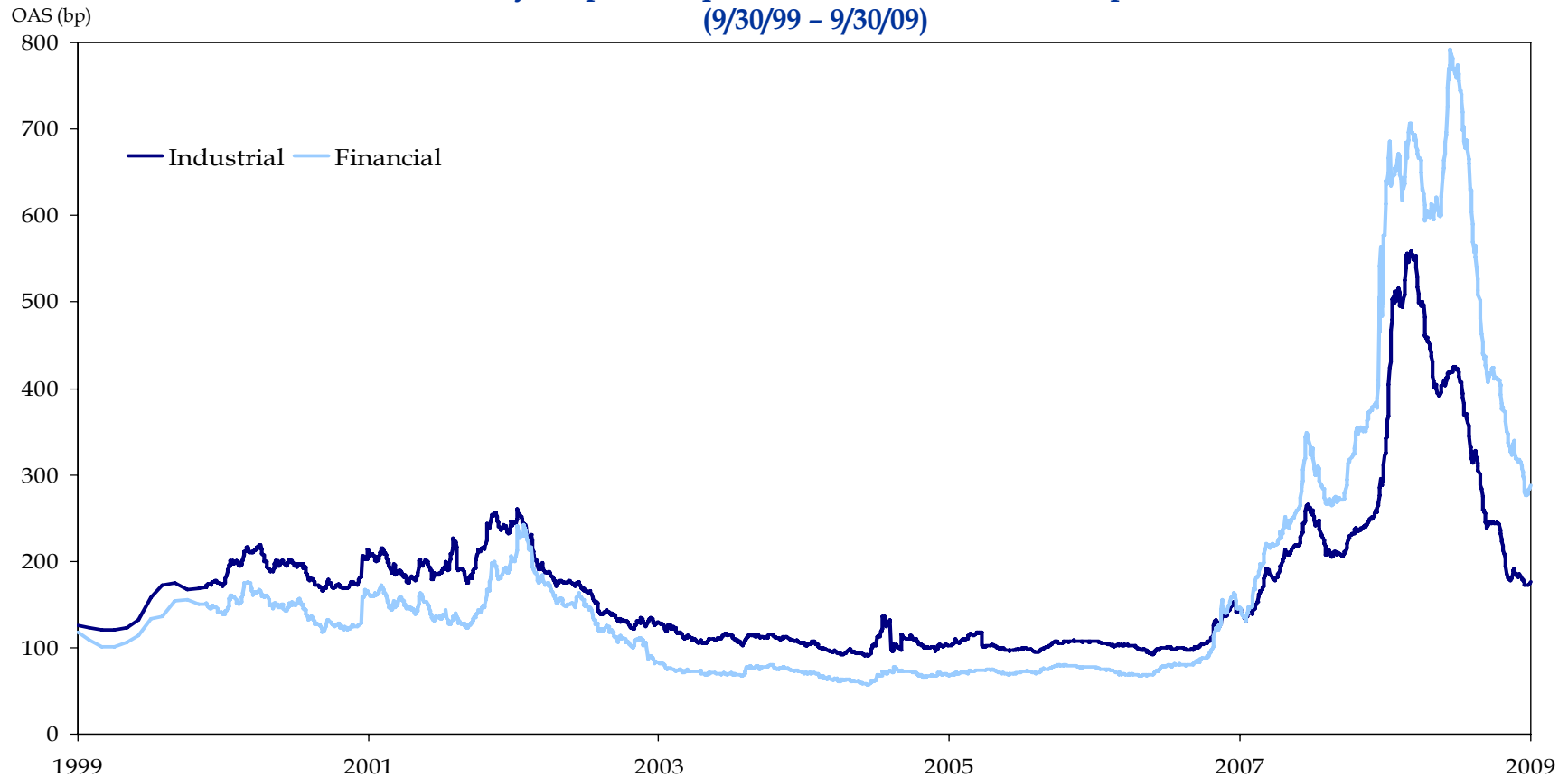


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Corporate spreads remain elevated.

Barclays Capital Corporate Industrial & Financial Spreads
(9/30/99 - 9/30/09)



Source: Barclays Capital

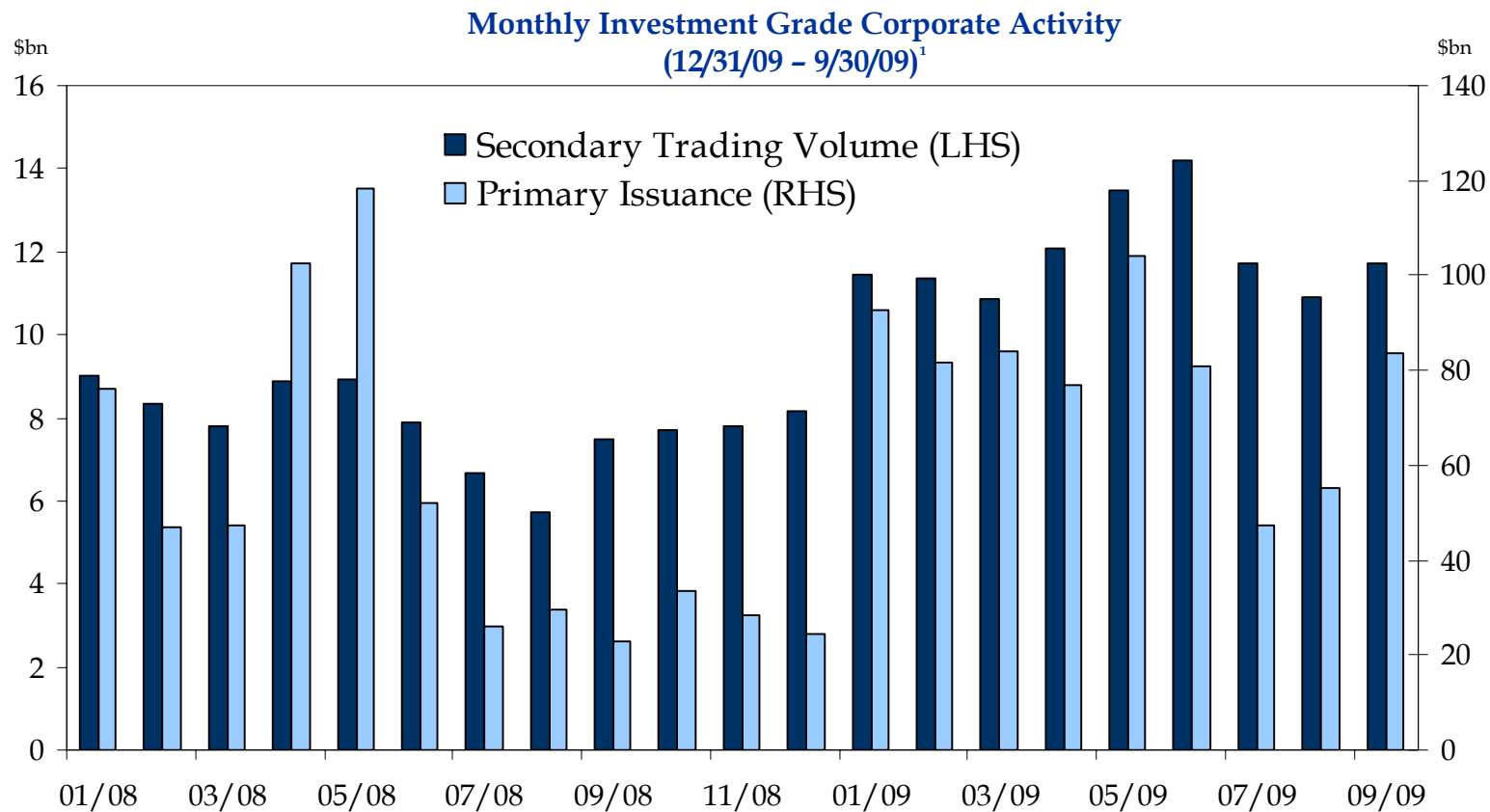
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Liquidity has improved.



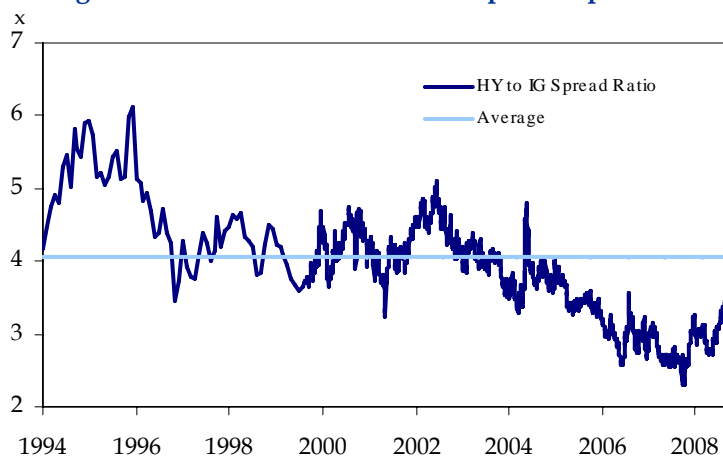
¹Source: FINRA, IR&M estimates as of 9/30/09. Secondary trading volume represents the daily average for the month.



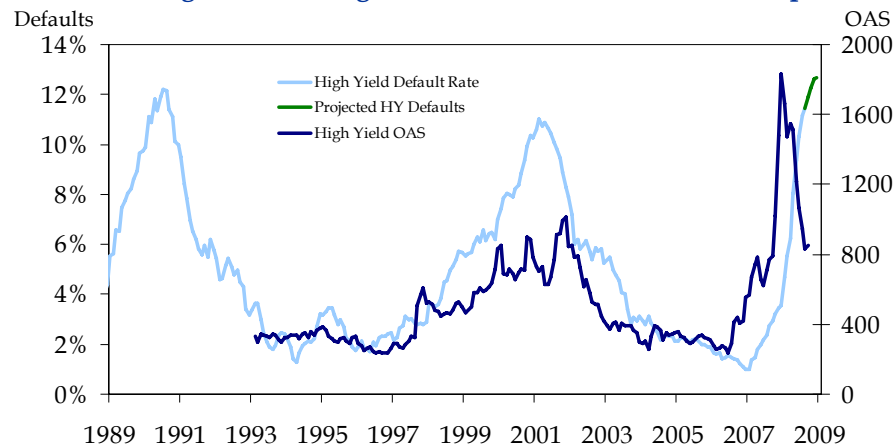
We believe High Yield valuations may be rich.

- ▶ Compensation for investing in high yield versus investment grade corporates remains low
- ▶ 12-month trailing default rate is 11% and rising while recovery rates are at 10-year lows¹
- ▶ High yield continues to be driven by technicals rather than fundamentals
- ▶ Year-to-date, high yield returns are over 40% compared to just over 15% for IG corporates²
- ▶ Penalty for being downgraded to high yield is 20 points

High Yield to Investment Grade Corporate Spread Ratio²



Trailing 12-month High Yield Issuer Default Rates and Spreads¹



¹Source: Moody's and Barclays Capital as of 9/30/09

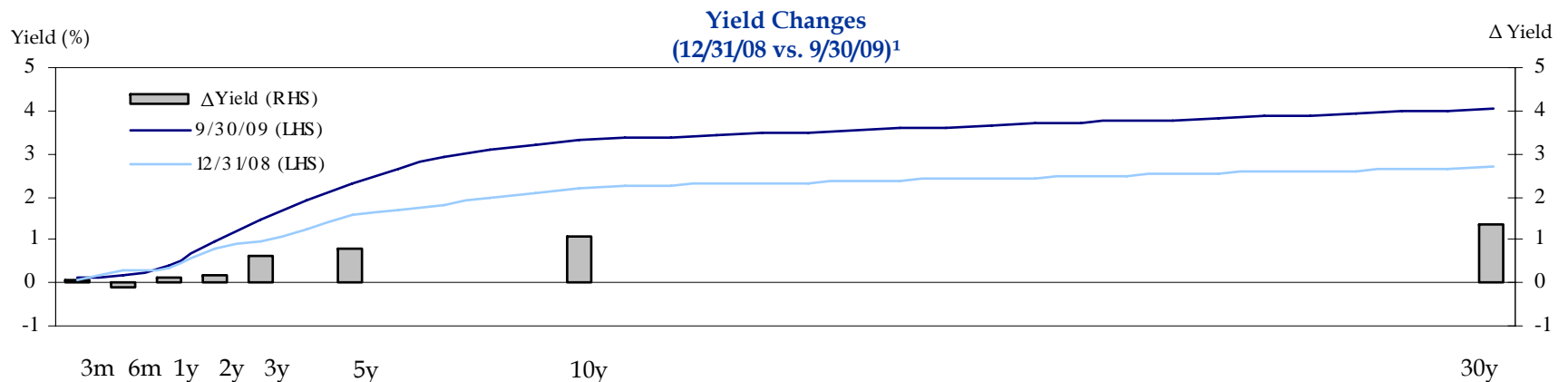
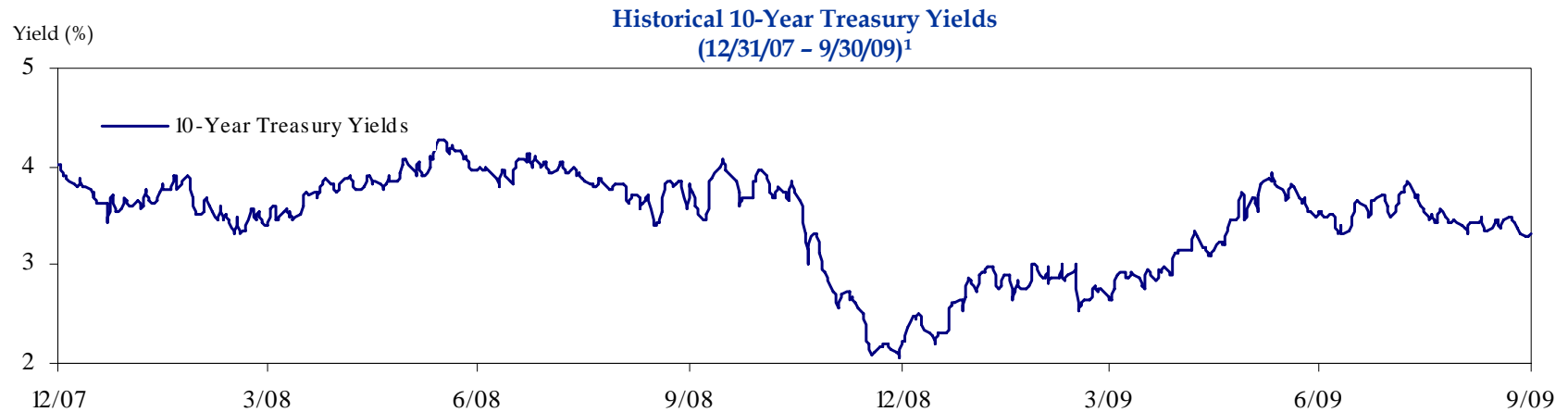
²Source: Barclays Capital as of 9/30/09

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Treasury yields have risen off their 2008 lows.

- ▶ Treasury yields, while still low by historical standards, have increased as perceived risks in the markets have abated

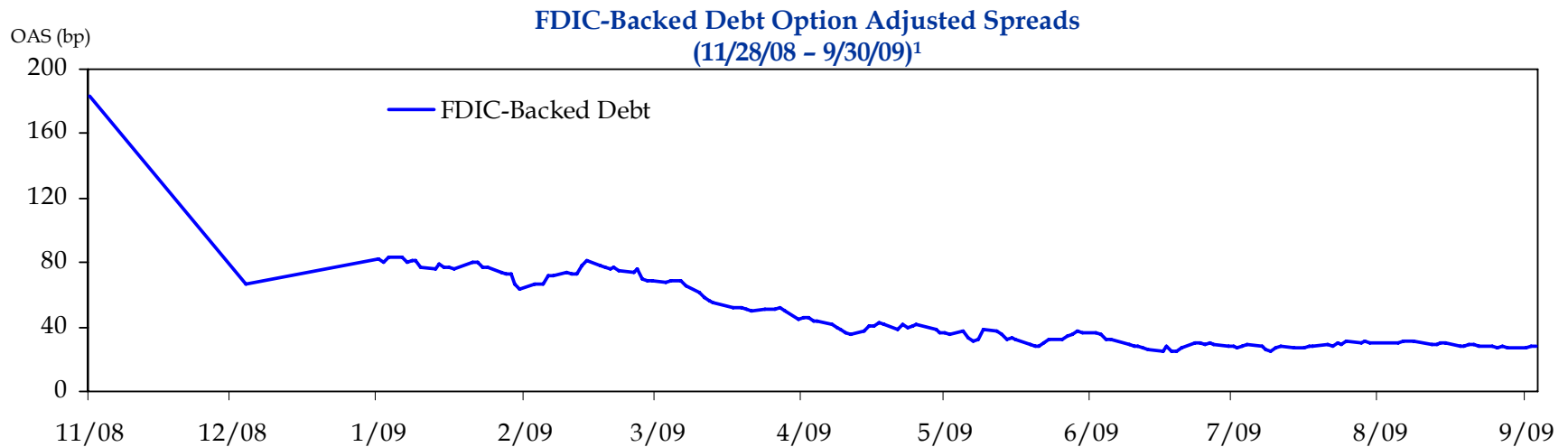
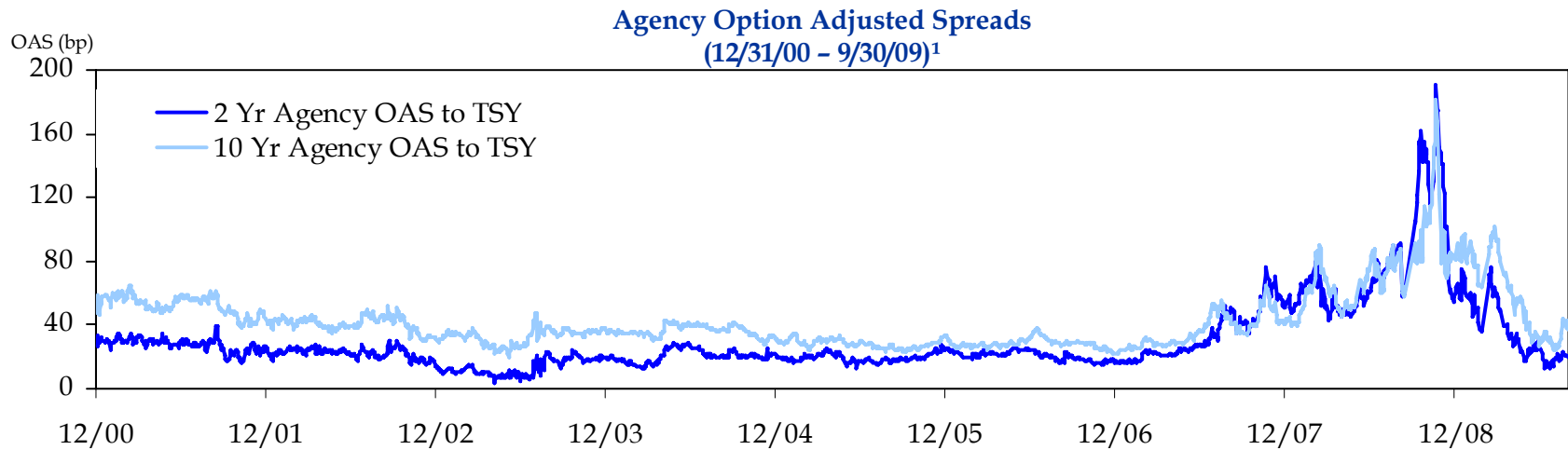


¹Source: Bloomberg

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Agency spreads have tightened year-to-date.



¹Source: Barclays Capital

